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Futong Technology Development Holdings Limited

富通科技發展控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 465)

UNAUDITED INTERIM RESULTS ANNOUNCEMENT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022

The board (the “**Board**”) of directors (the “**Directors**”) of Futong Technology Development Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six-month period ended 30 June 2022 (the “**Period**”) together with comparative figures. The condensed consolidated interim financial information has not been audited but has been reviewed by the Company’s auditor and audit committee.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022

	<i>NOTE</i>	Six-month period ended 30 June	
		2022	2021
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	6	218,204	144,174
Cost of sales and services		(206,940)	(126,521)
		<hr/>	<hr/>
Gross profit		11,264	17,653
Other income	7	1,951	4,730
Other gains and losses	7	(2,574)	2,832
Selling expenses		(30,016)	(31,321)
Administrative expenses		(14,009)	(16,416)
		<hr/>	<hr/>
Loss from operations		(33,384)	(22,522)
Finance costs	8	(27)	(56)
		<hr/>	<hr/>
Loss before income tax	9	(33,411)	(22,578)
Income tax (expense)/credit	10	(156)	616
		<hr/>	<hr/>
Loss and total comprehensive income for the period		(33,567)	(21,962)
		<hr/> <hr/>	<hr/> <hr/>
Loss and total comprehensive income for the period attributable to:			
Owners of the Company		(33,556)	(21,954)
Non-controlling interests		(11)	(8)
		<hr/>	<hr/>
		(33,567)	(21,962)
		<hr/> <hr/>	<hr/> <hr/>
Loss per share			
Basic and diluted (RMB)	12	(0.11)	(0.07)
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2022

	<i>Notes</i>	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	4,608	5,014
Intangible assets	14	64,637	48,784
Right-of-use assets		17,308	17,584
Financial assets at fair value through profit or loss		6,537	10,456
Deferred tax assets		4,375	4,531
Total non-current assets		97,465	86,369
Current assets			
Inventories		51,115	51,264
Trade, bill and other receivables	15	105,919	98,421
Contract assets		90,116	31,424
Financial assets at fair value through profit or loss		34,574	–
Bank balances and cash		170,863	350,239
Total current assets		452,587	531,348
Current liabilities			
Trade and other payables	16	33,608	41,023
Contract liabilities		70,300	96,583
Lease liabilities		1,215	1,880
Tax payable		758	758
Total current liabilities		105,881	140,244
Net current assets		346,706	391,104
Total assets less current liabilities		444,171	477,473
Non-current liabilities			
Lease liabilities		220	378
NET ASSETS		443,951	477,095
CAPITAL AND RESERVES			
Share capital		27,415	27,415
Reserves		411,938	445,071
Equity attributable to owners of the Company		439,353	472,486
Non-controlling interests		4,598	4,609
Total equity		443,951	477,095

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022

	Attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Merger reserve	Share options reserve	Statutory reserves	Retained profit	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2021 (audited)	27,415	81,538	219	1,779	81,058	352,277	544,286	4,487	548,773
Loss and total comprehensive income for the period	–	–	–	–	–	(21,954)	(21,954)	(8)	(21,962)
Recognition of equity-settled share-based payments	–	–	–	516	–	–	516	–	516
Balance at 30 June 2021 (unaudited)	27,415	81,538	219	2,295	81,058	330,323	522,848	4,479	527,327
Balance at 1 January 2022 (audited)	27,415	81,538	219	2,631	81,058	279,625	472,486	4,609	477,095
Loss and total comprehensive income for the period	–	–	–	–	–	(33,556)	(33,556)	(11)	(33,567)
Recognition of equity-settled share-based payments	–	–	–	423	–	–	423	–	423
Balance at 30 June 2022 (unaudited)	27,415	81,538	219	3,054	81,058	246,069	439,353	4,598	443,951

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022

	Six-month period ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	<u>(125,259)</u>	<u>(30,266)</u>
Net cash used in investing activities		
Bank interest received	1,668	4,539
Development cost paid	(20,670)	(13,534)
Purchase of property, plant and equipment	(327)	(669)
Purchase of financial assets at fair value through profit or loss	(154,500)	–
Sales of financial assets at fair value through profit or loss	120,500	–
	<u>(53,329)</u>	<u>(9,664)</u>
Net cash used in financing activities		
Interest paid on lease liabilities	(27)	(56)
Payments on principle portion of lease liabilities	(944)	(1,012)
	<u>(971)</u>	<u>(1,068)</u>
Net decrease in cash and cash equivalents	(179,559)	(40,998)
Cash and cash equivalents at 1 January	350,239	459,940
Effect of foreign exchange rate changes	183	356
Cash and cash equivalents at 30 June	<u><u>170,863</u></u>	<u><u>419,298</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022

