



Futong Technology Development Holdings Limited
富通科技发展控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 465



Interim Report
2018

企业级信息产品及解决方案提供商

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Financial Summary

RESULTS

	Six-month period ended 30 June	
	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Revenue	1,096,470	1,824,110
Profit from operations	23,771	25,110
Finance costs	(11,239)	(20,606)
Share of losses of associates	(153)	(303)
Profit before income tax expense	12,379	4,201
Income tax expense	(3,072)	(3,901)
Profit for the period	9,307	300
Earnings per share		
— Basic and diluted (RMB)	0.030	0.002

ASSETS AND LIABILITIES

	At 30 June	At 31 December
	2018 RMB'000 Unaudited	2017 RMB'000 Audited
Total assets	974,216	1,656,785
Total liabilities	(436,526)	(1,120,345)
NET ASSETS	537,690	536,440

BUSINESS REVIEW

The Group specializes mainly in providing enterprise IT infrastructure products, cloud computing products and intelligent digitalized application products, services and solutions in the People's Republic of China ("PRC") and is hailed as an innovator in those fields. At the prompt of the transforming market, the Group consolidated its main businesses into three segments, namely (i) distribution of traditional enterprise-grade IT products, (ii) development and sale of its own brand cloud products, and (iii) development and sale of intelligent digitalized products and system integration service.

Distribution of traditional enterprise-grade IT products

With leading local and foreign traditional IT companies such as IBM and Oracle as close collaborative partners, the Group has strived to explore cooperation and business opportunities in advanced technological sectors. Its goal is to maintain its function and role as a technology pioneer in the industry while growing its businesses. During the six-month period ended 30 June 2018 ("Period"), competition intensified in the traditional distribution industry, but distribution business remained a major income source of the Group. Moreover, with an aim to improve the profit margin of distribution business, the Group enhanced its existing product portfolio by reducing or terminating the sales of low profit margin products.

Development and sale of own brand cloud products

As cloud computing matures and becomes more and more popular worldwide, China's cloud computing market has also seen rocketing growth in recent years. These developments have encouraged the Group to speed up developing its own brand cloud products. During the Period, the Group continued to improve the technology and stepped up marketing of its own brand cloud products, to help strengthen their reliability, functionality and market recognition. It also commenced cooperation with leading local and overseas cloud resources providers, such as Oracle, AWS, Alibaba Cloud and Huawei, to actively offer enterprise customers in China highly efficient applications and solutions based on its cloud products and cloud management services.

Development and sale of intelligent digitalised application products and system integration service

The Group's system integration service business has been gathering growth momentum in recent years. The segment mainly provides customer-specific system structure business solutions and repair and maintenance support to customer's informationalized value-added services. These businesses have become a major income source of the Group. Furthermore, with the drive of emerging technologies like Artificial Intelligence (AI) and Big Data, the Group has continued to develop digital smart application products pinpointing the needs of specific industries. Embracing new and advanced IT technologies has enabled the Group to more comprehensively serve customers at the business end. During the Period, while offering services to different customers, the Group was also actively gathering data to give it a strong foundation for developing business in the future.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the Period, revenue of the Group decreased by approximately RMB727.6 million or 39.9% as compared with the corresponding period in 2017, to approximately RMB1,096.5 million (2017: approximately RMB1,824.1 million). The decrease was mainly due to the Group's effort to transform its business by reducing or terminating the sale of products with low profit margin, especially the sales of Huawei products.

Gross profit

Gross profit of the Group decreased by approximately RMB8.9 million or 7.6% to approximately RMB108.7 million for the Period (2017: approximately RMB117.6 million) while the gross profit ratio increased from 6.4% to 9.9%. The increase in gross profit ratio was mainly contributed by the decrease in sale of domestic branded products with low profit margin and the increase in sale of the Group's own branded products and services.

Other income and other losses, net

Other income and other losses, net comprises of mainly interest income from bank deposits, foreign exchange gain or loss, government grants and impairment loss on trade receivables. During the Period, net losses from other income and other losses, net amounted to approximately RMB14.0 million (2017: approximately RMB7.4 million), representing an increase of approximately RMB6.6 million. This increase was mainly due to the approximate increase of RMB19.7 million in impairment loss on trade receivables. Despite a more prudent approach was adopted by the management in tightening the recovery time before commencing legal proceedings on long outstanding debts of traditional business, such was however offset by an increase in foreign exchange gains of approximately RMB10.7 million and increase in government grants of approximately RMB2.2 million.

Selling and distribution expenses

For the Period, selling and distribution expenses of the Group amounted to approximately RMB51.6 million (2017: approximately RMB61.8 million), representing a decrease of approximately 16.5% compared with the corresponding period in 2017. The decrease was mainly due to the decrease in staff costs of certain business units responsible for the sale of products with low profit margin.

Administrative expenses

Administrative expenses of the Group for the Period amounted to approximately RMB19.4 million (2017: approximately RMB23.3 million), representing a decrease of approximately RMB3.9 million or 16.8% compared with the corresponding period in 2017. The decrease was mainly due to the Group's implementation of tight cost control measures and the decrease in research and development cost for the development of own branded products during the Period.

Finance costs

Finance costs of the Group decreased by approximately RMB9.4 million or 45.5%, from approximately RMB20.6 million for the six-month period ended 30 June 2017 to approximately RMB11.2 million for the Period. The decrease was mainly due to the decrease of borrowings during the Period. After reducing or terminating the sale of products with low profit margin and the measures of tightening operating expenses, the work capital of the Group was improved accordingly.

Income tax expense

Income tax expense of the Group for the Period amounted to approximately RMB3.1 million (2017: approximately RMB3.9 million), representing a decrease of approximately RMB0.8 million, or 21.3%, compared with the corresponding period in 2017. The decrease was mainly due to additional deferred tax assets in respect of increase in impairment loss on trade receivables were credited to and off-set the income tax expense of the Group.

