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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 MONTHS ENDED 30 JUNE 2012

HIGHLIGHTS

- Revenue of the Group for the six months ended 30 June 2012 amounted to approximately RMB1,446.0 million (six months ended 30 June 2011: approximately RMB972.8 million), representing an increase of approximately 48.6% as compared with the corresponding period in 2011.
- Profit attributable to owners of the Company for the six months ended 30 June 2012 amounted to approximately RMB15.1 million (six months ended 30 June 2011: approximately RMB25.3 million), representing a decrease of approximately 40.3% as compared with the corresponding period in 2011.
- Basic earnings per share for the six months ended 30 June 2012 amounted to approximately RMB0.05 (six months ended 30 June 2011: approximately RMB0.08).
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012.

RESULTS

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 months ended 30 June 2012 together with comparative figures. The condensed consolidated interim financial information has not been audited but has been reviewed by the Company’s auditor and the audit committee.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2012

		Six-month period ended 30 June	
		2012	2011
	NOTES	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	5	1,445,994	972,791
Cost of sales		<u>(1,336,664)</u>	<u>(874,863)</u>
Gross profit		109,330	97,928
Other income	6	3,140	468
Other gain (loss)	6	(3,611)	8,155
Distribution costs		(52,707)	(48,550)
Administration expenses		<u>(19,196)</u>	<u>(13,614)</u>
Profit from operation		36,956	44,387
Finance costs	7	(17,526)	(12,005)
Share of losses of associates		<u>(61)</u>	<u>(1,684)</u>
Profit before tax	8	19,369	30,698
Income tax expense	9	<u>(5,960)</u>	<u>(5,888)</u>
Profit and total comprehensive income for the period		<u>13,409</u>	<u>24,810</u>
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		15,079	25,262
Non-controlling interests		<u>(1,670)</u>	<u>(452)</u>
		<u>13,409</u>	<u>24,810</u>
Earnings per share	11		
Basic and diluted — RMB		<u>0.05</u>	<u>0.08</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2012

		30 June 2012 <i>RMB'000</i> (Unaudited)	31 December 2011 <i>RMB'000</i> (Audited)
	NOTES		
NON-CURRENT ASSETS			
Property, plant and equipment	12	39,487	45,391
Interest in associates		18,396	18,457
Deferred tax assets	13	22,549	26,031
		<u>80,432</u>	<u>89,879</u>
CURRENT ASSETS			
Inventories		572,403	427,869
Trade and other receivables	14	795,181	709,312
Pledged deposits		158,633	178,929
Cash and cash equivalents		61,370	496,319
		<u>1,587,587</u>	<u>1,812,429</u>
Assets classified as held for sale	15	58,702	—
		<u>1,646,289</u>	<u>1,812,429</u>
CURRENT LIABILITIES			
Trade and other payables	16	850,408	1,063,964
Borrowings - due within one year	17	360,001	334,327
Tax payable		13,615	16,877
Liabilities classified as held for sale	15	23,518	—
		<u>1,247,542</u>	<u>1,415,168</u>
NET CURRENT ASSETS		<u>398,747</u>	<u>397,261</u>
NET ASSETS		<u>479,179</u>	<u>487,140</u>
CAPITAL AND RESERVES			
Share capital	18	27,415	27,415
Reserves		445,078	451,369
		<u>472,493</u>	<u>478,784</u>
Equity attributable to owners of the Company		472,493	478,784
Non-controlling interests		6,686	8,356
		<u>479,179</u>	<u>487,140</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2012