1. GENERAL INFORMATION

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

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

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

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“**IAS 34**”) and the applicable disclosure provisions of Main Board Listing Rules Governing the Listing of Securities on the SEHK. These condensed consolidated interim financial statements were authorised for issue on 25 August 2022.

These condensed consolidated interim financial statements have been prepared with the same accounting policies adopted in the 2021 annual financial statements, except for those that relate to new and amended standards or interpretations effective for the first time for periods beginning on or after 1 January 2022. Details of any changes in International Financial Reporting Standards (the “**IFRSs**”) are set out in note 3.

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

These condensed consolidated interim financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated. These condensed consolidated interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. These condensed consolidated interim financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with the IFRSs and should be read in conjunction with the 2021 consolidated financial statements.

2. BASIS OF PREPARATION (Continued)

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

Going concern basis

The Group incurred a loss of approximately RMB33,567,000 during the six-month period ended 30 June 2022, this condition may cast significant doubt about the Group’s ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

For assessing the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated financial statements, the directors of the Company prepared a cash flow projection for a fifteen-month period from 30 June 2022. The directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern, after considering the cash flows generated from its operations and existing cash position. In addition, the directors of the Company considered that the Group would be able to seek alternative sources of financing when the need arises.

Based on the above, the directors of the Company is of the view that the Group would have sufficient working capital to finance its operation and meet its financial obligations as and when they fall due over the period of the cash flow projection. Accordingly, it is appropriate to prepare the consolidated financial statements on a going concern basis.

3. CHANGES IN IFRSs

The International Accounting Standards Board (the “IASB”) has issued a number of new or amended IFRSs that are first effective for the current accounting period of the Group:

Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Annual Improvements to IFRSs 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

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

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing this condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2021 annual financial statements.

5. SEGMENT INFORMATION

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

In the previous year, the CODM considers that the operation of the Group constitutes a single operating segment as the revenue and profit are derived entirely from the provisions of enterprise IT products and services to customers in the People's Republic of China (the "PRC"). In the current year, the Group reorganised its internal reporting structure which resulted in identification of three operating and reportable segments as follows, prior year segment disclosures have also been re-presented to conform with the current year's presentation.

- (a) Enterprise management business engages in the provision of IT infrastructure products, cloud computing management products, services and solutions;
- (b) Intelligent health management business engages in the provision of intelligent health management services; and
- (c) Intelligent manufacturing business engages in the provision of intelligent application products in manufacturing industries.

The CODM monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit or loss before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, finance costs, fair value gains or loss on financial assets at fair value through profit or loss, head office and corporate income and expenses are excluded from such measurement.

5. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

The Group's revenue and results are substantially derived from the operations in the PRC. The following is an analysis of the Group's revenue and results by reportable and operating segments.

For the six months ended	Enterprise management business		Intelligent health management business		Intelligent manufacturing business		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)
Sales to external customers	216,922	144,174	-	-	1,282	-	218,204	144,174
Segment results	(2,683)	3,385	(7,717)	(7,358)	(6,190)	(5,622)	(16,590)	(9,595)
<i>Reconciliation:</i>								
Fair value loss on financial assets at fair value through profit and loss							(3,729)	-
Interest income							1,668	4,539
Foreign exchange gain/(loss), net							1,169	(51)
Other unallocated gains and losses							269	3,073
Corporate and other unallocated expenses							(16,198)	(20,544)
Loss before tax							(33,411)	(22,578)
Income tax (expense)/credit							(156)	616
Loss for the year							(33,567)	(21,962)

5. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

The majority of property, plant and equipment is located in the PRC. Financial assets at fair value through profit or loss, deferred tax assets, corporate assets and corporate liabilities are not allocated to the reportable segments as they are not included in the measure of the segment assets and segment liabilities that are used by the CODM for assessment of segment performance. The following table presents the asset and liability information of the Group's operating segments as at 30 June 2022 and 31 December 2021:

