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AUTOMATED SYSTEMS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 771)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE 2017

RESULTS

The Board of Directors (the “Board”) of Automated Systems Holdings Limited (the “Company”) are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group” or “ASL”) for the six months ended 30th June 2017. The condensed consolidated interim financial information has been reviewed by the Company’s Audit Committee and the Company’s auditor.

Condensed Consolidated Statement of Profit or Loss

		Unaudited Six months ended 30th June	
	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
Revenue	3	932,153	776,457
Cost of goods sold		(370,691)	(384,937)
Cost of services rendered		(411,819)	(308,336)
Other income	4	2,693	2,460
Other loss, net	5	(2,610)	(6,027)
Selling expenses		(44,512)	(34,324)
Administrative expenses		(63,119)	(19,591)
Finance income	6	187	303
Finance costs		(6,926)	(275)
Share of results of associates		(2,612)	(2,591)
Profit before income tax	7	32,744	23,139
Income tax expense	8	(14,698)	(4,862)
Profit for the period attributable to equity holders of the Company		18,046	18,277
		<i>HK cents</i>	<i>HK cents (Restated)</i>
Earnings per share	10		
Basic		3.43	4.44
Diluted		3.19	4.44

Condensed Consolidated Statement of Comprehensive Income

	Unaudited	
	Six months ended	
	30th June	
	2017	2016
	HK\$'000	HK\$'000
Profit for the period	18,046	18,277
Other comprehensive income that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of overseas operations	4,209	2,813
Share of other comprehensive income of associates	297	188
	<hr/>	<hr/>
Total comprehensive income for the period attributable to equity holders of the Company	<u>22,552</u>	<u>21,278</u>

Condensed Consolidated Statement of Financial Position

		Unaudited 30th June 2017 HK\$'000	Audited 31st December 2016 HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	11	277,696	276,332
Investment properties	12	50,600	50,600
Intangible assets		2,376	681
Goodwill		846,685	-
Interests in associates		53,503	53,458
Finance lease receivables		3,152	4,035
Deferred income tax assets		4,673	953
		<u>1,238,685</u>	<u>386,059</u>
CURRENT ASSETS			
Inventories		116,481	128,414
Trade receivables	13	246,028	166,651
Finance lease receivables		3,252	4,264
Other receivables, deposits and prepayments	14	43,319	21,337
Amounts due from customers for contract work		181,191	220,884
Tax recoverable		57	88
Restricted bank deposits	15	619	876
Cash and cash equivalents		343,058	237,755
		<u>934,005</u>	<u>780,269</u>
TOTAL ASSETS		<u>2,172,690</u>	<u>1,166,328</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Share capital		57,880	35,079
Share premium		286,076	114,497
Reserves		604,346	569,457
TOTAL EQUITY		<u>948,302</u>	<u>719,033</u>
NON-CURRENT LIABILITIES			
Borrowings	18	334,925	-
Contingent consideration payable	20	65,129	-
Deferred income tax liabilities		46,110	45,899
		<u>446,164</u>	<u>45,899</u>
CURRENT LIABILITIES			
Trade payables	16	169,559	185,380
Other payables and accruals	17	122,264	72,909
Contingent consideration payable	20	68,604	-
Receipts in advance		145,787	125,660
Current income tax liabilities		15,061	7,447
Borrowings	18	256,949	10,000
		<u>778,224</u>	<u>401,396</u>
TOTAL LIABILITIES		<u>1,224,388</u>	<u>447,295</u>
TOTAL EQUITY AND LIABILITIES		<u>2,172,690</u>	<u>1,166,328</u>
NET CURRENT ASSETS		<u>155,781</u>	<u>378,873</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,394,466</u>	<u>764,932</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. Basis of Preparation

The condensed consolidated interim financial information for the six months ended 30th June 2017 has been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The condensed consolidated interim financial information should be read in conjunction with the consolidated financial statements of the Group for the year ended 31st December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2. Principal Accounting Policies

The accounting policies applied in this condensed consolidated interim financial information are consistent with those described in the consolidated financial statements for the year ended 31st December 2016 except for the adoption of new accounting policies as a result of (i) the issuance of convertible bonds as detailed in Note 18(b) and the acquisition of subsidiaries as detailed in Note 20 during the six months ended 30th June 2017 and (ii) the adoption of the amended HKFRSs as set out below:

(i) Accounting policies not included in the consolidated financial statements for the year ended 31st December 2016

(a) Business combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value on the acquirer’s previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as bargain purchase gain.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounting for within equity. Contingent consideration that is classified as a financial liability is remeasured at subsequent reporting dates at fair value with corresponding gain or loss being recognised in profit or loss.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

2. Principal Accounting Policies (Continued)

(i) Accounting policies not included in the consolidated financial statements for the year ended 31st December 2016 (Continued)

(b) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

(c) Intangible assets (other than goodwill)

Acquired intangible assets represent technical know-how and customer relationships which are recognised initially at fair value at the acquisition date. After initial recognition, intangible assets with finite useful lives are carried at cost less amortisation and any impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation for technical know-how and customer relationships is provided on the straight-line basis over the estimated useful lives of five years and three years, respectively. Amortisation commences when the intangible assets are available for use.

Intangible assets, with finite and indefinite useful lives, are tested for impairment as described below in Note 2(i)(d).