Profit for the period attributable to owners of the Company

During the Period under review, profit attributable to owners of the Company was approximately RMB9.3 million (2017: approximately RMB0.6 million), representing an increase of approximately RMB8.7 million, or 1,403.1%, as compared with the corresponding period in 2017. The increase was primarily due to the combined effects of (i) the Group's effort to transform its business by reducing or terminating the sales of products with low profit margin; (ii) the decrease in administrative, selling and distribution expenses and finance costs; and (iii) the increase in allowance for doubtful debts as mentioned above.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its daily operations with internally generated cash flows and banking facilities. As at 30 June 2018, the Group had total assets of approximately RMB974.2 million and net assets of approximately RMB537.7 million (31 December 2017: approximately RMB1,656.8 million and approximately RMB536.4 million, respectively). Trade receivables and contract assets of the Group amounted to approximately RMB491.1 million (31 December 2017: approximately RMB772.8 million), net of allowance for doubtful debts of approximately RMB94.9 million (31 December 2017: approximately RMB62.4 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 RMB108.5 million as at 30 June 2018 (approximately RMB237.2 million as at 31 December 2017). Bank and other borrowings amounted to approximately RMB141.0 million (31 December 2017: approximately RMB483.9 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 2018, approximately 64.5% (31 December 2017: approximately 63.8%) of total borrowings were at fixed interest rates.

As at 30 June 2018, the borrowings of the Group were advanced in RMB while cash and cash equivalents were held at RMB, USD and Hong Kong dollars.

Management Discussion and Analysis

PLEDGE OF ASSETS

As at 30 June 2018, certain assets of the Group with carrying value of approximately RMB119.1 million (31 December 2017: approximately RMB156.3 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 30 June 2018 was zero (as at 31 December 2017 was 26.5%). 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.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six-month period ended 30 June 2018 (2017: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group had in total 274 (31 December 2017: 435) employees in the PRC and Hong Kong. Total staff costs amounted to approximately RMB50.6 million (for the six-month period ended 30 June 2017: approximately RMB57.1 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 scheme in place as an incentive to Directors and eligible employees.

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 back at the first half of 2018, the IT industry in China faced many challenges. The market with diverse demands was generally cautious about adopting new technologies amid the continuous emergence of upgraded and new generation of internet technology. Although the market environment was challenging, the Group continued to adjust its business, trimming or terminating lower margin businesses, integrating internal resources and focusing on boosting core productivity. Despite the decline in total revenue of the Group, the Group was able to increase sales of its own brand services and proprietary products, and also reduced cost of sales and financial cost, while continuing to effectively control the risk exposure of its businesses. Its gross profit margin therefore increased from 6.4% to 9.9%, and net profit also saw higher growth than in the last corresponding period.

In the second half of the year, the Group will continue to observe and execute its set strategic goals, with core focus on cloud computing, system integration and intelligent digitalized businesses plus a certain part of distribution business. It will keep adjusting and boosting its core competitiveness, as well as improving the reliability and functionality of its proprietary software. By enhancing its overall technological capability, the Group will be able to make sure its new businesses have leading service competence.

In addition, resources management solution will be implemented by the Group to ensure resources are used effectively to heighten operational efficiency. At the same time, the Group will closely monitor and strictly manage its finance, and step up control on turnover days of receivables. Rigorous financial policies will be followed to help lower financial cost and improve cashflow, thereby maintain the Group's healthy financial status.

Aware of the hastening IT market transformation in China, the Group will diligently follow its prevailing strategic development directions and push forward with developing its own brand smart products, cloud platform products and related services businesses. The Group's cloud computing products were accepted for trial use by certain well-known customers during the Period. The Group has also won a number of major awards, marking the important achievements made by the Group in transforming its business.

Although research and development ("**R&D**") is both time and resources consuming, the Group believes embracing continuous technological development is the only way forward to gain leading advantage in the fast-changing market. In addition to strengthening control on R&D costs, the Group will also apply its technological advantages and ability to innovate, to ensure R&D expenses are effectively used to boost its core competitiveness for capturing new market trends and seizing new opportunities arising in the evolving industry.

Corporate Governance and Other Information

CORPORATE GOVERNANCE

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

NON-COMPLIANCE WITH RULES 3.10(1) AND 3.21 AND REMEDIAL STEPS TAKEN

On 18 November 2017, Mr. Lee Kwan Hung resigned as an independent non-executive Director as he wishes to spend more time with his other engagements. Following Mr. Lee's resignation, the Company had only two independent non-executive Directors and the Audit Committee had only two members, which fell below the minimum number required under Rules 3.10(1) and 3.21 of the Listing Rules. On 5 February 2018, Mr. Lo Kwok Kwei David has been appointed as independent non-executive Director and member of the Audit Committee. Following the appointment of Mr. Lo, the Company has three independent non-executive Directors and the Audit Committee comprises three independent non-executive Directors, which fulfills the requirements under Rules 3.10(1) and 3.21 of the Listing Rules.

REVIEW OF ACCOUNTS

The unaudited condensed consolidated 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" ("**ISRE 2410**") issued by the International Auditing and Assurance Standards Board. The unaudited condensed consolidated financial statements of the Group for the Period have also been reviewed by the audit committee of the Company.

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.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Share Option Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The basis of eligibility of any of the eligible persons to the grant of share options shall be determined by the Board from time to time on the basis of their contribution or potential contribution to the development and growth of the Group. The Share Option Scheme became effective on 11 November 2009 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Corporate Governance and Other Information

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board, which must not be more than 10 years from the date of the grant. Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

The subscription price for the shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a share.

The details of the principal terms and conditions of the Share Option Scheme were summarised in the section headed "Share Option Scheme" in Appendix VI to the prospectus of the Company dated 24 November 2009.