	Attributable to owners of the Company						Non-		Total
	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Merger reserve <i>RMB'000</i>	Share option reserve <i>RMB'000</i> <i>(note 19)</i>	Statutory reserve <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	controlling interests <i>RMB'000</i>	
Balance at 1 January 2011 (Audited)	27,415	81,538	219	—	39,288	279,161	427,621	9,033	436,654
Profit and other comprehensive income (expense) for the period	—	—	—	—	—	25,262	25,262	(452)	24,810
Recognition of equity-settled share-based payment	—	—	—	68	—	—	68	—	68
Appropriations	—	—	—	—	4,994	(4,994)	—	—	—
Dividend paid	—	—	—	—	—	(20,170)	(20,170)	—	(20,170)
Balance at 30 June 2011 (Unaudited)	<u>27,415</u>	<u>81,538</u>	<u>219</u>	<u>68</u>	<u>44,282</u>	<u>279,259</u>	<u>432,781</u>	<u>8,581</u>	<u>441,362</u>
Balance at 1 January 2012 (Audited)	27,415	81,538	219	813	61,070	307,729	478,784	8,356	487,140
Profit and total comprehensive income (expense) for the period	—	—	—	—	—	15,079	15,079	(1,670)	13,409
Recognition of equity-settled share-based payment	—	—	—	106	—	—	106	—	106
Dividend paid	—	—	—	—	—	(21,476)	(21,476)	—	(21,476)
Balance at 30 June 2012 (Unaudited)	<u>27,415</u>	<u>81,538</u>	<u>219</u>	<u>919</u>	<u>61,070</u>	<u>301,332</u>	<u>472,493</u>	<u>6,686</u>	<u>479,179</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2012

	Six-month period ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	<u>(529,778)</u>	<u>(157,127)</u>
Net cash (used in) generated from investing activities		
Payments for property, plant and equipment	(3,062)	(8,835)
Proceeds on disposal of other financial assets	—	19,806
Other investing cash flows	<u>405</u>	<u>910</u>
	<u>(2,657)</u>	<u>11,881</u>
Net cash generated from (used in) financing activities		
Proceeds from borrowings	402,311	223,798
Decrease (increase) in pledged bank deposit	19,582	(51,245)
Payment of borrowings	(290,951)	(172,036)
Dividend paid	<u>(21,476)</u>	<u>(20,170)</u>
	<u>109,466</u>	<u>(19,653)</u>
Net decrease in cash and cash equivalents	(422,969)	(164,899)
Cash and cash equivalents at 1 January	496,319	234,422
Effect of foreign exchange rate changes	<u>(1,479)</u>	<u>10,152</u>
Cash and cash equivalents at 30 June, represented by		
— Bank balance and cash	61,370	79,675
— Bank balance and cash included in assets held for sale	<u>10,501</u>	<u>—</u>
	<u>71,871</u>	<u>79,675</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2012

1. GENERAL INFORMATION

Futong Technology Development Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 29 July 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its principal place of business is located at Units B1901 on level 19 and B2001 on level 20 of Tower B, Chaowaimen Office Center, No. 26 Chaowai Street, Chaoyang District, Beijing, the People’s Republic of China (the “PRC”).

The directors of the Company considered 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 and its subsidiaries and associates are mainly engaged in distribution of enterprise IT products and provision of services.

Since Renminbi (“RMB”) is the functional currency of the group’s operating entities, the presentation currency changed from Hong Kong dollar (“HK\$”) to RMB in preparing the annual financial statements for the year ended 31 December 2011. Comparative figures have therefore been represented in RMB accordingly.

2. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and International Accounting Standard 34 “Interim Financial Reporting”.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six-month period ended 30 June 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, certain amendments to International Financial Reporting Standards (“IFRSs”). The application of the amendments to IFRSs had no material effect on the condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

In addition, the Group has adopted, for the first time, the following accounting policies:

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

4. 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 distribution of enterprise IT products and provision of services to the customers in the PRC. Accordingly, no segment analysis is presented. The majority of property, plant and equipment is located in the PRC. The information reported to the senior executive management of the Company for the purpose of resources allocation and assessment of performance which are same as the amounts reported under IFRSs.