(d) Impairment of non-financial assets

Goodwill and other intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e., a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose and not be larger than an operating segment.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(e) Derivative financial instruments

Derivative financial instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value. Derivatives that are not designated as hedging instruments are accounted for as financial assets or financial liabilities at fair value through profit or loss. Gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

2. Principal Accounting Policies (Continued)

(i) Accounting policies not included in the consolidated financial statements for the year ended 31st December 2016 (Continued)

(f) Financial liabilities

The Group's financial liabilities include "trade payables", "other payables", "contingent consideration payable", "liability component of convertible bonds" and "bank borrowings". They are included in the condensed consolidated statement of financial position as trade payables, other payables and accruals, contingent consideration payable and borrowings.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Trade payables, other payables, contingent consideration payable and bank borrowings

They are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Convertible bonds

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain a liability component, a derivative component and an equity component.

The convertible bond issued by the Group that contain both financial liability and equity components are classified separately into respective liability, derivative and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate for similar non-convertible debts. The difference between the proceeds of the issue of the convertible bond and the fair value assigned to the liability component, representing the call option for conversion of the convertible bond into equity, is included in equity as convertible bond equity reserve.

The liability component is subsequently carried at amortised cost using the effective interest method. The equity component will remain in equity until conversion or redemption of the bond.

When the convertible bond is converted, the equity component of the convertible bond and the carrying value of the liability component at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the convertible bond equity reserve is released directly to retained profits.

(ii) Adoption of amended HKFRSs

The HKICPA has issued certain amended HKFRSs that are first effective for accounting periods beginning on 1st January 2017. Of these, the following amendments are relevant to the Group:

Amendments to HKAS 12	<i>Income taxes</i>
Amendments to HKAS 7	<i>Statement of cash flows</i>
Amendment to HKFRS 12	<i>Disclosure of interest in other entities</i>

The adoption of these newly effective amended HKFRSs has no material impact on how the results and financial position of the Group for the current and prior periods have been prepared and presented. For those which are not yet effective and have not been early adopted by the Group, the Group is in the process of assessing their impact on the Group's results and financial position.

3. Revenue and Segment Information

Revenue represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances, and revenue from service contracts, and is analysed as follows:

	Unaudited Six months ended 30th June	
	2017	2016
	HK\$'000	HK\$'000
Sales of goods	429,745	436,282
Revenue from service contracts	502,408	340,175
	932,153	776,457

The Board has been identified as the chief operating decision maker. The Board reviews the Group's internal reporting in order to assess the performance and allocate resources. The Board has determined the operating segments based on the Group's internal reporting.

3. Revenue and Segment Information (Continued)

The Group is currently organised into two (six months ended 30th June 2016: two) operating divisions – Information Technology Products (“IT Products”) and Information Technology Services (“IT Services”). These divisions are the basis on which the Group reports its primary segment information to the chief operating decision maker. The business nature of each segment is disclosed as follows:

IT Products

Being the business of information technology in supplying of information technology and associated products.

IT Services

Being the business of information technology in providing systems integration, software and consulting services, engineering support for products and solutions and managed services.

The accounting policies of the reportable segments are the same as the Group’s accounting policies. Performance is measured based on segment profit that is used by the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. Income tax expense is not allocated to reportable segments.

The revenue, profit or loss, assets and liabilities of the Group are allocated based on the operations of the segments.

Reportable segment profit is profit before income tax, excluding unallocated other income, unallocated other loss, net, unallocated depreciation for property, plant and equipment that are used for all segments, unallocated gain/(loss) on disposal of property, plant and equipment, share of results of associates, finance costs, and unallocated corporate expenses (mainly include staff costs and other general administrative expenses) of the head office.

Reportable segment assets exclude interests in associates, deferred income tax assets, unallocated restricted bank deposit, unallocated cash and cash equivalents and unallocated corporate assets (mainly include property, plant and equipment and investment properties that are used by all segments, prepayments, deposits, other receivables and tax recoverable).

Reportable segment liabilities exclude current income tax liabilities, deferred income tax liabilities and unallocated corporate liabilities (mainly include accrued charges of the head office and borrowings).

(a) The Group’s revenue and results and assets and liabilities by operating segments for the period under review are presented below:

Unaudited
Six months ended 30th June 2017

	<u>IT Products</u>	<u>IT Services</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers	429,745	502,408	932,153
Intersegment revenue	2,450	12,274	14,724
Segment revenue	432,195	514,682	946,877
Reportable segment profit	39,818	66,538	106,356
Segment depreciation	2,112	7,819	9,931
Segment amortisation	-	583	583
Additions to property, plant and equipment	50	3,642	3,692

Unaudited
Six months ended 30th June 2016

	<u>IT Products</u>	<u>IT Services</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers	436,282	340,175	776,457
Intersegment revenue	2,278	11,167	13,445
Segment revenue	438,560	351,342	789,902
Reportable segment profit	30,657	18,732	49,389
Segment depreciation	1,093	4,890	5,983
Segment amortisation	-	834	834
Additions to property, plant and equipment	11	2,231	2,242

3. Revenue and Segment Information (Continued)

- (a) The Group's revenue and results and assets and liabilities by operating segments for the period under review are presented below (Continued):

Unaudited
As at 30th June 2017

	<u>IT Products</u>	<u>IT Services</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment assets	205,971	1,226,691	1,432,662
Reportable segment liabilities	<u>183,793</u>	<u>355,227</u>	<u>539,020</u>

Audited

As at 31st December 2016

	<u>IT Products</u>	<u>IT Services</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment assets	231,602	310,450	542,052
Reportable segment liabilities	<u>199,717</u>	<u>146,529</u>	<u>346,246</u>

- (b) Reconciliation of the reportable segment revenue, profit or loss, assets and liabilities

Reportable segment revenue, profit or loss, assets and liabilities are reconciled to results, total assets and total liabilities of the Group as follows:

Revenue	Unaudited	
	Six months ended	
	30th June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment revenue	946,877	789,902
Elimination of intersegment revenue	<u>(14,724)</u>	<u>(13,445)</u>
Revenue per condensed consolidated statement of profit or loss	<u>932,153</u>	<u>776,457</u>

Intersegment revenue is charged at cost plus a percentage of profit mark-up.