Details of the movement in outstanding share options, which have been granted under the Share Option Scheme, during the Period were as below:

Name or category of participants	Date of grant	Exercise period	Exercise price HK\$	Number of share options				As at 30 June 2018
				As at 1 January 2018	Granted during the Period	Exercised during the Period	Cancelled/lapsed during the Period	
Directors								
Mr. Yuan Bo	15 June 2011	15 December 2011-14 June 2021	1.810 (Note 1)	300,000	—	—	—	300,000
	24 August 2015	24 August 2015-23 August 2025	1.172 (Note 2)	300,000	—	—	—	300,000
Ms. Chen Jing (Note 5)	18 January 2016	18 January 2016-17 January 2026	1.004 (Notes 3)	400,000	—	—	—	400,000
Sub-total				1,000,000	—	—	—	1,000,000
Chief executive								
Mr. Zhao Wei (Note 6)	18 January 2016	18 January 2016-17 January 2026	1.004 (Note 3)	400,000	—	—	—	400,000
Employees								
	18 January 2016	18 January 2016-17 January 2026	1.004 (Note 3)	1,400,000	—	—	(300,000)	1,100,000
	14 October 2016	14 October 2016-13 October 2026	1.250 (Note 4)	1,200,000	—	—	—	1,200,000
Sub-total				2,600,000	—	—	(300,000)	2,300,000
Total				4,000,000	—	—	(300,000)	3,700,000

Corporate Governance and Other Information

Notes:

1. All the options granted have been vested on 15 December 2011. The closing price of the shares of the Company on the date of grant was HK\$1.8.
2. All the options granted have been vested on 24 August 2015. The closing price of the shares of the Company on the date of grant was HK\$0.9.
3. The options are exercisable from 18 January 2016 to 17 January 2026 (both days inclusive) subject to the following vesting periods.
 - (1) up to 30% of the options commencing on 18 January 2016;
 - (2) up to 60% of the options commencing on 18 January 2017; and
 - (3) up to 100% of the options commencing on 18 January 2018.

The closing price of the shares of the Company on the date of grant was HK\$0.990.

4. The options are exercisable from 14 October 2016 to 13 October 2026 (both days inclusive) subject to the following vesting periods.
 - (1) up to 30% of the options commencing on 14 October 2016;
 - (2) up to 60% of the options commencing on 14 October 2017; and
 - (3) up to 100% of the options commencing on 14 October 2018.

The closing price of the shares of the Company on the date of grant was HK\$1.25.

5. These share options were granted to Ms. Chen Jing before she became an executive Director.
6. These share options were granted to Mr. Zhao Wei before he became the chief executive officer.

Details of the value of share options granted are set out in note 18 to the condensed consolidated financial statements.

DISCLOSURE OF INTERESTS

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Long positions in the shares of the Company:

Name of Director/ Chief Executive	Capacity/nature of interest	Number of Ordinary shares held	Approximate percentage of the Company's issued share capital (%)
Chen Jian	Beneficial owner/interest in controlled corporations	215,708,000 (Notes 1, 2, 3, 4 and 5)	69.30
Chen Jing	Beneficial owner	1,238,000	0.40
Zhao Wei	Beneficial owner	1,248,000	0.40

(ii) Long positions in the underlying shares of the Company:

Name of Director/ Chief Executive	Capacity/nature of interest	Number of underlying shares held	Approximate percentage of the Company's issued share capital (%)
Chen Jing	Beneficial owner	400,000 (Note 6)	0.13
Yuan Bo	Beneficial owner	600,000 (Note 6)	0.19
Zhao Wei	Beneficial owner	400,000 (Note 6)	0.13

Corporate Governance and Other Information

Notes:

1. 153,947,250 of these shares are held by China Group Associates Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Chen Jian. By virtue of the SFO, Mr. Chen Jian is deemed to be interested in the shares held by China Group Associates Limited.
2. 28,421,100 of these shares are held by Rich China Investments And Trading Ltd., the entire issued share capital of which is wholly and beneficially owned by Mr. Chen Jian. By virtue of the SFO, Mr. Chen Jian is deemed to be interested in the shares held by Rich China Investments And Trading Ltd..
3. 21,435,100 of these shares are held by Rich World Development Ltd., the entire issued share capital of which is wholly and beneficially owned by Mr. Chen Jian. By virtue of the SFO, Mr. Chen Jian is deemed to be interested in the shares held by Rich World Development Ltd..
4. 10,710,550 of these shares are held by Long Joy Group Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Chen Jian. By virtue of the SFO, Mr. Chen Jian is deemed to be interested in the shares held by Long Joy Group Limited.
5. 1,194,000 shares of the Company are held by Mr. Chen Jian as beneficial owner.
6. These shares are derived from the interest in share options granted by the Company, details of which are set out in the section headed "Share Option Scheme".

Save as disclosed above and those as disclosed under the heading "Discloseable Interests and Short Positions of Substantial Shareholders and Other Persons under the SFO" below, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2018.

Discloseable Interests and Short Positions of Substantial Shareholders and Other Persons Under the SFO

As at 30 June 2018, the following persons or corporations (other than a Director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO and so far as is known to any Director or chief executive of the Company:

Long positions in the shares of the Company:

Name	Capacity/nature of interest	Number of ordinary shares held	Approximate percentage of the Company's issued share capital (%)
China Group Associates Limited (Note 1)	Beneficial owner	153,947,250	49.46
Rich China Investments And Trading Ltd. (Note 2)	Beneficial owner	28,421,100	9.13
Ms. Zhang Xin (Note 3)	Interest of spouse	215,708,000	69.30
Mr. Li Xiaoyong	Beneficial owner	26,440,000	8.49
Rich World Development Ltd. (Note 4)	Beneficial owner	21,435,100	6.89

Notes:

- China Group Associates Limited is a company incorporated in the British Virgin Islands ("BVI") with limited liability which is wholly and beneficially owned by Mr. Chen Jian. Mr. Chen Jian is the sole director of China Group Associates Limited.
- Rich China Investments And Trading Ltd. is a company incorporated in the BVI with limited liability which is wholly and beneficially owned by Mr. Chen Jian. Mr. Chen Jian is the sole director of Rich China Investments and Trading Ltd..
- Ms. Zhang Xin is the spouse of Mr. Chen Jian. Under the SFO, Ms. Zhang Xin is taken to be interested in the same number of shares in which Mr. Chen Jian is interested.
- Rich World Development Ltd. is a company incorporated in the BVI with limited liability which is wholly and beneficially owned by Mr. Chen Jian. Mr. Chen Jian is the sole director of Rich World Development Ltd..

