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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 2023

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 2023 (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 2023

	<i>NOTE</i>	Six-month period ended 30 June	
		2023	2022
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	6	39,364	218,204
Cost of sales and services		<u>(32,451)</u>	<u>(206,940)</u>
Gross profit		6,913	11,264
Other income	7	6,219	1,951
Other gains and losses	7	(3,153)	(2,555)
Reversal/(provision) of impairment loss on financial and contract assets, net		1,656	(19)
Research and development costs		(8,126)	–
Selling expenses		(26,809)	(30,016)
Administrative expenses		<u>(14,705)</u>	<u>(14,009)</u>
Loss from operations		(38,005)	(33,384)
Finance costs	8	<u>(67)</u>	<u>(27)</u>
Loss before income tax	9	(38,072)	(33,411)
Income tax credit/(expense)	10	<u>585</u>	<u>(156)</u>
Loss and total comprehensive income for the period		<u>(37,487)</u>	<u>(33,567)</u>
Loss and total comprehensive income for the period attributable to:			
Owners of the Company		(37,477)	(33,556)
Non-controlling interests		<u>(10)</u>	<u>(11)</u>
		<u>(37,487)</u>	<u>(33,567)</u>
Loss per share			
Basic and diluted (RMB)	12	<u>(0.12)</u>	<u>(0.11)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2023

	<i>Notes</i>	30 June 2023 <i>RMB'000</i> (Unaudited)	31 December 2022 <i>RMB'000</i> (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	3,429	3,949
Intangible assets	14	64,541	63,976
Right-of-use assets		19,230	19,624
Financial assets at fair value through profit or loss		1,165	3,632
Deferred tax assets		4,675	4,848
		93,040	96,029
Total non-current assets			
Current assets			
Inventories		2,210	4,715
Trade, bill and other receivables	15	72,852	51,541
Contract assets		2,446	114,570
Bank balances and cash		271,236	231,613
		348,744	402,439
Total current assets			
Current liabilities			
Trade and other payables	16	21,667	30,839
Contract liabilities		52,313	61,222
Lease liabilities		1,309	1,465
Tax payable		–	758
		75,289	94,284
Total current liabilities			
Net current assets			
		273,455	308,155
Total assets less current liabilities			
		366,495	404,184
Non-current liabilities			
Lease liabilities		1,307	1,829
		365,188	402,355
NET ASSETS			
CAPITAL AND RESERVES			
Share capital		27,415	27,415
Reserves		333,202	370,359
		360,617	397,774
Equity attributable to owners of the Company			
Non-controlling interests		4,571	4,581
		365,188	402,355
Total equity			
		365,188	402,355

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

	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 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
Balance at 1 January 2023 (audited)	27,415	81,538	219	3,472	81,058	204,072	397,774	4,581	402,355
Loss and total comprehensive income for the period	-	-	-	-	-	(37,477)	(37,477)	(10)	(37,487)
Recognition of equity-settled share-based payments	-	-	-	320	-	-	320	-	320
Balance at 30 June 2023 (unaudited)	27,415	81,538	219	3,792	81,058	166,595	360,617	4,571	365,188

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

	Six-month period ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash generated from/(used in) operating activities	<u>44,825</u>	<u>(125,259)</u>
Net cash used in investing activities		
Bank interest received	2,229	1,668
Development cost paid	(9,642)	(20,670)
Purchase of property, plant and equipment	(161)	(327)
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
Dividend received from financial assets at fair value through profit or loss	3,771	–
	<u>(3,803)</u>	<u>(53,329)</u>
Net cash used in financing activities		
Interest paid on lease liabilities	(67)	(27)
Payments on principle portion of lease liabilities	(763)	(944)
	<u>(830)</u>	<u>(971)</u>
Net increase/(decrease) in cash and cash equivalents	40,192	(179,559)
Cash and cash equivalents at 1 January	231,613	350,239
Effect of foreign exchange rate changes	(569)	183
Cash and cash equivalents at 30 June	<u><u>271,236</u></u>	<u><u>170,863</u></u>
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	269,419	158,040
Guaranteed deposits	1,817	12,823
	<u><u>271,236</u></u>	<u><u>170,863</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

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 24 August 2023.