Profit or loss	Unaudited	
	Six months ended	
	30th June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment profit	106,356	49,389
Unallocated amounts:		
Unallocated other income	1,824	2,234
Unallocated other loss, net	(2,610)	(6,027)
Unallocated depreciation	(314)	(2,720)
Share of results of associates	(2,612)	(2,591)
Finance costs	(6,926)	(275)
Unallocated corporate expenses	<u>(62,974)</u>	<u>(16,871)</u>
Profit before income tax per condensed consolidated statement of profit or loss	<u>32,744</u>	<u>23,139</u>

3. Revenue and Segment Information (Continued)

(b) Reconciliation of the reportable segment revenue, profit or loss, assets and liabilities (Continued)

Assets	Unaudited 30th June 2017 HK\$'000	Audited 31st December 2016 HK\$'000
Reportable segment assets	1,432,662	542,052
Unallocated assets:		
Interests in associates	53,503	53,458
Deferred income tax assets	4,673	953
Unallocated restricted bank deposits	619	876
Unallocated cash and cash equivalents	343,058	237,755
Unallocated corporate assets	338,175	331,234
	1,432,662	542,052
Total assets per condensed consolidated statement of financial position	2,172,690	1,166,328
	2,172,690	1,166,328
Liabilities	Unaudited 30th June 2017 HK\$'000	Audited 31st December 2016 HK\$'000
Reportable segment liabilities	539,020	346,246
Unallocated liabilities:		
Current income tax liabilities	15,061	7,447
Deferred income tax liabilities	46,110	45,899
Unallocated corporate liabilities	624,197	47,703
	539,020	346,246
Total liabilities per condensed consolidated statement of financial position	1,224,388	447,295
	1,224,388	447,295

The following table sets out information about the geographical segment location of the Group's revenue from external customers and its non-current assets (other than financial instruments and deferred income tax assets). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment and investment properties, the location of the operations to which they are allocated in the case of the intangible assets and goodwill, and the location of operations in the case of interests in associates.

Place of domicile	Revenue from external customers Unaudited Six months ended 30th June	
	2017 HK\$'000	2016 HK\$'000
Hong Kong	758,176	724,862
United States of America ("US")	137,138	-
Mainland China	2,111	1,709
Macau	12,845	8,124
Taiwan	6,798	12,247
Thailand	15,085	29,515
	932,153	776,457
	932,153	776,457

3. Revenue and Segment Information (Continued)

(b) Reconciliation of the reportable segment revenue, profit or loss, assets and liabilities (Continued)

Place of domicile	Specified non-current assets	
	Unaudited 30th June 2017 HK\$'000	Audited 31st December 2016 HK\$'000
Hong Kong	372,483	378,654
US	857,034	-
Mainland China	805	823
Macau	120	1,113
Taiwan	272	374
Thailand	146	107
	1,230,860	381,071

4. Other Income

	Unaudited Six months ended 30th June	
	2017 HK\$'000	2016 HK\$'000
Interest on bank deposits	26	22
Rental income from investment properties	1,986	1,959
Others	681	479
	2,693	2,460

5. Other Loss, Net

	Unaudited Six months ended 30th June	
	2017 HK\$'000	2016 HK\$'000
Gain/(loss) on disposal of property, plant and equipment	17	(195)
Fair value loss on contingent consideration payable	(1,158)	-
Provision for customers' claim	(3,642)	(6,300)
Exchange gain, net	3,050	468
Others	(877)	-
	(2,610)	(6,027)

6. Finance Income

Finance income represents accretion of discount recognised upon initial recognition of finance lease receivables to their fair values (six months ended 30th June 2016: same).

7. Profit Before Income Tax

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

	Unaudited Six months ended 30th June	
	2017 HK\$'000	2016 HK\$'000
Depreciation and amortisation:		
Property, plant and equipment	10,245	8,704
Intangible assets (included in cost of services rendered)	583	834
Transaction costs for acquisition (Note 20)	8,992	-
Provision for impairment of trade receivable	-	1
Reversal of provision for impairment of trade receivables	(28)	-
Reversal of provision for obsolete inventories	(26)	-
Bad debt written-off	1	-
Staff costs	315,756	213,645
Provision for customers' claim	3,642	6,300

8. Income Tax Expense

	Unaudited Six months ended 30th June	
	2017 HK\$'000	2016 HK\$'000
Current taxation:		
Hong Kong profits tax	5,900	4,425
Overseas taxation	8,808	-
Over-provision in respect of prior period:		
Hong Kong profits tax	-	(2)
Overseas taxation	-	(114)
	14,708	4,309
Deferred taxation:		
Current period	(10)	553
Income tax expense	14,698	4,862

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30th June 2016: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries and regions in which the Group operates.

9. Dividends

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June 2017 (six months ended 30th June 2016: Nil).

10. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to equity holders of the Company is based on the following data:

	Unaudited Six months ended 30th June	
	2017 HK\$'000	2016 HK\$'000
Earnings for the purpose of basic earnings per share	18,046	18,277
Effect of dilutive potential ordinary shares		
- Interest on convertible bonds (Note (b))	4,530	-
Earnings for the purpose of diluted earnings per share	<u>22,576</u>	<u>18,277</u>
	Number of shares	
	2017 '000	2016 '000 (Restated)
Weighted average number of ordinary shares for the purpose of basic earnings per share (Note (a))	526,038	411,208
Effect of dilutive potential ordinary shares		
- Share options (Note (c))	83	267
- Convertible bonds (Note (b))	180,952	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>707,073</u>	<u>411,475</u>

Notes:

- (a) The weighted average number of 526,038,000 ordinary shares are derived from ordinary shares in issue as at 1st January 2017 after taking into account the effects of rights issue and bonus issue being completed during the six months ended 30th June 2017.

The weighted average number of 411,208,000 ordinary shares are derived from ordinary shares in issue as at 1st January 2016 after taking into account the effects of bonus issue being completed during the six months ended 30th June 2016 and rights issue and bonus issue being completed during the six months ended 30th June 2017.

- (b) The calculation of the diluted earnings per share for the six months ended 30th June 2017 is based on the profit attributable to equity holders of the Company, adjusted to reflect the interest of the convertible bonds issued by the Company during the period. The weighted average number of ordinary shares for the purpose of the diluted earnings per share for the six months ended 30th June 2017 have taken into account the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of the convertible bonds into ordinary shares for the period.
- (c) The calculation of the diluted earnings per share for the six months ended 30th June 2017 and 2016 assumed the exercise of the share options of the Company granted in March and May 2012 (Note 19(a)), but not on the share options granted in March and April 2017 (Note 19(b)) which are considered as anti-dilutive as the average market price of the ordinary shares of the Company is less than the exercise price of these share options.

11. Property, Plant and Equipment

During the six months ended 30th June 2017, the additions of property, plant and equipment, mainly for computer and office equipment and furniture and fixtures, was approximately HK\$4,178,000 (six months ended 30th June 2016: HK\$2,535,000).

During the six months ended 30th June 2017, the Group disposed of certain property, plant and equipment at the carrying amount of approximately HK\$4,000 (six months ended 30th June 2016: HK\$218,000), resulting in a gain on disposal of approximately HK\$17,000 (six months ended 30th June 2016: loss on disposal of HK\$195,000).

The Group's land and buildings were stated at valuations made at 31st December 2016 less depreciation. The land and buildings were last revalued by an independent professional valuer at 31st December 2016 on market value basis which was determined by reference to market evidence of recent transactions for similar properties. As at 30th June 2017, the Directors of the Company considered that the carrying amount of the Group's land and buildings did not differ significantly from their fair values.

As at 30th June 2017, if the land and buildings had not been revalued, they would have been included in this condensed consolidated interim financial information at historical cost, less accumulated depreciation and amortisation with carrying amount of approximately HK\$41,132,000 (31st December 2016: HK\$42,165,000).

As at 30th June 2017, the Group had pledged land and buildings with carrying amount of approximately HK\$258,197,000 (31st December 2016: HK\$107,250,000) to secure banking facilities granted to the Group.

12. Investment Properties

The investment properties of the Group were last revalued at 31st December 2016 by an independent professional valuer on market value basis which was determined by reference to market evidence of recent transactions for similar properties.

As at 30th June 2017, the Directors of the Company considered that the carrying amount of the Group's investment properties which are carried at revalued amounts did not differ significantly from their fair values.

As at 30th June 2017, the Group had pledged investment properties with carrying amount of HK\$50,600,000 (31st December 2016: Nil) to secure banking facilities granted to the Group.

13. Trade Receivables

The Group has granted credit to substantially all of its customers for 30 days and has credit control procedures to minimise credit risk. Overdue balances are reviewed regularly by senior management.

	Unaudited 30th June 2017 HK\$'000	Audited 31st December 2016 HK\$'000
Trade receivables – gross	251,074	171,432
Less: provision for impairment	<u>(5,046)</u>	<u>(4,781)</u>
Trade receivables – net	<u>246,028</u>	<u>166,651</u>

An ageing analysis of the gross trade receivables as at the end of the reporting period, based on ageing from payment due date, is as follows:

	Unaudited 30th June 2017 HK\$'000	Audited 31st December 2016 HK\$'000
Current	129,465	101,214
Within 30 days	64,885	30,194
31 - 60 days	13,856	18,371
61 - 90 days	4,795	6,449
Over 90 days	<u>38,073</u>	<u>15,204</u>
	<u>251,074</u>	<u>171,432</u>

14. Other Receivables, Deposits and Prepayments

	Unaudited 30th June 2017 HK\$'000	Audited 31st December 2016 HK\$'000
Other receivables	6,021	4,711
Deposits	4,713	4,681
Prepayments	32,273	11,882
Amount due from the immediate holding company	-	13
Amount due from an associate	62	50
Amount due from a director	<u>250</u>	<u>-</u>
	<u>43,319</u>	<u>21,337</u>

15. Restricted Bank Deposits

As at 30th June 2017, the Group has restricted bank deposit of approximately HK\$521,000 (31st December 2016: HK\$487,000) pledged to secure the performance bonds granted to the Group.