	Enterprise management business RMB'000	Intelligent health management business RMB'000	Intelligent manufacturing business RMB'000	Total RMB'000
Segment assets				
30 June 2022 (unaudited)	251,542	40,764	1,503	293,809
31 December 2021 (audited)	179,740	25,578	3,530	208,848
Segment Liabilities				
30 June 2022 (unaudited)	(83,731)	(3,144)	(12,324)	(99,199)
31 December 2021 (audited)	(129,685)	(423)	(777)	(130,885)

6. REVENUE

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

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

	Six-month period ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Primary geographical markets		
The PRC	215,677	143,810
Hong Kong	2,527	364
	<u>218,204</u>	<u>144,174</u>
Major products/services lines		
Enterprise IT products	158,742	31,141
Provision of services	59,462	113,033
	<u>218,204</u>	<u>144,174</u>
Timing of revenue recognition		
At a point in time	158,742	32,114
Transferred over time	59,462	112,060
	<u>218,204</u>	<u>144,174</u>

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

	30 June 2022	31 December 2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Receivables (<i>note 15</i>)	30,117	33,759
Contract assets	90,116	31,424
Contract liabilities	<u>70,300</u>	<u>96,583</u>

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

Contract liabilities mainly relate to the advance consideration received from customers. Balance of RMB59,462,000 as of 1 January 2022 has been recognised as revenue for the six-month period ended 30 June 2022 from performance obligations satisfied due to the completion of services.

6. REVENUE (Continued)

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

7. OTHER INCOME, AND OTHER GAINS AND LOSSES

	Six-month period ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Other income:		
Interest income	1,668	4,539
Government grants (<i>note</i>)	148	148
Others	135	43
	<u>1,951</u>	<u>4,730</u>
	Six-month period ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Other gains and losses:		
Gain on lease modification	5	–
Fair value loss on financial assets at fair value through profit or loss	(3,729)	–
(Provision)/reversal of impairment loss on financial and contract assets, net	(19)	2,822
Foreign exchange gains/(losses)	1,169	(51)
Others	–	61
	<u>(2,574)</u>	<u>2,832</u>

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

8. FINANCE COSTS

	Six-month period ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on lease liabilities	<u>27</u>	<u>56</u>

9. LOSS BEFORE INCOME TAX

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

	Six-month period ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Staff costs:		
Salaries and allowances	50,131	43,886
Contributions to retirement benefit schemes	3,429	3,297
Equity-settled share-based payment	423	516
	<u>53,983</u>	<u>47,699</u>
Less: capitalised as intangible assets	<u>(16,950)</u>	<u>(12,179)</u>
	<u>37,033</u>	<u>35,520</u>
Other items:		
Carrying amount of inventories sold	154,484	28,020
Inventory write-down and write-off net of reversals, included in cost of sales	530	(3,222)
	<u>155,014</u>	<u>24,798</u>
Amortisation of intangible assets (<i>note</i>)	4,817	1,749
Depreciation of right-of-use assets	1,144	1,297
Depreciation of property, plant and equipment	733	865
Short-term lease expenses	<u>1,215</u>	<u>939</u>

Note: Amortisation charges of RMB4,779,000 (six-month period ended 30 June 2021: RMB1,747,000) and RMB38,000 (six-month period ended 30 June 2021: RMB2,000) have included in cost of sales and services and administrative expenses respectively.

10. INCOME TAX (EXPENSE)/CREDIT

	Six-month period ended 30 June	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Current tax – PRC income tax		
Tax for the period	–	(121)
Over provision in respect of prior years	–	3,149
	–	3,028
Deferred tax:		
Charged for the period	(156)	(2,412)
	<u>(156)</u>	<u>616</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) No Hong Kong profit tax has been provided as the Group had no assessable profits arising in Hong Kong during the periods ended 30 June 2022 and 2021.
- (iii) Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, except for two subsidiaries have been granted continuously on a three years interval with a qualification of high-tech enterprise which entitles these subsidiaries a preferential income tax rate of 15%, the tax rate of the Company’s subsidiaries is 25% in the PRC from 1 January 2008 onwards. The Group has not recognised deferred tax of approximately RMB4,190,000 (six-month period ended 30 June 2021: RMB3,238,000) in respect of losses incurred by certain PRC subsidiaries for the period.
- (iv) According to the EIT Law, withholding income tax at a rate of 10% would be imposed on dividends relating to profits earned from year 2008 onwards to foreign investors for the companies established in the PRC. Such dividend tax rate may be further reduced by applicable tax treaties or arrangement. According to the arrangement between the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the withholding tax rate on dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise.