These condensed consolidated interim financial statements have been prepared with the same accounting policies adopted in the 2022 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 2023. 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 2022 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 2022 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 RMB37,487,000 during the six-month period ended 30 June 2023, this condition may cast significant doubt about the Group’s ability to continue as a going concern.

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 twelve-month period from 30 June 2023. 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 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform — Pillar Two Model Rules

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 2022 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.

The CODM has identified three operating and reportable segments as follows:

- (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 gain 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	
	2023	2022	2023	2022	2023	2022	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales to external customers	<u>34,715</u>	<u>216,922</u>	<u>2</u>	<u>–</u>	<u>4,647</u>	<u>1,282</u>	<u>39,364</u>	<u>218,204</u>
Segment results	(5,828)	(2,683)	(15,138)	(7,717)	(7,291)	(6,190)	(28,257)	(16,590)
Reconciliation:								
Fair value loss on financial assets								
at fair value through								
profit and loss							(2,577)	(3,729)
Interest income							2,229	1,668
Dividend income							3,771	–
Foreign exchange gain							574	1,169
Other unallocated gains and								
losses							219	269
Corporate and other unallocated								
expenses							(14,031)	(16,198)
Loss before tax							(38,072)	(33,411)
Income tax credit/(expense)							<u>585</u>	<u>(156)</u>
Loss for the period							<u>(37,487)</u>	<u>(33,567)</u>

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 2023 and 31 December 2022:

	Enterprise management business <i>RMB'000</i>	Intelligent health management business <i>RMB'000</i>	Intelligent manufacturing business <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets				
30 June 2023 (unaudited)	<u>102,400</u>	<u>32,096</u>	<u>1,518</u>	<u>136,014</u>
31 December 2022 (audited)	<u>188,507</u>	<u>37,473</u>	<u>2,665</u>	<u>228,645</u>
Segment Liabilities				
30 June 2023 (unaudited)	<u>(55,838)</u>	<u>(903)</u>	<u>(3,861)</u>	<u>(60,602)</u>
31 December 2022 (audited)	<u>(71,024)</u>	<u>(931)</u>	<u>(5,040)</u>	<u>(76,995)</u>

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	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Primary geographical markets		
The PRC	39,364	215,677
Hong Kong	–	2,527
	<u>39,364</u>	<u>218,204</u>
Major products/services lines		
Enterprise IT products	10,121	158,742
Provision of services	29,243	59,462
	<u>39,364</u>	<u>218,204</u>
Timing of revenue recognition		
At a point in time	10,121	158,742
Transferred over time	29,243	59,462
	<u>39,364</u>	<u>218,204</u>

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

	30 June 2023	31 December 2022
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Receivables (<i>note 15</i>)	35,798	15,341
Contract assets	2,446	114,570
Contract liabilities	<u>52,313</u>	<u>61,222</u>

Contract assets primarily relate to the Group's rights to consideration for the work completed but has not been certified by the receipt to be issued by customers at the reporting date on the 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.

8. FINANCE COSTS

	Six-month period ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on lease liabilities	<u>67</u>	<u>27</u>

9. LOSS BEFORE INCOME TAX

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

	Six-month period ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Staff costs:		
Salaries and allowances	43,581	50,131
Contributions to retirement benefit schemes	5,146	3,429
Equity-settled share-based payment	<u>436</u>	<u>423</u>
	49,163	53,983
Less: capitalised as intangible assets	<u>(5,743)</u>	<u>(16,950)</u>
	<u>43,420</u>	<u>37,033</u>
Other items:		
Carrying amount of inventories sold	9,466	154,484
Inventory write-down and write-off net of reversals, included in cost of sales	<u>–</u>	<u>530</u>
	<u>9,466</u>	<u>155,014</u>
Amortisation of intangible assets (<i>note</i>)	7,927	4,817
Depreciation of right-of-use assets	1,027	1,144
Depreciation of property, plant and equipment	684	733
Short-term lease expenses	<u>949</u>	<u>1,215</u>

Note: Amortisation charges of RMB7,896,000 (six-month period ended 30 June 2022: RMB4,779,000) and RMB31,000 (six-month period ended 30 June 2022: RMB38,000) have been included in cost of sales and services and administrative expenses respectively.