Save as disclosed above, there was no person or corporation, other than a Director or chief executive of the Company, who had an interest or a short position in the shares or underlying shares of the Company as recorded in the register of the Company required to be kept by the Company under Section 336 of the SFO as at 30 June 2018.

Report on Review of Condensed Consolidated Financial Statements

To the Board of Directors of 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)

Introduction

We have reviewed the interim condensed consolidated financial statements set out on pages 16 to 41 which comprise the condensed consolidated statement of financial position of Futong Technology Development Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“**IAS 34**”). The directors are responsible for the preparation and presentation of the interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on the interim condensed consolidated financial statements based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (“**ISRE 2410**”). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Other Matter

The comparative in the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period ended 30 June 2017, and the relevant explanatory notes have not been reviewed in accordance with ISRE 2410 or audited.

BDO Limited

Certified Public Accountants

Au Yiu Kwan

Practising Certificate Number P05018

Hong Kong, 23 August 2018

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six-month period ended 30 June 2018

		Six-month period ended 30 June	
		2018	2017
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
	NOTE		
Revenue	6	1,096,470	1,824,110
Cost of sales and services		(987,761)	(1,706,492)
Gross profit		108,709	117,618
Other income	7	4,408	2,011
Other losses, net	7	(18,389)	(9,446)
Selling and distribution expenses		(51,564)	(61,769)
Administrative expenses		(19,393)	(23,304)
Profit from operations		23,771	25,110
Finance costs	8	(11,239)	(20,606)
Share of losses of associates		(153)	(303)
Profit before income tax expense	9	12,379	4,201
Income tax expense	10	(3,072)	(3,901)
Profit and total comprehensive income for the period		9,307	300
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		9,259	616
Non-controlling interests		48	(316)
		9,307	300
Earnings per share	12		
Basic and diluted (RMB)		0.030	0.002

Condensed Consolidated Statement of Financial Position

At 30 June 2018

	NOTE	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	13	25,859	26,990
Other intangible assets		2,875	2,752
Interests in associates		6,668	6,764
Deferred tax assets		29,221	29,033
		64,623	65,539
CURRENT ASSETS			
Inventories		153,249	309,443
Trade, bills and other receivables	14	533,774	906,128
Contract assets		32,438	—
Tax recoverable		3,576	—
Pledged deposits		78,042	138,468
Bank balances and cash		108,514	237,207
		909,593	1,591,246
CURRENT LIABILITIES			
Trade, bills and other payables	15	137,704	635,677
Contract liabilities		157,822	—
Bank and other borrowings	16	141,000	483,866
Tax payable		—	802
		436,526	1,120,345
NET CURRENT ASSETS		473,067	470,901
NET ASSETS		537,690	536,440
CAPITAL AND RESERVES			
Share capital	17	27,415	27,415
Reserves		505,570	504,368
Equity attributable to owners of the Company		532,985	531,783
Non-controlling interests		4,705	4,657
TOTAL EQUITY		537,690	536,440

Condensed Consolidated Statement of Changes in Equity

For the six-month period ended 30 June 2018

	Attributable to owners of the Company								
	Share capital	Share premium	Merger reserve	Share option reserve	Statutory reserves	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2017 (Audited)	27,415	81,538	219	1,528	70,671	395,606	576,977	4,626	581,603
Profit and total comprehensive income for the period	—	—	—	—	—	616	616	(316)	300
Recognition of equity-settled share-based payments (note 18)	—	—	—	216	—	—	216	—	216
Dividend paid (note 11)	—	—	—	—	—	(5,211)	(5,211)	—	(5,211)
Balance at 30 June 2017 (unaudited)	27,415	81,538	219	1,744	70,671	391,011	572,598	4,310	576,908
Balance at 1 January 2018 as originally presented (Audited)	27,415	81,538	219	1,382	71,755	349,474	531,783	4,657	536,440
Initial application of IFRS 9 (note 3)	—	—	—	—	—	(8,114)	(8,114)	—	(8,114)
Restated balance at 1 January 2018	27,415	81,538	219	1,382	71,755	341,360	523,669	4,657	528,326
Profit and total comprehensive expenses for the period	—	—	—	—	—	9,259	9,259	48	9,307
Recognition of equity-settled share-based payments (note 18)	—	—	—	57	—	—	57	—	57
Lapse of share options	—	—	—	(97)	—	97	—	—	—
Balance at 30 June 2018 (Unaudited)	27,415	81,538	219	1,342	71,755	350,716	532,985	4,705	537,690

Condensed Consolidated Statement of Cash Flows

For the six-month period ended 30 June 2018

	Six-month period ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash generated from/(used in) operating activities	165,678	(200,643)
Net cash used in investing activities		
Purchase of property, plant and equipment	(1,030)	(3,503)
Development costs paid	—	(15)
Other investing cash flows	545	1,056
	(485)	(2,462)
Net cash (used in)/generated from financing activities		
Proceeds from borrowings	1,000	826,896
Payments of borrowings	(343,866)	(724,234)
Withdrawal of pledged bank deposits	60,426	121,740
Placement of pledged bank deposits	—	(84,683)
Interest paid	(11,229)	(20,089)
Dividend paid	—	(5,211)
	(293,669)	114,419
Net decrease in cash and cash equivalents	(128,476)	(88,686)
Cash and cash equivalents at 1 January	237,207	172,648
Effect of foreign exchange rate changes	(217)	(2,203)
Cash and cash equivalents at 30 June	108,514	81,759

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

1. GENERAL INFORMATION

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

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

As at 30 June 2018, 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. 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 financial statements were authorised for issue on 23 August 2018.