16. Trade Payables

An ageing analysis of the trade payables as at the end of the reporting period, based on payment due date, is as follows:

	Unaudited 30th June 2017 HK\$'000	Audited 31st December 2016 HK\$'000
Current	120,680	122,983
Within 30 days	30,023	49,507
31 - 60 days	5,498	4,679
61 - 90 days	4,755	1,187
Over 90 days	8,603	7,024
	<u>169,559</u>	<u>185,380</u>

17. Other Payables and Accruals

	Unaudited 30th June 2017 HK\$'000	Audited 31st December 2016 HK\$'000
Other payables	14,137	3,524
Accruals	93,652	58,673
Provision for customers' claim	13,313	9,630
Amount due to the ultimate holding company	319	318
Amounts due to associates	843	764
	<u>122,264</u>	<u>72,909</u>

18. Borrowings

	Unaudited 30th June 2017 HK\$'000	Audited 31st December 2016 HK\$'000
Current		
Bank borrowings, secured (Note (a))	256,949	10,000
Non-current		
Convertible bonds (Note (b))	<u>334,925</u>	<u>-</u>
Total borrowings	<u>591,874</u>	<u>10,000</u>

Notes:

(a) Bank borrowings

The Group's bank borrowings are repayable as follows:

	Unaudited 30th June 2017 HK\$'000	Audited 31st December 2016 HK\$'000
Within one year or on demand	<u>256,949</u>	<u>10,000</u>

- (i) As at 30th June 2017 and 31st December 2016, the Group's bank borrowings of HK\$10,000,000 are fully repayable on 22nd December 2017 in accordance with the repayment schedule and bears interest at floating rates. The bank borrowings are denominated in Hong Kong dollars ("HKD") with interest rate ranging from 2.86% to 3.19% as at 30th June 2017 (31st December 2016: 2.69% to 3.19%).

As at 30th June 2017, the bank borrowings are secured by the legal charges over the Group's land and buildings with carrying amount of approximately HK\$105,492,000 (31st December 2016: HK\$107,250,000).

18. Borrowings (Continued)

(a) Bank borrowings (Continued)

- (ii) During the six months ended 30th June 2017, the Group obtained a banking facility in relations to a term loan of HK\$250,000,000 for the acquisition of Grid Dynamics International, Inc. (“Grid Dynamics”) and its subsidiaries (“Grid Dynamics Group”) as detailed in Note 20. As at 30th June 2017, bank borrowings of approximately HK\$246,949,000 (31st December 2016: Nil) are repayable by five semi-annually instalments commencing from 29th March 2018 to 20th February 2020 and bears interest at floating rates. The bank borrowings are denominated in HKD with an effective interest rate of 3.53% (31st December 2016: Nil) per annum as at 30th June 2017. As at 30th June 2017, the bank borrowings are secured by the legal charges over the Group’s land and buildings with carrying amount of approximately HK\$152,705,000 (31st December 2016: Nil) and investment properties with carrying amount of HK\$50,600,000 (31st December 2016: Nil) and guaranteed by certain subsidiaries of the Group up to a limit of HK\$250,000,000.

The banking facilities of the term loan is subject to the fulfillment of certain financial and non-financial covenants relating to certain subsidiaries of the Group as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become repayable on demand.

The Group regularly monitors its compliance with these covenants, is up to the date with the scheduled repayments of the loans and does not consider it probable that the banks will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements.

Subject to repayment on demand clauses which can be exercised at the banks’ sole discretion, the above bank borrowings are classified as current liabilities as at 30th June 2017 and 31st December 2016.

(b) Convertible bonds

On 21st March 2017, the Group issued HKD denominated zero coupon convertible bonds of a principal amount of HK\$350,000,000 (the “Convertible Bonds”).

At the issue date, the Convertible Bonds can be converted into 291,666,666 shares (the “Conversion Shares”) at the initial conversion price of HK\$1.20 per share (subject to adjustment). As a result of the bonus issue on 8th June 2017, the number of shares falling to be allotted and issued upon conversion of the Convertible Bonds and the conversion price of the Convertible Bonds have been adjusted to 321,100,917 shares and HK\$1.09 per share respectively, pursuant to the terms of conditions of the Convertible Bonds.

The Convertible Bonds are convertible during the period commencing from the 90th day after the date of issue of the Convertible Bonds and ending on the 5th business day prior to the maturity date of the Convertible Bonds on 21st March 2020 (the “Maturity Date”). Unless previously purchased or converted for Conversion Shares, the Company shall on the Maturity Date redeem the outstanding principal amount of the Convertible Bonds together with the accrued return of 3% internal rate of return per annum.

Early redemption at the option of the Company and the Bondholder

The Company and the bondholder have the right to redeem the Convertible Bonds early in the event that the completion of the acquisition of Grid Dynamics Group does not take place in accordance with its terms, the Company shall have the right to redeem and the bondholder shall have the right to require redemption of the Convertible Bonds outstanding before the Maturity Date (the “Early Redemption Option”) at its principal amount outstanding plus 6% internal rate of return per annum. The acquisition of Grid Dynamics Group was completed on 7th April 2017 and the Early Redemption Option expired on that date.

The conversion option embedded in the Convertible Bonds meet the definition of equity instrument of the Company, and is classified as equity and included in the convertible bonds reserves. The liability component was initially recognised at its fair value and was subsequently measured at amortised cost. As at 30th June 2017, the Convertible Bonds contains two components i.e. liability and equity elements.