As at 30 June 2022, the Group has not recognised deferred tax liabilities of RMB12,907,000 (31 December 2021: RMB13,025,000) in respect of temporary differences relating to the unremitted profits of subsidiaries amounted to RMB258,145,000 (31 December 2021: RMB260,550,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

11. DIVIDENDS

During the current interim period, no final dividend in respect of the year ended 31 December 2021 was declared and paid to the owners of the Company (six-month period ended 30 June 2021: nil).

The directors have determined that no dividend will be paid in respect of the current interim period (six-month period ended 30 June 2021: nil).

12. LOSS PER SHARE

The calculation of basic and diluted loss per share for the six-month period ended 30 June 2022 is based on the loss for the period attributable to owners of the Company of RMB33,556,000 (six-month period ended 30 June 2021: RMB21,954,000) and the weighted average of 311,250,000 ordinary shares (six-month period ended 30 June 2021: 311,250,000 ordinary shares) in issue during the interim period.

The computation of diluted loss per share attributable to owners of the Company are the same as basic loss per share as the impact of the exercise of share options was anti-dilutive for the six-month periods ended 30 June 2022 and 30 June 2021.

13. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2022, the Group paid RMB327,000 (six-month period ended 30 June 2021: RMB669,000) for acquisition of furniture, fixtures and equipment.

14. INTANGIBLE ASSETS

During the six-month period ended 30 June 2022, the Group paid RMB20,670,000 (six-month period ended 30 June 2021: RMB13,534,000) in development of its cloud computing management systems and intelligent digitalised application systems.

15. TRADE, BILL AND OTHER RECEIVABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade receivables	87,304	90,860
Less: allowance for doubtful debts	<u>(57,187)</u>	<u>(57,101)</u>
	30,117	33,759
Bill receivables	<u>304</u>	–
Total trade and bill receivables	30,421	33,759
Prepayments	55,597	43,585
Deposits	2,164	2,410
VAT receivables	16,434	17,417
Other receivables	<u>1,303</u>	<u>1,250</u>
	<u>105,919</u>	<u>98,421</u>

The Group allows an average credit period of 30 to 90 days (31 December 2021: 30 to 90 days) to its trade customers.

Included in trade and bill receivables are trade debtors (net of allowance of doubtful debts) with the following ageing analysis, based on invoice dates, as of the end of reporting period.

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
0 – 30 days	11,353	18,813
31 – 60 days	2,506	114
61 – 90 days	489	456
More than 90 days	<u>15,769</u>	<u>14,376</u>
	<u>30,117</u>	<u>33,759</u>

16. TRADE AND OTHER PAYABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade payables	27,972	33,163
Other payables and accruals	5,636	7,860
	<u>33,608</u>	<u>41,023</u>

Average credit period on purchases of goods was 30 to 90 days (31 December 2021: 30 to 90 days). The following is ageing analysis of trade payables based on the invoice date at the end of the reporting period:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Less than 1 month	1,593	13,405
1 to 3 months	9,877	8,580
More than 3 months	16,502	11,178
	<u>27,972</u>	<u>33,163</u>

17. PRIOR PERIOD RE-PRESENTATION

The Group has implemented the IFRS Interpretations Committee agenda decision on demand deposits with restriction on use, which has resulted in (1) the re-classification of the “pledge deposits” of RMB17,708,000 as at 31 December 2021 to “bank balances and cash” in the Condensed Consolidated Statement of Financial Position, and (2) the re-presentation of relevant comparative figures for the six-month period ended 30 June 2021 in the Condensed Consolidated Statement of Cash Flows.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

As a leading enterprise digital transformation services provider in China, the Group specializes in providing enterprise information technology (“IT”) infrastructure products, services and solutions, cloud computing management products, and intelligent digitalized application products. With enterprise clients in China stepping up the transformation of their operations through digitalization, the Group has also actively adjusted its business development direction and consolidated its main business, dividing it into three divisions, namely, enterprise management business, intelligent health management business, and intelligent manufacturing business.