These condensed consolidated interim financial statements have been prepared with the same accounting policies adopted in the 2017 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 2018. Details of any changes in accounting policies 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 2017 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 International Financial Reporting Standards (the “**IFRSs**”) and should be read in conjunction with the 2017 consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

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**"). BDO Limited's independent review report to the Board of Directors is included on pages 14 and 15.

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:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
I(IFRIC)-Interpretation 22	Foreign Currency Transactions and Advance Considerations
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IAS 28 included in Annual Improvements to IFRSs 2014-2016 Cycle	Investments in Associates and Joint Ventures
Amendments to IFRS 1 included in Annual Improvements to IFRSs 2014-2016 Cycle	First-time Adoption of International Financial Reporting Standards

The impact of the adoption of IFRS 9 Financial Instruments (see note 3.1 below) and IFRS 15 Revenue from Contracts with Customers (see note 3.2 below) have been summarised in below. The other new or amended IFRSs that are effective from 1 January 2018 did not have any material impact on the Group's accounting policies.

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

3. CHANGES IN IFRSs *(Continued)*

3.1 IFRS 9 Financial Instruments (“IFRS 9”)

(a) Classification and measurement of financial instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of IFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the condensed consolidated interim financial statements.

The following tables summarised the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves, retained profits and non-controlling interests as of 1 January 2018 as follows (increase/(decrease)):

	RMB'000
Retained profits	
Retained profits as at 31 December 2017	349,474
Increase in expected credit losses (“ECLs”)	
in trade receivables and contract assets (note 3.1(b) below)	(10,006)
Effect of deferred tax arose from increase in ECLs	1,892
	<hr/>
Restated retained profits as at 1 January 2018	341,360
	<hr/>
Non-controlling interests	
Non-controlling interests as at 31 December 2017	4,657
Increase in expected credit losses (“ECLs”)	
in trade receivables and contract assets (note 3.1(b) below)	—
	<hr/>
Restated non-controlling interests as at 1 January 2018	4,657
	<hr/>

IFRS 9 basically retains the existing requirements in IAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of IFRS 9 has no material impact on the Group’s accounting policies related to financial liabilities. The impact of IFRS 9 on the Group’s classification and measurement of financial assets is set out below.

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

3. CHANGES IN IFRSs *(Continued)*

3.1 IFRS 9 Financial Instruments (“IFRS 9”) *(Continued)*

(a) Classification and measurement of financial instruments *(Continued)*

Under IFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with IFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVTPL”), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost (“**amortised costs**”); (ii) financial assets at fair value through other comprehensive income (“FVOCI”); or (iii) FVTPL (as defined in above). The classification of financial assets under IFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the “**solely payments of principal and interest**” criterion, also known as “**SPPI criterion**”). Under IFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group’s financial assets as follows:

Amortised costs	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
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Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

3. CHANGES IN IFRSs *(Continued)*

3.1 IFRS 9 Financial Instruments ("IFRS 9") *(Continued)*

(a) Classification and measurement of financial instruments *(Continued)*

The following table summarises the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Carrying amount as at	Carrying amount as at
			1 January 2018 under IAS 39	1 January 2018 under IFRS 9
			RMB'000	RMB'000
Trade and bills receivables	Loans and receivables (note 3.1(b)(i))	Amortised cost	833,218	823,212
Other receivables	Loans and receivables (note 3.1(b)(ii))	Amortised cost	44,449	44,449
Pledged deposits	Loans and receivables	Amortised cost	138,468	138,468
Bank balances and cash	Loans and receivables	Amortised cost	237,207	237,207

(b) Impairment of financial assets

The adoption of IFRS 9 has changed the Group's impairment model by replacing the IAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". IFRS 9 requires the Group to recognise ECL for trade receivables, financial assets at amortised costs and contract assets earlier than IAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under IFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

3. CHANGES IN IFRSs *(Continued)*

3.1 IFRS 9 Financial Instruments (“IFRS 9”) *(Continued)*

(b) Impairment of financial assets **(Continued)** *(Continued)*

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Group has elected to measure loss allowances for trade, bills and other receivables and contract assets using IFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets, the ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

3. CHANGES IN IFRSs *(Continued)*

3.1 IFRS 9 Financial Instruments ("IFRS 9") *(Continued)*

(b) Impairment of financial assets **(Continued)** *(Continued)*

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the ECL model

(i) Impairment of trade and bills receivables and contract assets

As mentioned above, the Group applies the IFRS 9 simplified approach to measure ECLs which adopts a life time ECLs for all trade and bills receivables and contract asset. To measure the ECLs, trade and bills receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets have substantially the same risk as the trade and bills receivables. The loss allowance as at 1 January 2018 was determined as follows for trade receivables and contract assets as follows:

1 January 2018	Current	Less than 30 days past due	More than 30 days past due	More than 90 days past due	More than 12 months past due	Total
Expected credit loss rate (%)	0.10%	0.28%	1.07%	6.43%	13.12%	
Gross carrying amount (RMB'000)	610,728	74,927	58,037	47,490	42,036	833,218
Loss allowance (RMB'000)	608	208	622	3,052	5,516	10,006

The increase in loss allowance for trade and bills receivables and contract assets upon the transition to IFRS 9 as of 1 January 2018 were RMB6,599,000 and RMB3,407,000. The loss allowances further increased for RMB31,712,000 for trade and bills receivables and decreased for RMB9,236,000 for contract assets during the six months period ended 30 June 2018.