The carrying amount of the Convertible Bonds recognised in the condensed consolidated statement of financial position is calculated as follows:

	<i>HK\$’000</i>
Nominal value of Convertible Bonds	350,000
Less: Derivative component (Note)	(16)
Equity component	(15,536)
Transaction costs	(4,053)
	<hr/>
Liability component on initial recognition	330,395
Imputed interest expense	4,530
	<hr/>
Liability component at 30th June 2017	334,925
	<hr/>

Note: The derivative component at initial recognition represents the Early Redemption Option, which was recognised as financial liabilities at fair value through profit or loss.

Imputed interest expense of the Convertible Bonds is calculated using the effective interest method by applying effective interest rate of 4.99% per annum to the liability component.

During the six months ended 30th June 2017, there was no conversion or redemption of the Convertible Bonds.

19. Share Option Schemes

The Company's share option scheme which was adopted on 8th August 2002 (the "2002 Share Option Scheme") was expired and a new share option scheme was adopted by an ordinary resolution passed at the special general meeting of the Company held on 13th March 2017 (the "2017 Share Option Scheme").

Upon the expiry of the 2002 Share Option Scheme, no further option can be offered thereunder but any options granted prior to such expiry but not yet exercised shall continue to be valid and exercisable.

(a) 2002 Share Option Scheme

Under the 2002 Share Option Scheme, the Directors of the Company may grant options to eligible employees, including Directors of the Company and its subsidiaries, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the 2002 Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time. The total number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

Options granted must be taken up within 28 days of the date of offer, upon payment of HK\$1 as consideration per grant. There is no general requirement that an option must be held for any minimum period before it can be exercised but the Directors of the Company is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The period during which an option may be exercised will be determined by the Directors of the Company at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

The exercise price is determined by the Directors of the Company, and will not be less than the higher of (a) the closing price of the shares on the Stock Exchange on the date of grant of the options; (b) the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the options; and (c) the nominal value of the shares. The 2002 Share Option Scheme expired on 7th August 2012.

The following table discloses details of the share options held by eligible employees under the 2002 Share Option Scheme and movements in such holdings during the six months ended 30th June 2017:

Grant date	Exercise price per share (Note)	At 1st January 2017	Granted during the period	Adjusted during the period (Note)	At 30th June 2017
19th March 2012	HK\$0.845	396,000	-	68,253	464,253
2nd May 2012	HK\$0.873	121,000	-	20,857	141,857
		517,000	-	89,110	606,110
Weighted average exercise price per share					HK\$0.85
Number of options exercisable at 30th June 2017					606,110
Weighted average exercise price per share of options exercisable at 30th June 2017					HK\$0.85
Weighted average remaining contractual life					4.7 years

Note: The number of outstanding share options and exercise price per share have been adjusted as a result of the rights issue of the Company on 27th February 2017 and were further adjusted as a result of the bonus issue of the Company on 8th June 2017, the details of the adjustments are disclosed in the Company's announcements dated 24th February and 8th June 2017, respectively.

The options granted on 19th March 2012 and 2nd May 2012 were vested equally on each of the first, second and third anniversaries of the grant date.

During the six months ended 30th June 2017 and 2016, no expenses were recognised in relation to equity-settled share-based payment transactions under the 2002 Share Option Scheme as the outstanding share options are fully vested during the year ended 31st December 2015.

19. Share option schemes (Continued)

(b) 2017 Share Option Scheme

2017 Share Option Scheme was adopted by the Company on 13th March 2017 and is valid and effective for a period of ten years from 13th March 2017.

The purpose of the 2017 Share Option Scheme is to enable the Company to grant options to the eligible participants as incentives or rewards for their contribution to the Company and/or its subsidiaries. The Board may, at its discretion, grant options to any eligible employee, executive or officer including Directors of the Company or its subsidiaries, to subscribe for shares of the Company. The total number of shares which may be issued upon exercise of all options to be granted under the 2017 Share Option Scheme shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at 13th March 2017, the date of approval of the adoption of the 2017 Share Option Scheme. Unless approved by the shareholders of the Company, the total number of shares issued and to be issued upon exercise of the options granted to each eligible participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the total number of shares of the Company in issue.

Options granted must be taken up within 28 days of the date of offer, upon payment of HK\$1 as consideration per grant. The Board may at its absolute discretion impose any minimum period for which an option must be held before it can be exercised and/or any performance targets which must be achieved before the option can be exercised. The period during which an option may be exercised will be determined by the Directors of the Company at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

The exercise price is determined by the Board, and shall be at least the higher of (a) the closing price of the shares on the Stock Exchange's daily quotation sheets on the date of grant of the options; (b) the average of the closing prices of the shares on the Stock Exchange for the five business days immediately preceding the date of grant of the options; and (c) the nominal value of a share.