Enterprise Management Business

The Group’s enterprise management business has been growing with good momentum over the years, and has been one of the Group’s key income sources. Through collaborating closely with top domestic and overseas IT companies and cloud resources providers, such as Tencent Cloud and Alibaba Cloud, complemented by its self-developed CMP2020 multi-cloud management platform and other cloud computing products, the Group has actively provided enterprise customers in China with highly efficient applications and solutions via its cloud products and cloud management services. It also offers customer-specific systems architecture business solutions, and repair and maintenance support for customers’ informationalized value-added services, helping enterprises drive their digital transformation. For the six months ended 30 June 2022 (the “**Period**”), revenue grew by more than 50% owing to the concerted effort of staff who helped the operation overcome an increasingly competitive segment. The Group will further optimize the existing product portfolio, boost services income and gross profit margin, so as to ensure it can maintain good cash flow and enhance profit.

Intelligent Health Management Business

As an artificial intelligence (“AI”) technology enterprise, the Group has actively leveraged the innovative application technology “AI+Medical” and launched the “5+AI Health” management product to provide personalized integrated health management solutions for users. The Group has also continued to allocate more resources to the development of intelligent health management business and the Genesis AI Lab (恒先人工智能實驗室), an AI laboratory managed by doctoral degree holders. Furthermore, it has collaborated with leading clinical and scientific research institutions in China to promote nutritional health, sports health and mental health integration, with the objective of maintaining wellness through the provision of integrated health management solutions, including traditional Chinese medicine and chronic disease management, among other methods. In addition, the Group has utilized the innovative “AI+Medical” application during the Period, to provide medical services during the Beijing 2022 Winter Olympics and 2022 Winter Paralympics by capitalizing on its technological strengths. Its contributions have been well recognized by the Beijing Organizing Committee for the 2022 Olympic and Paralympic Winter Games. Moreover, the Group has continued to optimize the “5+AI Health” management product, strengthening integration and improving relevant technologies, as well as promoting its brand in the market in a bid to lay a favorable foundation for the Group’s future income.

Intelligent Manufacturing Business

Empowered by such emerging technologies as AI and big data, the Group has continued to develop intelligent digitalized application products specifically tailored for the transportation, automotive and manufacturing industries. Using new and advanced AI technologies and tools, it is able to offer products and services that can more precisely meet the needs of customers in specific industries. Among them, the Group’s iAPS intelligent order management platform adopts a multi-objective solution algorithm that enables it to offer intelligent, agile, visual and comprehensive production plan management; optimize and standardize production processes and management; and eliminate defects found in traditional production plan management such as data loss and omissions in operation, thus enhancing its capacity to provide quick response, reduce production cost, and facilitate transformation and upgrade. During the Period, the Group also launched a Voice of Customers product for the automotive industry. The product collects, analyzes and converts the audio response of automotive customers’ products or services, such as comments, expectations and preferences, into useful advice for furthering branding efforts, helping the automotive companies to understand customers’ feelings for and interaction with the brand, product and service at each contact point or during the entire customer life cycle. The automotive companies can thereby also discover and resolve problems, and provide customers with better experiences. The Group will continue to provide services to more customers and actively expand industry coverage, so as to cement its foundation for future business development.

FINANCIAL REVIEW

Revenue

For the Period, revenue of the Group increased by approximately RMB74.0 million or 51.4% as compared with the corresponding period of 2021, to approximately RMB218.2 million (2021: approximately RMB144.2 million). The increase was mainly due to the increase in sales of the cloud computing and IT infrastructure products, which reflects that the IT market started to resume.

Gross profit

Gross profit of the Group decreased by approximately RMB6.4 million or 36.2% to approximately RMB11.3 million for the Period (2021: approximately RMB17.7 million), while the gross profit ratio reduced from 12.2% to 5.2%. The significant decrease in gross profit ratio was mainly due to the lower selling prices strategically offered for some projects during the Period.

Other income and other gains and losses, net

Other income and other gains and losses, net consist mainly of interest income from bank deposits, foreign exchange gain or loss, government grants, and provision for or reversal of impairment on financial assets. During the Period, net losses from other income and other gains and losses amounted to approximately RMB0.6 million (2021: net gains of approximately RMB7.6 million), representing a decrease of approximately RMB8.2 million. This decrease was mainly due to the combined effect of (i) a fair value loss on financial assets through profit or loss of approximately RMB3.7 million and (ii) the decrease in interest income of approximately RMB2.9 million.