5. REVENUE

Revenue represents the sales value of goods sold to customers excluding value added tax or other sales taxes and is after allowances for goods returned and deduction of any trade discounts. The amount of each significant category of revenue recognised during the period is as follows:

	Six-month period ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of goods	1,346,662	940,039
Provision of services	99,332	32,752
	<u>1,445,994</u>	<u>972,791</u>

6. OTHER INCOME AND OTHER GAIN (LOSS)

	Six-month period ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other income:		
Interest income on bank deposit	1,787	458
Government grant (<i>note</i>)	1,078	—
Others	275	10
	<u>3,140</u>	<u>468</u>
Other gain (loss):		
Net foreign exchange gain (loss)	(2,487)	8,535
Loss on disposal of property, plant and equipment	(760)	(155)
Others	(364)	(225)
	<u>(3,611)</u>	<u>8,155</u>

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

7. FINANCE COSTS

	Six-month period ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expenses on:		
Bank borrowings wholly repayable within five years	<u>17,526</u>	<u>12,005</u>

8. PROFIT BEFORE TAX

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

	Six-month period ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Staff cost:		
Salary and allowance	39,150	35,003
Contributions to retirement schemes	3,871	3,161
Equity-settled share-based payment	106	68
	<u>43,127</u>	<u>38,232</u>
Depreciation	5,504	3,808
Reversal of impairment loss on trade receivables	(1,270)	(2,715)
Operating lease charges in respect of properties	7,492	6,545
Cost of inventories recognised as expense	<u>1,256,942</u>	<u>845,734</u>

9. INCOME TAX EXPENSE

	Six-month period ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The charge comprises:		
Current tax:		
Hong Kong profit tax	53	1,307
PRC enterprise income tax	2,425	1,896
	<u>2,478</u>	<u>3,203</u>
Under provision in prior year:		
PRC enterprise income tax	—	267
	<u>2,478</u>	<u>3,470</u>
Deferred tax:		
Origination and reversal of temporary differences (<i>note 13</i>)	3,482	2,418
	<u>5,960</u>	<u>5,888</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) The provision for Hong Kong Profits Tax for the six-month period ended 30 June 2012 was calculated at 16.5% (six-month period ended 30 June 2011: 16.5%) of the estimated assessable profits.
- (iii) The tax charge for the PRC for the six-month period ended 30 June 2012 was calculated based on the prevailing tax rate on the taxable income of the subsidiaries established in the PRC.

10. DIVIDEND

During the current interim period, a final dividend of RMB6.9 cents per share in respect of the year ended 31 December 2011 (six-month period ended 30 June 2011: RMB6.5 cents per share in respect of year ended 31 December 2010) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the current interim period amounted to RMB21,476,000 (six-month period ended 30 June 2011: RMB20,170,000).

The directors have determined that no dividend will be paid in respect of the current interim period (six-month period ended 30 June 2011: nil).

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the six-month period ended 30 June 2012 is based on the profit for the period attributable to owners of the Company of RMB15,079,000 (six-month period ended 30 June 2011: RMB25,262,000) and 311,250,000 (six-month period ended 30 June 2011: 311,250,000) shares in issue during the period.

The computation of diluted earnings per share does not assume the exercise of the Company’s share options (as set out in note 19) because the exercise price of those share options was higher than the average market price of the Company’s shares for the six-month period ended 30 June 2012 and 2011.

12. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2012, the Group spent RMB3,062,000 (six-month period ended 30 June 2011 (unaudited): RMB8,835,000) to acquire property, plant and equipment for business development and expansion.

13. DEFERRED TAX ASSETS

	Provision for inventories RMB'000	Impairment loss on trade and bills receivables RMB'000	Accrued expenses RMB'000	Total RMB'000
At 1 January 2011 (Audited)	3,426	2,775	19,271	25,472
(Charge)/credit to profit or loss (<i>note 9</i>)	<u>152</u>	<u>(349)</u>	<u>(2,221)</u>	<u>(2,418)</u>
At 30 June 2011 (Unaudited)	<u>3,578</u>	<u>2,426</u>	<u>17,050</u>	<u>23,054</u>
At 1 January 2012 (Audited)	3,882	2,414	19,735	26,031
(Charge)/credit to profit or loss (<i>note 9</i>)	<u>467</u>	<u>(545)</u>	<u>(3,404)</u>	<u>(3,482)</u>
At 30 June 2012 (Unaudited)	<u>4,349</u>	<u>1,869</u>	<u>16,331</u>	<u>22,549</u>

As at 30 June 2012, the Group has not recognised deferred tax assets in respect of unutilised tax losses of approximately RMB14,586,000 (31 December 2011: RMB5,566,000) as it was determined by management that it is not probable that future taxable profits against which the losses can be utilised will be available before it expires. The tax losses of RMB5,566,000 and RMB9,020,000 will expire in 2015 and 2016, respectively under the relevant tax law.