10. INCOME TAX CREDIT/(EXPENSE)

	Six-month period ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax – PRC income tax		
Over provision in respect of prior years	758	–
Deferred tax:		
Charged for the period	(173)	(156)
	<u>585</u>	<u>(156)</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 2023 and 2022.
- (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 RMB5,432,000 (six-month period ended 30 June 2022: RMB4,190,000) 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 2023, the Group has not recognised deferred tax liabilities of RMB9,329,000 (31 December 2022: RMB10,798,000) in respect of temporary differences relating to the unremitted profits of subsidiaries amounted to RMB186,576,000 (31 December 2022: RMB215,962,000), 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 2022 was declared and paid to the owners of the Company (six-month period ended 30 June 2022: nil).

The directors have determined that no dividend will be paid in respect of the current interim period (six-month period ended 30 June 2022: nil).

12. LOSS PER SHARE

The calculation of basic and diluted loss per share for the six-month period ended 30 June 2023 is based on the loss for the period attributable to owners of the Company of RMB37,477,000 (six-month period ended 30 June 2022: RMB33,556,000) and the weighted average of 311,250,000 ordinary shares (six-month period ended 30 June 2022: 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 2023 and 30 June 2022.

13. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2023, the Group paid RMB161,000 (six-month period ended 30 June 2022: RMB327,000) for acquisition of furniture, fixtures and equipment.

14. INTANGIBLE ASSETS

During the six-month period ended 30 June 2023, the Group paid RMB9,642,000 (six-month period ended 30 June 2022: RMB20,670,000) in development of its cloud computing management systems and intelligent digitalised application systems.

15. TRADE, BILL AND OTHER RECEIVABLES

	30 June 2023	31 December 2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Trade receivables	86,046	74,367
Less: allowance for doubtful debts	(50,668)	(59,026)
	35,378	15,341
Bill receivables	420	—
Total trade and bill receivables	35,798	15,341
Prepayments	29,468	27,952
Deposits	2,150	2,066
VAT receivables	3,155	4,702
Other receivables	2,281	1,480
	72,852	51,541

The Group allows an average credit period of 30 to 90 days (31 December 2022: 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 2023	31 December 2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
0 – 30 days	1,286	3,620
31 – 60 days	22	557
61 – 90 days	25,235	73
More than 90 days	9,255	11,091
	35,798	15,341

16. TRADE AND OTHER PAYABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade payables	9,765	16,870
Other payables and accruals	<u>11,902</u>	<u>13,969</u>
	<u>21,667</u>	<u>30,839</u>

Average credit period on purchases of goods was 30 to 90 days (31 December 2022: 30 to 90 days). The following is the ageing analysis of trade payables based on the invoice date at the end of the reporting period:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Less than 1 month	2,092	4,148
1 to 3 months	–	269
More than 3 months	<u>7,673</u>	<u>12,453</u>
	<u>9,765</u>	<u>16,870</u>

17. PRIOR PERIOD RE-PRESENTATION

Certain comparative figures have been reclassified to conform to the current period's presentation. The changes included the reclassification of provision of net impairment loss on financial and contract asset previously classified under "Other gains and losses" to "Reversal/(provision) of impairment loss on financial and contract asset, net". The new classification of the accounting items was considered to provide a more appropriate presentation of the consolidated financial performance of the Group.

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 among the Group’s key income sources. Through collaborating closely with top local and overseas IT companies and cloud resources providers, such as CECloud, H3C, 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’ informatization value-added services, helping enterprises drive their digital transformation. For the six-month ended 30 June 2023 (the “**Period**”), the Group had proactively scaled down its low-margin businesses, such as the sale of traditional goods, and actively increased the provision of its own services and products, thereby successfully increasing its gross profit margin from 5.2% to 17.6%. The Group will further optimize its existing product mix, enhance service revenue and increase gross profit margin to maintain good cash flow and boost revenue.