Details of specific categories of options are as follows:

Grant date	Exercise period	Outstanding at 30th June 2017
31st March 2017		
- Tranche 1	31st March 2017 - 30th March 2027	2,631,750
	1st April 2018 - 30th March 2027	1,315,885
	1st April 2019 - 30th March 2027	1,315,865
- Tranche 2	Date of 2017 Annual Results Announcement - 30th March 2027	2,631,750
	1st April 2019 - 30th March 2027	1,315,885
	1st April 2020 - 30th March 2027	1,315,865
- Tranche 3	Date of 2018 Annual Results Announcement - 30th March 2027	2,631,750
	1st April 2020 - 30th March 2027	1,315,885
	1st April 2021 - 30th March 2027	1,315,865
- Tranche 4	Date of 2019 Annual Results Announcement - 30th March 2027	2,631,750
	1st April 2021 - 30th March 2027	1,315,885
	1st April 2022 - 30th March 2027	1,315,865
		21,054,000

Grant date	Exercise period	Outstanding at 30th June 2017
28th April 2017		
- Tranche 1	1st June 2018 - 27th April 2027	756,250
	1st June 2019 - 27th April 2027	378,125
	1st June 2020 - 27th April 2027	378,125
- Tranche 2	1st June 2019 - 27th April 2027	756,250
	1st June 2020 - 27th April 2027	378,125
	1st June 2021 - 27th April 2027	378,125
- Tranche 3	1st June 2020 - 27th April 2027	756,250
	1st June 2021 - 27th April 2027	378,125
	1st June 2022 - 27th April 2027	378,125
- Tranche 4	1st June 2021 - 27th April 2027	756,250
	1st June 2022 - 27th April 2027	378,125
	1st June 2023 - 27th April 2027	378,125
		6,050,000

19. Share option schemes (Continued)

(b) 2017 Share Option Scheme (Continued)

The following table discloses details of the share options held by eligible employees (including Directors) under the 2017 Share Option Scheme and movements in such holdings during the six months ended 30th June 2017:

Grant date	Exercise price per share (Note (a))	At 1st January 2017	Granted during the period	Adjusted during the period (Note (a))	At 30th June 2017
31st March 2017	HK\$1.164	-	19,140,000	1,914,000	21,054,000
28th April 2017	HK\$1.091	-	5,500,000 (Note (b))	550,000	6,050,000
		-	24,640,000	2,464,000	27,104,000
Weighted average exercise price per share					HK\$1.15
Number of options exercisable at 30th June 2017					2,631,750
Weighted average exercise price per share of options exercisable at 30th June 2017					HK\$1.16
Weighted average remaining contractual life					9.8 years

Notes:

- (a) The number of outstanding share options and exercise price per share have been adjusted as a result of the bonus issue of the Company on 8th June 2017, details of the adjustments are disclosed in the Company's announcement dated 8th June 2017.
- (b) The total number of options is 6,500,000, in which 1,000,000 options were not accepted by an eligible participant, pursuant to 2017 Share Option Scheme, the offer of these options was automatically lapse and became null and void.

In respect of the share options granted during the period, the estimated fair values of the options on the dates of grant were calculated using the binomial lattice model. The estimated fair values were ranging from HK\$0.368 to HK\$0.450 per share. The inputs into the model were as follows:

	Granted on 28th April 2017	Granted on 31st March 2017
Share price at grant date	1.08	1.25
Exercise price at grant date	1.20	1.28
Expected volatility	50%	50%
Option life	10 years	10 years
Risk-free rate	1.41%	1.49%
Expected dividend	5.0%	5.0%

The expected volatility was determined by using the historical volatility of the Company for the closing share price for the period of 7 years before the date of grant.

During the six months ended 30th June 2017, the Group recognised total expense of approximately HK\$2,063,000 (six months ended 30th June 2016: Nil) in relation to equity-settled share-based payment transactions and included in the condensed consolidated statement of profit or loss with a corresponding credit to the share-based payment reserve.

The total consideration received during the six months ended 30th June 2017 from employees for taking up the shares under the options amounted to HK\$63 (six months ended 30th June 2016: Nil).

20. Acquisition of subsidiaries

On 16th December 2016, the Company, GDD International Holding Company and GDD International Merger Company, indirect wholly-owned subsidiaries of the Company, entered into an agreement and plan of merger ("Merger Agreement") with Grid Dynamics and BGV II, LP, the representative of the holders of the shares or vested options of Grid Dynamics (the "Securityholders Representative"), pursuant to which the Company agreed to acquire the entire share capital of Grid Dynamics Group (the "Acquisition"). Details of the Acquisition are set out in the Company's circular dated 6th March 2017 and the Acquisition was completed on 7th April 2017 (the "Completion Date").

The transaction was made as part of the Group's strategy to provide third platform technologies, including cloud, mobile, big data and analytics and social business and to expand the Group's geographical coverage beyond Asia Pacific.

20. Acquisition of subsidiaries (Continued)

Pursuant to the terms of the Merger Agreement, the total consideration for the Acquisition (the "Purchase Consideration") are as follows:

(a) Cash consideration

A purchase price of approximately US\$100,000,000, subject to certain adjustments based on the net asset value on the Completion Date, to be paid by the Company in cash upon the Completion Date, US\$2,000,000 of which will be paid on or before the first anniversary of the Completion Date; and

(b) Contingent Consideration

An earnout payment in the sum of up to US\$18,000,000 to be paid by the Company in cash and in two instalments with each instalment to be paid no later than 10 business days following the date upon which the determination of the earnout payment for each earnout period becomes final and binding upon the Company and the Securityholder Representative, subject to the Grid Dynamics Group meeting the agreed revenue target and profit before tax target in respect of each relevant earnout period.