At 30 June 2012, temporary difference relating to the undistributed profits accumulated since 1 January 2008 of Futong Dongfang Technology Co., Ltd. ("Futong Dongfang") and Futong Times Technology Co., Ltd. ("Futong Times") amounted to RMB222,499,000 (31 December 2011: RMB202,921,000). The deferred tax liabilities of RMB11,125,000 (31 December 2011: RMB10,146,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of Futong Dongfang and Futong Times and it has been determined that it is not probable that profits will be distributed out of Futong Dongfang and Futong Times in the foreseeable future.

14. TRADE AND OTHER RECEIVABLES

The Group allows credit period within 30 to 90 days to its trade customers.

The following is an analysis of trade and other receivables, net of allowance for doubtful debts, at the end of the respective reporting periods:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Trade receivables and bill receivables		
Current	461,903	507,554
Amount past due:		
— Less than one month past due	97,991	42,708
— 1 to 3 months past due	93,289	40,095
— More than 3 months past due	83,875	32,704
	737,058	623,061
Prepayment	34,514	65,341
Deposits	11,735	18,143
Other receivables	11,874	2,767
	795,181	709,312

15. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

Pursuant to the announcement dated 9 December 2011, China Greatwall Computer Shenzhen Co., Ltd, a company established in the PRC and listed on Stock Exchange of Shenzhen (“Great Wall”), EMC Computer System (FE) Limited (“EMC”) and the Group entered into the share subscription agreement of Futong Technology Development Holdings (HK) Limited, a 81% subsidiary of the Group (“Futong Technology”). Upon the completion of the transaction, the shareholding of the Group in Futong Technology will be diluted from 81% to 36% and the entire issued share capital of Futong Technology shall be held as to 36% by the Group, as to 19% to EMC and as to 45% by Great Wall. Closing of the transaction is subject to Great Wall obtaining certain approval documents from the relevant government authorities.

Pursuant to the announcement dated 31 July 2012, the Company has been informed by Great Wall that the approval documents from the National Development and Reform Commission has been received. To the best of the knowledge of the directors of the Company, other government approvals are expected to be obtained by the end of year 2012. The directors of the Company considered that the transaction is expected to be completed within the next twelve months.

As at 30 June 2012, the assets and liabilities attributable to the Futong Technology and its subsidiaries (“Futong Technology Group”) which is expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the condensed consolidated statement of financial position.

15. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (Continued)

The major classes of assets and liabilities of the Futong Technology Group classified as held for sale are as follows:

	30 June 2012 <i>RMB'000</i>
Property, plant and equipment	3,562
Inventories	6,126
Trade and other receivables	36,354
Cash and cash equivalents	10,501
Other assets	2,159
Total assets classified as held for sale	58,702
Trade and other payables	23,132
Other liabilities	386
Total liabilities associated with assets classified as held for sale	23,518

16. TRADE AND OTHER PAYABLES

The credit period taken for the settlement of trade purchases is 60 days. The following is an aged analysis of trade and other payables presented based on the invoice date at the end of the respective reporting periods:

	30 June 2012 <i>RMB'000</i> (Unaudited)	31 December 2011 <i>RMB'000</i> (Audited)
Trade payables		
0 - 60 days	544,961	476,855
60 - 90 days	63,012	8,946
Over 90 days	44,917	3,848
	652,890	489,649
Bills payables (<i>note</i>)	149,567	412,209
Receipt in advances	20,556	127,530
Other payables and accruals	27,395	34,576
	850,408	1,063,964

Note: Bills payables are normally issued with a maturity of not more than 90 days.

17. BORROWINGS

During the current period, the Group obtained new bank loans amounting to RMB402,311,000 (30 June 2011: RMB223,798,000) and repaid RMB290,951,000 (30 June 2011: RMB172,036,000). The loans carry interest at variable market rates varied from 2% to 7.93% (30 June 2011: 1.98% to 8.82%) and are repayable within one year.

18. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Authorised:		
Ordinary Shares of HK\$0.1 each	<u>2,000,000</u>	<u>200,000</u>
Issued and fully paid		
At 1 January 2012 and 30 June 2012	<u>311,250</u>	<u>31,125</u>
		<i>RMB'000</i>
Presented as		<u>27,415</u>

19. SHARE-BASED PAYMENT TRANSACTION

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 11 November 2011 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 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 announced that a total of 1,900,000 share options (the "Share Options") 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 and eligible employees of the Company (collectively, the "Grantees"), subject to acceptance of the Grantees, under the Company's share option scheme adopted by the Company on 11 November 2009. A summary of the grant is set out below:

Exercise price of Share Options	: HK\$1.81 per Share
Closing price of the Shares on the date of grant	: HK\$1.80
Validity period of the Share Options	: Ten (10) years, commencing on 15 June 2011
Vesting date of Share Options granted to independent non-executive directors of the Company ("Share Options A")	: 100% of the Share Options granted will vest on 15 December 2011
Vesting date of Share Options granted to eligible employees of the Company ("Share Options B")	: 30%, 30% and 40% of the Share Options granted will vest on each of 15 December 2011, 15 December 2012 and 15 December 2013, respectively

19. SHARE-BASED PAYMENT TRANSACTION (Continued)

The following table discloses movements of the share options during the period:

Category	Outstanding as at 1 January 2012	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding as at 30 June 2012
Share Options A	900,000	—	—	—	—	900,000
Share Options B	1,000,000	—	—	—	—	1,000,000
	<u>1,900,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,900,000</u>

The fair values of Share Options A and Share Options B determined at the dates of grant using the Binomial Model option pricing model were RMB522,000 and RMB587,000 respectively.

The following assumptions were used to calculate the fair values of share options:

	Share Options A	Share Options B		
Grant date share price	HK\$1.80	HK\$1.80		
Exercise price	HK\$1.81	HK\$1.81		
Tranche		1(30%)	2(30%)	3(40%)
Expected life (Years)	10	10	10	10
Expected volatility	49.355%	49.355%	49.355%	49.355%
Dividend yield	4.5%	4.5%	4.5%	4.5%
Risk-free interest rate	2.28%	2.28%	2.28%	2.28%

The Binomial Model option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the Share Options.

The Company recognised a share option expense of RMB106,000 during the period (six-month period ended 30 June 2011: RMB68,000).

20. 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 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Within one year	7,959	7,301
In the second to third year inclusive	<u>1,411</u>	<u>3,808</u>
	<u>9,370</u>	<u>11,109</u>

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 period all terms are renegotiated. None of the leases includes contingent rentals.

21. RELATED PARTY TRANSACTIONS

(a) Name and relationship with a related party is as follows:

<u>Name</u>	<u>Relationship</u>
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 close family member of Mr. Chen Jian, a director of the Company

* The English translation of the company name is for reference only. The official name of the entity is in Chinese.

At the end of the reporting periods, the Group had the following transaction and balance with related party:

Recurring transactions

	Six-month period ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales to Beijing Deep Thought	<u>—</u>	<u>1,100</u>

Amount due from a related party

	30 June 2012	31 December 2011
	RMB'000	RMB'000
	(Unaudited)	(Audited)

Trade receivable nature

Beijing Deep Thought	<u>611</u>	<u>611</u>
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21. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Remuneration of key managements

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	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Salaries and other benefits	8,603	7,196
Retirement benefits scheme contributions	235	309
Equity-settled share-base payment	106	—
	8,944	7,505

Total remuneration was included under staff costs as set out in note 8 to the condensed consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Sales of IBM's products

For the six months ended 30 June 2012, revenue from the distribution of IBM's hardware and software products including enterprise servers, system storage products and middleware, and which are often bundled with value-added services amounted to approximately RMB826.2 million (for the corresponding period of 2011: approximately RMB704.4 million). This marked a solid increase in revenue by approximately RMB121.8 million or 17.3%. The distribution of IBM's products and the provision of related services remained as the Group's primary revenue generator, and accounted for approximately 57.1% of total revenue of the Group for the period under review (for the corresponding period of 2011: approximately 72.4%).