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 (“AI Lab”) managed by doctoral degree holders who master relevant research fields. Furthermore, it has collaborated with leading clinical and scientific research institutions in China, conducting 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. During the Period, the Group successfully deployed “AI+Medical” in the construction of smart canteen equipment for a college, and offered “5+AI Health” smart health campus management services. 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 conducted marketing 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. In particular, the Group has developed Futong Voice of Customer (“VOC”) products for the automotive industry. VOC collects and analyzes automotive customers’ voice feedback on products and services, including comments, expectations and preferences, and transforms the feedback into effective insights, thereby guiding brand execution and helping automotive companies to learn more about customers’ perceptions and interactions with brands, products and services at various touchpoints. Problems can be discovered and solved in all directions, leading to better experiences and more enhanced customer experience. Another product of the Group, iRMS Intelligent Resource Management System, provides resource allocation services for seats and boarding gates at the Beijing Capital International Airport, facilitating efficient and stable operations. During the Period, the Group’s VOC products led to the construction of a comprehensive customer voice management platform for a leading independent brand car company in North China, assisting the automaker to gain insights, improve customer satisfaction and service efficiency, and achieve business continuity through innovation. The Group will continue to provide services to more customers and actively accumulate industry expertise to lay a solid foundation for future business development.

FINANCIAL REVIEW

Revenue

For the Period, revenue of the Group decreased by approximately RMB178.8 million or 82.0% as compared with the corresponding period of 2022, to approximately RMB39.4 million (2022: approximately RMB218.2 million). The decrease was mainly due to the Group focusing on the sales of its own brand products and services, and strategically reducing the sales of traditional low profit margin products.

Gross profit

Gross profit of the Group decreased by approximately RMB4.4 million or 38.6% to approximately RMB6.9 million for the Period (2022: approximately RMB11.3 million), while the gross profit ratio increased from 5.2% to 17.6%. The significant increase in gross profit ratio was mainly due to the increase in the proportion of sales of own brand products and services with higher profit margin ratio.

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 and government grants. During the Period, net gains from other income and other gains and losses amounted to approximately RMB3.1 million (2022: net losses of approximately RMB0.6 million), representing an increase of approximately RMB3.7 million. This increase was mainly due to the combined effect of (i) a dividend of approximately RMB3.8 million received from the investment of financial assets; (ii) a decrease in fair value loss on financial assets through profit or loss of approximately RMB1.2 million; and (iii) an impairment loss of approximately RMB1.2 million on intangible assets was provided.

Reversal/(provision) of impairment loss on financial and contract assets, net

For the Period, a reversal of impairment loss on financial and contract assets, net amounted to approximately RMB1.7 million (2022: a provision of impairment loss of approximately RMB0.2 million). The reversal of impairment loss on financial and contract assets was due to the strengthened control over the trade receivables and contract assets by the Group during the Period.

Research and development costs

For the Period, research and development costs of the Group amounted to approximately RMB8.1 million (2022: Nil). The research and development costs were expensed off during the Period while those research and development costs incurred was capitalized as intangible assets in the corresponding period of 2022.

Selling expenses

For the Period, selling expenses of the Group amounted to approximately RMB26.8 million (2022: approximately RMB30.0 million), representing a decrease of approximately RMB3.2 million or 10.7% when compared with the corresponding period of 2022. 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 RMB14.7 million (2022: approximately RMB14.0 million), representing an increase of approximately RMB0.7 million or 5.0% when compared with the corresponding period of 2022. The administrative expenses were maintained at a stable level.

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 credit/(expense)

Income tax credit of the Group for the Period amounted to approximately RMB0.6 million (2022: income tax expense amounted to approximately RMB0.2 million), representing a decrease of approximately of RMB0.8 million. The decrease was mainly due to a tax credit being recognized for the over-provision of income tax from prior years of approximately RMB0.8 million during the Period.