(ii) Impairment of other receivables

The Group conducted that the impact of ECLs on other receivables at amortised cost of the Group as at 1 January 2018 and during the six-month period ended 30 June 2018 is insignificant.

3. CHANGES IN IFRSs *(Continued)*

3.1 IFRS 9 Financial Instruments (“IFRS 9”) *(Continued)*

(c) Hedge accounting

Hedge accounting under IFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(d) Transition

The Group has applied the transitional provision in IFRS 9 such that IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application (the “**DIA**”) of IFRS 9:

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

3.2 IFRS 15 Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted IFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained profits at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated.

The Group assessed the impacts of adopting IFRS 15 on its financial statements. Based on the assessment, the adoption of IFRS 15 has no significant impact on the Group’s revenue recognition.

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

3. CHANGES IN IFRSs *(Continued)*

3.2 IFRS 15 Revenue from Contracts with Customers ("IFRS 15") *(Continued)*

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

Note	Product/ service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
(a)	Enterprise IT products	The Group has determined that for contracts with customers under sales of enterprise IT products, as there may be one or more than one promises, which include the provision of warranty services, the Group has determined that the warranty is assurance-type and thus the Group concludes that the services should not be accounted for under IFRS 15. For the performance obligation related to sales of enterprise IT products, the Group determines that customers obtain control of the enterprise IT products when the goods are delivered to and have been accepted. Revenue from these contracts are thus recognised upon when the customers accepted the enterprise IT products. Invoices are issued according to contractual terms and are usually payable within 30-90 days. Uninvoiced amounts are presented as contract assets. Consideration received in advance from customers for obligation to transfer the enterprise IT products are presented as contract liabilities.	Impact IFRS 15 did not result in significant impact on the Group's accounting policies. However, upon the adoption of IFRS 15, the Group has made reclassification from trade, bills and other receivables to contract assets since under IFRS 15, if there is any satisfied performance obligation but where the entity does not have an unconditional right to consideration, an entity should recognise this as a contract asset. The Group has also to make reclassification from trade, bills and other payables to contract liabilities since under IFRS 15, if there is any obligation to transfer goods to a customer for which the entity has received consideration from a customer, an entity should recognise a contract liability.

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

3. CHANGES IN IFRSs *(Continued)*

3.2 IFRS 15 Revenue from Contracts with Customers ("IFRS 15") *(Continued)*

Note	Product/ service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
(b)	Provision of services	The Group has determined that the customers simultaneously receives and consumes the benefits of the Group's performance and thus the Group concludes that the services should be recognised overtime. Revenue is recognised over time as those services are provided. Invoices for provision of services are usually issued on a monthly basis and are payable within 30-90 days.	Impact IFRS 15 did not result in significant impact on the Group's accounting policies. However, upon the adoption of IFRS 15, the Group has made reclassification from trade, bills and other receivables to contract assets since under IFRS 15, if there is any satisfied performance obligation but where the entity does not have an unconditional right to consideration, an entity should recognise this as a contract asset. The Group has also to make reclassification from trade, bills and other payables to contract liabilities since under IFRS 15, if there is any obligation to transfer goods to a customer for which the entity has received consideration from a customer, an entity should recognise a contract liability.

As of 1 January 2018, an increase in contract assets of RMB206,944,000 and a decrease in trade, bills and other receivables of RMB206,944,000 were recognised. Also, an increase in contract liabilities of RMB183,952,000 and a decrease in trade, bills and other payables of RMB183,952,000 were recognised.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing this condensed consolidated interim financial information, 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 2017 annual financial statement, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 9 and IFRS 15 as described in note 3.

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

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 ("PRC"). Accordingly, no segment analysis is presented. The majority of property, plant and equipment is located in the PRC. The information reported to the senior executive management of the Company for the purpose of resources allocation and assessment of performance are the same as the amounts reported under IFRSs.

6. REVENUE

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

Revenue is disaggregated by major products and timing of revenue recognition as following table.

	Six-month period ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Major products		
Enterprise IT products	851,819	1,673,670
Provision of services	244,651	150,440
	1,096,470	1,824,110
Timing of revenue recognition		
At a point in time	851,819	1,673,670
Transferred over time	244,651	150,440
	1,096,470	1,824,110

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

	30 June 2018 RMB'000 (Unaudited)	1 January 2018 RMB'000 (Unaudited)
Contract assets	32,438	55,066
Contract liabilities	157,822	183,952

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

6. REVENUE (Continued)

Contract assets primarily relate to the Group's rights to consideration for work completed but not yet billed at the reporting date on revenue relating to the sales of enterprise IT products. The contract assets are transferred to trade receivables when the rights become unconditional. This usually occurs when the Group provides the invoice to the customer.

Contract liabilities mainly relate to the advance consideration received from customers. RMB183,952,000 of the contract liabilities as of 1 January 2018 has been recognised as revenue for the six months ended 30 June 2018 from performance obligations satisfied in previous year due to the changes in the estimate stage of completion of provisions of services.