The Group has continuously strived to diversify its products range offered to customers to achieve for a healthy balanced growth. Whilst we noted a growth in the amount of sales in IBM's products, its percentage of sales to the Group's total revenue has dropped. Revenue from sales of IBM's enterprise servers decreased by approximately RMB28.4 million or 5.4% to approximately RMB494.8 million compared with the corresponding period last year. Revenue from sales of IBM's system storage products and related services surged by approximately RMB69.0 million or 71.0% to approximately RMB166.2 million for the six months ended 30 June 2012. Sales of IBM's software and related services soared from RMB84.0 million to RMB165.2 million, representing an increase of approximately RMB81.2 million or 96.7%.

Sales of Oracle's products

Database management software and middleware for application servers from Oracle represent the other major category of products distributed by the Group. For the period under review, sales of Oracle's products and related services amounted to approximately RMB109.3 million, dropping by approximately RMB3.6 million or 3.2% over the corresponding period last year. These sales accounted for approximately 7.6% of the Group's total revenue.

Sales of EMC's products

For the six months ended 30 June 2012, the revenue derived from distribution of EMC's products, and the provision of value added services for such products including software development, business consulting and implementation services based on EMC storage virtualisation and business continuity solutions amounted to approximately RMB107.7 million (for the corresponding period of 2011: approximately RMB44.4 million). This was a remarkable increase of approximately RMB63.3 million or 142.6%. These sales accounted for approximately 7.4% of the Group's total revenue. The sharp increase in the sales of EMC's products during the period under review was mainly due to a contract of approximately USD10 million signed in 2011 with delivery schedule in 2012 to one of the largest telecommunication carriers in the PRC, with most of the relevant products delivered during the first half of 2012.

In order to strengthen this business segment, the Group entered into subscription agreements (“the Agreements”) with China Greatwall Computer Shenzhen Co., Ltd (“China Greatwall”) and EMC Computer System (FE) Limited (“EMC (FE)”) in December 2011, aimed at leveraging synergies between the server technology of China Greatwall and information infrastructure, storage virtualisation and cloud computing technologies of EMC (FE). The closing is subject to the satisfaction (or waiver, where applicable) of the conditions precedent as stipulated in the Agreements. During the period under review, the Group has been informed by China Greatwall that more time than expected is required to obtain the relevant Government approvals. The parties to the Agreements entered into supplemental agreements and second supplemental agreements to restate the tentative closing date from 15 April 2012 to 31 July 2012 and further from 31 July 2012 to 31 December 2012, respectively. The Group will monitor the progress and make relevant announcements whenever necessary.

Sales of Apple’s products

The Group entered into an authorised reseller agreement with Apple in 2011 to distribute a full range of Apple’s products, including iPhones and iPads, to enterprises customers in the PRC. This marked a milestone for the Group to open a new business era with a renowned international IT and consumer electronics products supplier. Revenue from this segment commenced contributions to the Group’s revenue around the middle of 2011. For the six months ended 30 June 2012, sales of Apple’s products contributed a new source of income for the Group amounting to approximately RMB200.2 million (2011: approximately RMB0.2 million), representing 13.8% (2011: nil) of the total revenue of the Group.

Sales of other products

Other sources of revenue for the Group included sales of IT products of Huawei Symantec as its authorised distributor, including servers, storage and IT security solutions, as well as sales of other accessories. Revenue from these products and services increased to approximately RMB103.3 million during the six months ended 30 June 2012 (2011: approximately RMB78.1 million) which was mainly contributed from sales of Huawei Symantec’s products and related services.

Provision of services

In 2012, the Group has further bolstered its IT technical support service team which aims to expand the Group’s IT service capability in the PRC by meeting the needs of end-users. The team is led by a group of experienced and qualified technicians. As a result of the Group’s effort, the revenue contributed from provision of services during the period under review continues to record substantial growth. Revenue generated from the provision of services amounted to approximately RMB99.3 million, representing a growth of approximately 203.3% over the corresponding period of 2011.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2012, revenue of the Group increased by approximately RMB473.2 million to approximately RMB1,446.0 million from approximately RMB972.8 million for the corresponding period of 2011. The increase was mainly due to the general increase in most of the revenue segments and the new source of revenue from sales of Apple's products.