Selling expenses

For the Period, selling expenses of the Group amounted to approximately RMB30.0 million (2021: approximately RMB31.3 million), representing a decrease of approximately RMB1.3 million or 4.2% when compared with the corresponding period of 2021. The decrease was mainly due to the continuing adjustments of business structure, causing the staff and other related expenses to fall accordingly.

Administrative expenses

Administrative expenses of the Group for the Period amounted to approximately RMB14.0 million (2021: approximately RMB16.4 million), representing a decrease of approximately RMB2.4 million or 14.7% when compared with the corresponding period of 2021. The decrease was mainly due to the decrease in legal and professional fee and the decrease in consultancy costs related to the intelligent health management business.

Finance costs

Finance costs represented the interest portion derived from the lease liabilities. It was maintained at a low level as limited numbers of premises were leased by the Group.

Income tax (expense)/credit

Income tax expense of the Group for the Period amounted to approximately RMB0.2 million (2021: income tax credit amounted to approximately RMB0.6 million), representing an increase of approximately of RMB0.8 million. The increase was mainly due to a tax credit recognized for the over provision of income tax related to prior years of approximately RMB3.1 million in the corresponding period of 2021 and the decrease in deferred tax assets of approximately RMB2.3 million.

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

For the Period, the loss and comprehensive income attributable to owners of the Company amounted to approximately RMB33.6 million (2021: approximately RMB22.0 million), representing an increase of approximately RMB11.6 million as compared with the corresponding period of 2021. The loss was primarily due to the decrease in gross profit as lower selling prices were strategically offered for some projects and net loss incurred in other income and other gains and losses.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its daily operations with internally generated cash flows and banking facilities. As at 30 June 2022, the Group had total assets of approximately RMB550.1 million and net assets of approximately RMB444.0 million (31 December 2021: approximately RMB617.7 million and approximately RMB477.1 million, respectively). In respect of the trade receivables and contract assets of the Group amounted to approximately RMB120.2 million (31 December 2021: approximately RMB65.2 million), net of allowance for doubtful debts of approximately RMB57.3 million (31 December 2021: approximately RMB57.1 million). The management will perform a regular review and implement stringent control measures on trade receivables and contract assets with a view to ensuring the recovery of trade receivables on the due dates and closely monitoring the Group's liquidity. The Group's bank balances and cash amounted to approximately RMB170.9 million as at 30 June 2022 (31 December 2021: approximately RMB350.2 million). There was no bank borrowings as at 30 June 2022 and 31 December 2021. 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 2022, the cash and cash equivalents were held at RMB, USD and Hong Kong dollars.

PLEDGE OF ASSETS

As at 30 June 2022, certain assets of the Group with carrying value of approximately RMB12.8 million (31 December 2021: approximately RMB17.7 million) were pledged to banks for banking facilities and bank guarantees granted to the Group.

NET DEBT-TO-CAPITAL RATIO

The Group's net debt-to-capital ratios as at 30 June 2022 and 31 December 2021 were zero. This ratio was calculated as total borrowings less bank balances and cash, and relevant pledged deposits divided by total equity.

FOREIGN EXCHANGE EXPOSURE

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

During the Period, the Group entered into certain RMB/USD foreign exchange forward contracts to hedge against the volatile RMB/USD exchange rate. The foreign exchange forward contracts were fully settled as at the end of the Period. The management will continue to monitor closely the Group's foreign currency exposure and requirements and arrange for hedging facilities when necessary.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six-month period ended 30 June 2022 (2021: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2022, the Group had in total 359 (31 December 2021: 357) employees in the PRC and Hong Kong. Total staff costs amounted to approximately RMB54.0 million (six-month period ended 30 June 2021: approximately RMB47.7 million).

The Group's employees are remunerated by reference to industry practices and performance and the experience of individual employees. Our main focus is to ensure that the Group remains competitive within the market it operates in, to ensure we attract and retain the right talent necessary to grow the business and maximise shareholders' value. We place great emphasis on the development of our people as we firmly believe they are the core of the Group. Through our ongoing training programme, we encourage them to develop their talents and to move up the organisation. We believe these efforts are mutually beneficial to the Group and its employees.