7. OTHER INCOME AND OTHER LOSSES, NET

	Six-month period ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other income:		
Interest income	924	1,056
Government grants (note)	2,990	780
Others	494	175
	4,408	2,011
Other losses, net:		
Impairment loss on trade receivables	(22,427)	(2,715)
Net foreign exchange gains/(losses)	4,040	(6,655)
Loss on disposal of property, plant and equipment	(2)	—
Others	—	(76)
	(18,389)	(9,446)

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

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

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

9. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging:

	Six-month period ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Staff cost:		
Salaries and allowances	45,777	51,343
Contributions to retirement benefit schemes	4,719	5,580
Equity-settled share-based payment	57	216
	50,553	57,139
Other items:		
Carrying amount of inventories sold	802,540	1,585,124
Write-down and write-off of inventories, included in cost of sales	3,863	149
	806,403	1,585,273
Operating lease charges in respect of properties	5,282	4,961
Depreciation of property, plant and equipment	2,277	1,553

10. INCOME TAX EXPENSE

	Six-month period ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Current tax:		
Hong Kong	—	44
PRC Enterprise Income Tax	4,776	4,004
	4,776	4,048
Deferred tax:		
Credit for the period	(1,704)	(147)
	3,072	3,901

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

10. INCOME TAX EXPENSE *(Continued)*

- (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) The provision for Hong Kong Profits Tax for the six-month periods ended 30 June 2018 and 2017 was calculated at 16.5% of the estimated assessable profits.
- (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 is 25% from 1 January 2008 onwards. The Group has not recognised deferred tax of approximately RMB1,886,000 (six-month period ended 30 June 2017: RMB1,461,000) in respect of losses incurred by certain PRC subsidiaries for the period.

11. DIVIDENDS

During the current interim period, no final dividend in respect of the year ended 31 December 2017 was declared and paid to the owners of the Company. During the six-month period ended 30 June 2017, a final dividend of HK\$1.9 cents per share in respect of the year ended 31 December 2016 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\$5,914,000 (approximately RMB5,211,000).

The directors have determined that no dividend will be paid in respect of the current interim period (six-month period ended 30 June 2017: nil).

12. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the six-month period ended 30 June 2018 is based on the profit for the period attributable to owners of the Company of RMB9,259,000 (six-month period ended 30 June 2017: RMB616,000).

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 2018.

13. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2018, the Group spent RMB1,030,000 (six-month period ended 30 June 2017: RMB3,503,000) to acquire furniture, fixtures and equipment.

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

14. TRADE, BILLS AND OTHER RECEIVABLES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Trade receivables	531,935	835,283
Less: impairment losses	(73,258)	(62,443)
	458,677	772,840
Bills receivables	28,078	60,378
	486,755	833,218
Total trade and bills receivables	486,755	833,218
Prepayments	31,690	28,461
Deposits	12,499	15,297
Other receivables	2,830	29,152
	533,774	906,128

The Group allows an average credit period within 30 to 90 days (31 December 2017: 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 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
0-30 days	204,529	406,856
31-60 days	63,415	113,068
61-90 days	42,283	103,604
More than 90 days	176,528	209,690
	486,755	833,218

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

14. TRADE, BILLS AND OTHER RECEIVABLES *(Continued)*

The below table reconciles the impairment losses for the period/year:

	RMB'000
At 1 January 2017 (Audited)	48,595
Impairment loss recognised	14,047
Bad debts written off	(199)
	<hr/>
At 31 December 2017 and 1 January 2018 (Audited)	62,443
Impairment loss recognised	29,130
Increased in expected credit losses as of transition to IFRS 9 (note 3.1(b))	10,006
Bad debts written off	(6,703)
Reallocation to contract assets	(21,618)
	<hr/>
At 30 June 2018 (Unaudited)	<hr/> 73,258 <hr/>

15. TRADE, BILLS AND OTHER PAYABLES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Trade payables	122,670	325,065
Bills payable	4,952	109,216
Receipts in advance	—	183,952
Other payables and accruals	10,082	17,444
	<hr/>	<hr/>
	137,704 <hr/>	635,677 <hr/>

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

15. TRADE, BILLS AND OTHER PAYABLES *(Continued)*

Average credit period on purchases of goods was 30-90 days (31 December 2017: 30-90 days). The following is an aged analysis of trade and bills payables based on the invoice date at the end of the respective reporting periods:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Trade payables		
0-30 days	43,764	93,735
31-90 days	32,198	81,614
More than 90 days	46,708	149,716
	122,670	325,065
Bills payable, aged within 120 days	4,952	109,216

16. BANK AND OTHER BORROWINGS

During the current interim period, the Group obtained new borrowings amounting to RMB1,000,000 (six-month period ended 30 June 2017: RMB826,896,000) and repaid RMB343,866,000 (six-month period ended 30 June 2017: RMB724,234,000). The loans carry interest at variable market rates varied from 5.00% to 7.00% (31 December 2017: 5.00% to 7.00%) per annum.

17. SHARE CAPITAL

	Number of shares '000	Share capital RMB'000
Authorised:		
At 1 January 2017, 31 December 2017 and 30 June 2018		
Ordinary Shares of HK\$0.1 each	2,000,000	200,000
Issued and fully paid:		
At 1 January 2017, 31 December 2017 and 30 June 2018	311,250	31,125
		RMB'000
Presented as		27,415

18. SHARE-BASED PAYMENTS

The Company's share option scheme (the "**Share Option Scheme**") was adopted pursuant to a resolution passed on 11 November 2009 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. Unless approved by the shareholders of the Company in general meeting in the manner prescribed in the Listing Rules, the board of directors shall not grant options to any grantee if the acceptance of those options would result in the total number of shares issued and to be issued to that grantee on exercise of his options during any 12-month period exceeding 1% of the total shares of the Company (or its subsidiary) then in issue.