Gross profit

Gross profit of the Group increased by approximately RMB11.4 million or 11.6%, from approximately RMB97.9 million for the six months ended 30 June 2011 to approximately RMB109.3 million for the six months ended 30 June 2012. The gross profit margin decreased from 10.1% of the corresponding period of 2011 to 7.6% for the period under review, this was mainly due to the gross profit margin of Apple's products is relatively lower than other existing products, which is justifiable as Apple's products are publicly known as best-selling IT products and in great market demand. Further, the turnover days of account receivables of Apple's products are relatively prompt, which can enhance the Group's financial and cash flow position.

Other revenue and other gain (loss)

It comprised mainly of interest income on bank deposits, government grant and net foreign exchange gain or loss. Other revenue/other gain or loss decreased from a net gain of approximately RMB8.6 million to a net loss of approximately RMB0.5 million, this was mainly due to the significant drop in net foreign exchange differences from a gain of RMB8.5 million to a loss of RMB2.5 million for the period under review, primarily as a result of the depreciation in currency conversion rate of Renminbi to United States dollars as compared to an appreciation of such currency conversion rate in the corresponding period in 2011.

Distribution costs

During the six months ended 30 June 2012, the distribution costs of the Group amounted to approximately RMB52.7 million, an increase of approximately RMB4.2 million or 8.6% compared to the corresponding period in 2011. This increase was mainly due to the increase in headcount and human resources cost to cope with future expansion of the business.

Administrative expenses

Administrative expenses of the Group increased by approximately RMB5.6 million or 41.0%, from approximately RMB13.6 million for the six months ended 30 June 2011 to approximately RMB19.2 million for the six months ended 30 June 2012. The increase was mainly due to the combined effect of increase in rental and utilities expenses as two new branch offices has been established in Wuxi and Shenyang respectively, and certain PRC subsidiary has moved its existing office to a new location with large floor area, and together with the increase in staff cost following the increment in headcount to cope with the future expansion of the business, and there was a net reversal of impairment losses on trade receivables amounted to approximately RMB1.3 million for the period under review compared to a much higher net reversal of approximately RMB2.7 million was recorded in the corresponding period of 2011.

Finance costs

Finance costs of the Group increased by approximately RMB5.5 million or 46.0% from approximately RMB12.0 million for the six months ended 30 June 2011 to approximately RMB17.5 million for the six months ended 30 June 2012. The increase was mainly due to increase in the bank borrowing rate and average interest-bearing borrowing amounts during the period under review.

Profit for the period attributable to equity shareholders of the Company

For the period under review, profit attributable to owners of the Company decreased by approximately RMB10.2 million or 40.3%, from approximately RMB25.3 million for the six months ended 30 June 2011 to approximately RMB15.1 million. This decrease was due to the combined effects of the decrease in other gain and increase in operation costs as above-mentioned.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its daily operations from internally generated cash flows and banking facilities. As at 30 June 2012, the Group had total assets of approximately RMB1,726.7 million and had net assets of approximately RMB479.2 million (31 December 2011: approximately RMB1,902.3 million and approximately RMB487.1 million, respectively). The Group's cash and cash equivalents as at 30 June 2012 amounted to approximately RMB71.9 million (including cash and cash equivalents under assets held for sale of RMB10.5 million) and bank borrowings amounted to approximately RMB360.0 million (31 December 2011: approximately RMB496.3 million and approximately RMB334.3 million, respectively). Taking into account the cash on hand and recurring cash flows from its business, the Group's financial position was healthy, positioning the Group advantageously to expand its core business and to achieve its business objectives.

As at 30 June 2012, approximately 8.3% (31 December 2011: approximately 58%) of total borrowings were at fixed interest rates.

As at 30 June 2012, bank loans of the Group were advanced in United States dollars and Renminbi while cash and cash equivalents were held in Hong Kong dollars, United State dollars and Renminbi.

PLEDGE OF ASSETS

As at 30 June 2012, certain assets of the Group with carrying value of approximately RMB161.0 million (31 December 2011: approximately RMB525.5 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 2012 was approximately 60.1% (31 December 2011: net cash position). This ratio represents total bank loans less cash and cash equivalents 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 a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars, Renminbi and Hong Kong dollars.