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

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

PURCHASE, SALE AND REDEMPTION OF THE SHARES

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

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any material contingent liabilities.

SIGNIFICANT INVESTMENTS

The Group did not hold any material investments during the Period.

As at the date of this announcement, the Group does not have any plan for material investment or capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not make any material acquisitions or disposals of subsidiaries or affiliated companies during the Period.

IMPORTANT EVENTS SUBSEQUENT TO THE FINANCIAL PERIOD

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

OUTLOOK

Looking back at the first half of 2022, although the Chinese economy started to recover, the overall economic environment was still ridden with challenges and uncertainties due to COVID-19 not fully contained yet. However, the Group was able to adhere to its business direction amid the challenging market environment, and has continued to focus on the research and development ("R&D") of self-developed products and technologies, as well as expedite transformation from an informatization service enterprise to a technology application product enterprise. In recent years, the Group has also been actively adjusting its business structure and integrating its internal resources to develop new businesses while sustaining the growth momentum of existing operations. With the concerted efforts of the Group, overall revenue has increased during the Period.

Looking ahead to the second half of 2022, there are still many uncertainties and challenges in the complicated market environment. The Group will continue to heed changing circumstances, make strategic adjustments to enhance its core competitiveness, and remain steadfast in pushing to achieve its strategic goals. Riding on the current tide of digital transformation in full swing, the Group will strengthen the development of cloud computing and enterprise management services as well as intelligent applications, and continue to progressively increase the allocation of resources to R&D. With its self-developed products and services serving as torchbearers, the Group will also bolster its presence in the enterprise information technology market.

With different sectors pursuing digital transformation in depth, and AI technologies becoming mature gradually, the Group will integrate AI with industry applications, actively participate in key national R&D projects and industry standards formulation, and also assist enterprise customers in realizing digital transformation and intelligent applications. In recent years, the Group has actively focused on developing innovative proprietary products and intelligent applications. It has set up the Genesis AI Lab and a team staffed by professors, doctoral and master's degree holders from renowned domestic universities; and armed with leading technologies and specialized R&D expertise, in order to strengthen its product operation maintenance service capabilities. After these years of hard work, the Group has achieved certain results in the R&D of proprietary products and services. For example, it has launched various self-developed products including "5+AI Health" management products, the CMP2020 multi-cloud management platform, and the iAPS intelligent production scheduling platform. To stand out in the ever-changing market, the Group will continue to speed up innovation and transformation of its businesses, bring in top high-tech talent, consolidate commercialization of scientific research results and its business foundation, step up market expansion, and strengthen technological and product innovation capabilities, so as to shape itself into a technology and innovation-driven enterprise.

Having restructured its business and consolidated internal resources in recent years, the Group prides lower operating costs. However, as the COVID-19 pandemic has not totally receded, the business environment is still full of challenges. Looking ahead, the Group will continue to implement resources management solutions to ensure it uses resources effectively and maintain high operational efficiency. It will also remain prudent in monitoring costs and implementing stringent cost control measures, so as to maintain a robust financial position.

As an innovative technology enterprise, the Group believes the only way for it to gain a competitive advantage in today's complex market environment, is to embrace its core product technologies. Faced with an increasingly complex IT market and rapidly growing business demands, the Group, armed with over 20 years of industry experience, will continue to enhance its technological development and product innovation capabilities in order to help more industries with digital transformation, adoption of intelligent applications and development through innovation.

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 as stipulated in Appendix 14 to the Rules (the “**Listing Rules**”) Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

CODE OF CONDUCT REGARDING DIRECTORS’ SECURITIES TRANSACTIONS

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

REVIEW OF ACCOUNTS

The unaudited condensed consolidated interim financial statements of the Group for the Period have been reviewed by the Company’s auditor, BDO Limited, in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board. The auditor’s independent review report will be included in the 2022 interim report of the Company. The unaudited condensed consolidated interim financial statements of the Group for the Period have also been reviewed by the audit committee of the Company.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of the Company (www.futong.com.hk) and the Stock Exchange (www.hkexnews.hk). The 2022 interim report of the Company will be despatched to the shareholders of the Company and published on the aforementioned websites in due course.

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

Hong Kong, 25 August 2022

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