On 15 June 2011, the Company announces that a total of 900,000 share options (the "**Share Options A**") to subscribe for shares of HK\$0.10 each in the capital of the Company (the "**Shares**") were granted by the Company to the independent non-executive directors of the Company (the "**Share Options A Grantees**"), subject to acceptance of the Share Options A Grantees, under the Share Option Scheme. A summary of the grant is set out below:

Exercise price of Share Option A	HK\$1.81 per Share
Closing price of the Shares on the date of grant	HK\$1.80
Validity period of the Share Options A	10 years, commencing on 15 June 2011
Vesting date of Share Options A	All the Share Options A have been vested in 2011

On 24 August 2015, the Company announced that a total of 900,000 share options (the "**Share Options B**") to subscribe for the Shares were granted by the Company to the independent non-executive directors of the Company (the "**Share Options B Grantees**"), subject to acceptance of the Share Options B Grantees, under the Share Option Scheme. A summary of this grant is set out below:

Exercise price of Share Option B	HK\$1.172 per Share
Closing price of the Shares on the date of grant	HK\$0.90
Validity period of the Share Options B	10 years, commencing on 24 August 2015
Vesting date of Share Options B	All the Share Options B have been vested in 2015

On 18 January 2016, the Company announced that a total of 2,200,000 share options (the "**Share Options C**") to subscribe for the Shares were granted by the Company to the eligible employees of the Group (the "**Share Options C Grantees**"), subject to acceptance of the Share Options C Grantees, under the Share Option Scheme. A summary of this grant is set out below:

Exercise price of Share Option C	HK\$1.004 per Share
Closing price of the Shares on the date of grant	HK\$0.990
Validity period of the Share Options C	10 years, commencing on 18 January 2016
Vesting date of Share Options C	30%, 30% and 40% of the Share Options C have been vested on 18 January 2016, 18 January 2017 and 18 January 2018, respectively

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

18. SHARE-BASED PAYMENTS *(Continued)*

On 14 October 2016, the Company announced that a total of 1,200,000 share options (the “Share Options D”) to subscribe for Shares were granted by the Company to the eligible employees of the Group (the “Share Option D Grantees”), subject to acceptance of the Share Options D Grantees, under the Share Option Scheme. A summary of the grant is set out below:

Exercise price of Share Option D	HK\$1.25 per Share
Closing price of the Shares on the date of grant	HK\$1.25
Validity period of the Share Options D	10 years, commencing on 14 October 2016
Vesting date of Share Options D	30%, 30% and 40% of the Share Options D have been vested on 14 October 2016, 14 October 2017 and 14 October 2018, respectively

None of the share options were exercised during the current and prior interim period.

The fair values of Share Options A, Share Options B, Share Options C and Share Options D determined at the dates of grant were RMB523,000 (equivalent to HK\$630,000), RMB231,000 (equivalent to HK\$280,000), RMB712,000 (equivalent to HK\$847,000) and RMB518,000 (equivalent to HK\$598,000) respectively. These fair values were calculated using Binomial Model.

The Group recognised the total expense of RMB57,000 for the six-month period ended 30 June 2018 (the six-month period ended 30 June 2017: RMB216,000) in relation to Share Options C and Share Options D granted by the Company.

19. COMMITMENTS

At the end of each reporting period, the Group was committed to make future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within one year	8,583	8,650
In the second to fifth year, inclusive	4,303	7,875
Presented as	12,886	16,525

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, at the end of which all terms are renegotiated. None of the leases includes contingent rentals.

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

20. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties:

Name of party	Relationships
北京深思软件股份有限公司 Beijing Deep Thought Software Co., Ltd. ("Beijing Deep Thought")*	A company controlled by Mr Chen Jian, a director of the Company
富通金信有限公司 (Futong Technology Advanced Business Service Limited) ("Futong Technology")	Associate of the Company
北京富通金信计算机系统服务有限公司 Beijing Futong Jinxin Computer System Service Co. Ltd. ("Beijing Futong Jinxin")*	Associate of the Company

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

(b) Recurring transactions

During the six-month period ended 30 June 2018, the Group entered into the following transactions with related parties:

	Six-month period ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Sales to Beijing Futong Jinxin	6,701	2,709
Purchases from Beijing Futong Jinxin	1,287	2,287
Purchases from Beijing Deep Thought	217	813

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

20. RELATED PARTY TRANSACTIONS *(Continued)*

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

At the end of the reporting period, the Group had the following balances with related parties:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Trade receivables from (note):		
Beijing Futong Jinxin	213	618
Trade payables to (note):		
Beijing Futong Jinxin	2,559	—
Other receivables from (note):		
Futong Technology	52	—
Other payables to (note):		
Futong Technology	6,693	—
Advance payments to suppliers (note):		
Beijing Futong Jinxin	2,311	139
Beijing Deep Thought	—	111
	2,311	250
Receipts in advance (note):		
Beijing Futong Jinxin	318	650

Note:

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

Notes to the Condensed Consolidated Financial Statements

For the six-month period ended 30 June 2018

20. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management personnel remuneration

The remuneration of directors of the Company and other members of key management during the period were as follows:

	Six-month period ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries and other benefits	4,688	5,639
Retirement benefits scheme contributions	431	289
	5,119	5,928

Total remuneration was included under staff costs as set out in note 9 to the condensed consolidated financial statements.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Jian (*Chairman*)

Ms. Chen Jing

Independent Non-executive Directors

Mr. Chow Siu Lui

Mr. Yuan Bo

Mr. Lo Kwok Kwei David (*appointed on 5 February 2018*)

Mr. Yao Yun (*appointed on 25 May 2018*)

COMPANY SECRETARY

Mr. Leung Ka Lung

REGISTERED OFFICE

Cricket Square

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on level 20 of Tower B

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Chaoyang District

Beijing, the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 2406-2412, 24th Floor

Sun Hung Kai Centre

30 Harbour Road

Wanchai, Hong Kong

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited

Nanyang Commercial Bank, Ltd.

The Hong Kong and Shanghai Banking

Corporation Limited

Hang Seng Bank Limited

China CITIC Bank International Limited

HSBC Bank (China) Company Limited

Standard Chartered Bank (China) Limited

China Merchants Bank Co., Ltd.

Bank of Beijing

LEGAL ADVISORS AS TO HONG KONG LAWS

Chiu & Partners

AUDITORS

BDO Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

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Hong Kong

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