As at 30 June 2012, the Group did not enter into any hedging arrangements. However, the management will continue to monitor closely its foreign currency exposure and requirements and to arrange for hedging facilities when necessary.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2012 (2011: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2012, the Group had approximately 510 (31 December 2011: approximately 480) employees in the PRC and Hong Kong. Total staff costs amounted to approximately RMB43.1 million (2011: approximately RMB38.2 million).

The Group's employees are remunerated by reference to industry practices and performance and 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 to the Group. Through our ongoing training programme, we encourage them to develop their talents and to move up the organisation. We believe these will be mutually beneficial to the Group and its employees.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

After deducting share issuance expenses, the net proceeds from the initial public offering of the Company's shares in December 2009 amounted to approximately RMB102.1 million. As at 30 June 2012, the Group had used approximately RMB9.2 million for set up of new branch offices, approximately RMB24.8 million for sourcing new enterprise IT products, approximately RMB12.4 million for establishment and expansion of IT solution support centers and approximately RMB5.5 million for set up of training centers. The remaining balance of the net proceeds was placed in short-term deposit bank accounts. The Group will apply the remaining net proceeds in the manner set out in the prospectus of the Company dated 24 November 2009.

PURCHASE, SALE AND REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2012.

OUTLOOK

The PRC Government has embarked on a number of initiatives in support of its policy to encourage the development of the IT industry. This encompasses the promotion of IT applications to enhance productivity in enterprises, rolling out e-government and other services aimed at the public, developing an advanced cultural network, nurturing the development of a digital economy, and improving information-based facilities to enhance the competitiveness of the PRC's IT industry. The market in the PRC should continue to be relatively vibrant for IT vendors who can assist IT users to achieve improvements in efficiency and productivity. The Group believes it is well positioned to grow within an industry sector that is steadily expanding.

The Group is leveraging the extensive experience of the management team in its role as a leading provider of quality enterprise IT products, cost effective IT solutions and integrated IT technical support services. Base on this foundation, the Group intends to enhance its market leading position through extending its sales network and coverage and diversification of its product distribution portfolio; broadening its product sourcing network; and expansion of its IT services in the PRC.

The Group has strengthened its range of products and services by initiating collaboration with EMC as a business partner and expanding the range of its solutions to its customers. Allying with other well-known international IT vendors, the Group has strengthened its market position in providing enterprise IT infrastructure products and services. The collaboration with Apple provides an opportunity to cover the entry level segment of the IT market as well as providing a new source of revenue and broadening the Group's clientele.

CORPORATE GOVERNANCE

During the period from 1 January 2012 to 31 March 2012 and from 1 April 2012 to 30 June 2012, the Board considered that the Company had applied the principles of and had complied with the code provisions set out in the Code on Corporate Governance Practices and Corporate Governance Code as stipulated in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, except for the deviations from code provision A.2.1.

The Board believes that appointing Mr. Chen Jian as both the chairman and chief executive officer of the Company is conducive to a strong and consistent leadership, which enables the Group to implement decisions and business strategies promptly and efficiently. The Board considers that the present arrangement will not impair the balance of power and authority between the Board and the management of the Company as the proper balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals. Furthermore, the Board meets regularly to discuss major issues affecting the operations of the Group and make collective decisions by majority voting to ensure power is not concentrated in any one individual.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

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

Having made specific enquiry by the Company, all Directors have confirmed their compliance with the required standard set out in the Model Code for the six months ended 30 June 2012.

REVIEW OF ACCOUNTS

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2012 have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's independent review report will be included in the 2012 Interim Report of the Company. The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2012 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 designated issuer website of the Stock Exchange (www.hkexnews.hk). The 2012 interim report of the Company will be despatched to the shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 24 August 2012

As at the date of this announcement, the executive Directors are Mr. Chen Jian, Ms. Zhang Yun and Mr. Guan Tao; and the independent non-executive Directors are Mr. Lee Kwan Hung, Mr. Yuan Bo and Mr. Ho Pak Tai Patrick.