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

For the Period, the loss and total comprehensive income attributable to owners of the Company amounted to approximately RMB37.5 million (2022: approximately RMB33.6 million), representing an increase of approximately RMB3.9 million as compared with the corresponding period of 2022. The increase was mainly due to the research and development costs were expensed off during the Period.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its daily operations with internally generated cash flows and banking facilities. As at 30 June 2023, the Group had total assets of approximately RMB441.8 million and net assets of approximately RMB365.2 million (31 December 2022: approximately RMB498.5 million and approximately RMB402.4 million, respectively). In respect of the trade receivables and contract assets of the Group amounted to approximately RMB37.8 million (31 December 2022: approximately RMB129.9 million), net of allowance for doubtful debts of approximately RMB50.7 million (31 December 2022: approximately RMB59.2 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 RMB271.2 million as at 30 June 2023 (31 December 2022: approximately RMB231.6 million). There was no bank borrowings as at 30 June 2023 and 31 December 2022. 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 2023, the cash and cash equivalents were held at RMB, USD and Hong Kong dollars.

PLEDGE OF ASSETS

As at 30 June 2023, certain assets of the Group with carrying value of approximately RMB1.8 million (31 December 2022: approximately RMB2.1 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 2023 and 31 December 2022 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 did not enter into any hedging arrangement. 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 Period (2022: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2023, the Group had in total 313 (31 December 2022: 329) employees in the PRC and Hong Kong. Total staff costs amounted to approximately RMB49.2 million (six-month period ended 30 June 2022: approximately RMB54.0 million).

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

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

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

PURCHASE, SALE AND REDEMPTION OF THE SHARES

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

CONTINGENT LIABILITIES

As at 30 June 2023, 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 Period, China's rapid economic growth was hampered by macroeconomic factors at home and abroad. The overall economic environment was full of challenges and uncertainties. To dovetail with future business developments, the Group will persevere in its efforts to develop independent products and technologies, and strategically reduce low-margin businesses. Although revenue was negatively impacted in the short-term, the Group's gross profit margin successfully increased from 5.2% to 17.6%, testifying, to a certain extent, the success of the Group's transformation journey in recent years.

Looking ahead to the second half of 2023, competition in the Mainland IT market will be increasingly fierce, while uncertainties will linger in the complex market environment. As enterprises undergo digital transformation in full swing, the Group will focus on business innovation and industry development for enterprise-level customers, and combine artificial intelligence technology with industry customer scenarios to create "Artificial Intelligence Technology + Products + Services" comprehensive business model to help customers complete their digital transformation. In addition, the Group will continue to focus on smart technology and data governance, and strengthen the development of cloud computing services and smart applications (in manufacturing, healthcare, health and transportation industries), and offer service-based layout to the enterprise-level information technology market.

With different sectors pursuing digital transformation in depth, and AI technologies becoming gradually mature, the Group will integrate AI with industry applications, actively participate in key national research and development projects and formulation of industry standards, 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 Artificial Intelligence Laboratory and a team staffed by professors, doctoral and master's degree holders from renowned domestic universities; and armed with leading technologies and specialized research and development ("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, CMP2020 multi-cloud management platform, Futong Voice of Customer (VOC) products, etc.

At the same time, the Group has signed a strategic cooperation memorandum with the Hong Kong Applied Science and Technology Research Institute Limited (“ASTRI”) on 20 April 2023. The Group and ASTRI intend to enhance commercialisation impact of applied technology research and development outcomes by leveraging their respective experience and resource advantages. The Company and ASTRI intend to cooperate in AI, big data, knowledge graph, communication technology and other aspects to jointly promote the transformation of technological achievements in the future. Furthermore, the Group and ASTRI look forward to carrying out potential applied technology research based on the needs of enterprise-level customers and continuously promote the implementation of innovative technologies to maximize the economic benefits of scientific research results.

Having restructured its business and consolidated internal resources in recent years, the Group prides lower operating costs. In addition, starting from the second half of 2022, the Group has further adjusted its staff structure and streamlined some manpower to reduce costs. 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.

To achieve breakthroughs in a constantly changing market, the Group will continue to accelerate the pace of its business innovation and transformation; recruit top high-tech talent; consolidate the transformation of scientific research results and business foundation; strengthen market expansion; optimize technological and product innovation capabilities; and strive to become a technologically innovative enterprise. As an innovative technology company, the Group will focus on core product technologies to differentiate itself in today’s complex market environment in order to gain a competitive edge and continue to drive business development.

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 Part 2 of 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 2023 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 2023 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, 24 August 2023

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.