The following summarises the estimated consideration paid/payable for the Acquisition and the provisional recognised amount of assets acquired and liabilities assumed of Grid Dynamics Group at the Completion Date:

	Provisional fair value of net identifiable assets and liabilities acquired Unaudited HK\$'000
Property, plant and equipment	6,144
Intangible assets	2,269
Goodwill	1,083
Deferred income tax assets	3,964
Trade receivables	86,268
Other receivables, deposits and prepayments	9,022
Amount due from customers for contract work	4,336
Tax recoverable	995
Cash and cash equivalents	50,666
Trade payables	(3,175)
Other payables and accruals	(32,912)
Receipts in advance	(5,528)
Deferred income tax liabilities	(488)
	<hr/>
Net identifiable assets acquired	122,644
Provisional goodwill	841,697
	<hr/>
	964,341
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Purchase Consideration satisfied by	
- Cash (including cash acquired at Completion Date)	832,379
- Contingent consideration payable, at fair value	131,962
	<hr/>
	964,341
	<hr/>

An analysis of the cash flows in respect of the acquisition of Grid Dynamics Group is as follows:

	Unaudited HK\$'000
Cash consideration paid	(813,614)
Cash and cash equivalents acquired	50,666
	<hr/>
Cash outflow in respect of the acquisition of Grid Dynamics Group	(762,948)
	<hr/>

As at 30th June 2017, the purchase consideration for cash and contingent components of approximately US\$2,415,000 (equivalent to approximately HK\$18,852,000) and approximately US\$17,133,000 (equivalent to approximately HK\$133,733,000) remained unpaid and included in other payables and accruals and contingent consideration payable, respectively.

As at the date of this announcement, the fair value assessments of the assets acquired and liabilities assumed of the Grid Dynamics Group have not yet been completed, the relevant fair values of the net assets acquired has been determined on a provisional basis and the adjustments on the consideration are subject to agreement with the vendor. For the purpose of initial recognition, the Directors of the Company determined the best estimates for the value of these assets and liabilities based on the book values for the purpose of determining the Purchase Consideration.

20. Acquisition of subsidiaries (Continued)

Goodwill arose in the above business combination as the cost of combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the Acquisition is expected to be deductible for tax purposes.

The Group incurred transaction costs of approximately HK\$14,567,000 for the Acquisition. The transaction costs of approximately HK\$8,992,000 have been expensed and are included in administrative expenses in the condensed consolidated statement of profit or loss for the six months ended 30th June 2017, and the remaining portion of approximately HK\$5,575,000 are included in administrative expenses in the consolidated statement of profit or loss for the year ended 31st December 2016.

Since the Acquisition, Grid Dynamics Group contributed approximately HK\$137,138,000 to the Group's revenue and profit of approximately HK\$16,612,000 was included in the Group's results for the six months ended 30th June 2017.

Had the Acquisition been effected at the beginning of the interim period, the total amount of revenue of the Group for the six months ended 30th June 2017 would have been approximately HK\$1,061,579,000, and the amount of profit for the interim period would have been approximately HK\$41,254,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

Depending on the upcoming financial performance of the Grid Dynamics Group, the contingent consideration payable for the Acquisition may range from nil to US\$18,000,000. The potential undiscounted amount of all future payments that the Group could be required to make under this arrangement is between nil and US\$18,000,000. The fair value of the amount payable of approximately US\$16,984,000 (equivalent to approximately HK\$131,962,000) was recognised as contingent consideration payable on Completion Date. The amount was estimated based on an assumed probability weighting in fulfilling the performance requirements, using a discount rate of 3.18%. During the six months ended 30th June 2017, a fair value loss of approximately US\$149,000 (equivalent to approximately HK\$1,158,000) was recognised in the condensed consolidated statement of profit or loss for the contingent consideration.

21. Pledge of Assets

As at 30th June 2017, the Group's land and buildings with carrying amount of approximately HK\$258,197,000 (31st December 2016: HK\$107,250,000) and investment properties with carrying amount of HK\$50,600,000 (31st December 2016: Nil) were pledged to secure the banking facilities of the Group.

As at 30th June 2017, the Group's restricted bank deposit of approximately HK\$521,000 (31st December 2016: HK\$487,000) was pledged to secure the performance bonds of the Group.

DIVIDEND

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June 2017 (six months ended 30th June 2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30th June 2017, total revenue of the Group was HK\$932.2 million, representing a 20.1% increase from the corresponding period last year. Product sales were decreased by 1.5% to HK\$429.7 million while service revenue was increased by 47.7% to HK\$502.4 million. The increase in service revenue was mainly attributable to the contribution from Grid Dynamics International, Inc. ("Grid Dynamics"), which was acquired on 7th April 2017. For the six months ended 30th June 2017, product sales and service revenue contributed 46.1% and 53.9% to total revenue respectively, compared to 56.2% and 43.8% for the corresponding period last year.

For the six months ended 30th June 2017, commercial and public sector sales contributed 52.3% and 47.7% to total revenue respectively, compared to 42.5% and 57.5% for the corresponding period last year.

Gross profit for the six months ended 30th June 2017 was HK\$149.6 million, an increase of HK\$66.5 million or 79.9% compared with the same period last year. Gross profit margin for the period was also increased from 10.7% to 16.1%. The increase in gross profit and gross profit margin was mainly attributable to the gross profit contribution from Grid Dynamics.

During the period under review, the Group recorded a profit attributable to the Company's equity holders of HK\$18.0 million, it was similar to that for the corresponding period last year of HK\$18.3 million because the profit contribution from Grid Dynamics was offset by the one-off professional fees and finance costs incurred for the acquisition of Grid Dynamics (the "Acquisition").

For the six months ended 30th June 2017, orders newly secured by the Group amounted to approximately HK\$816.7 million. As at 30th June 2017, the order book balance was approximately HK\$1,041.4 million, an increase of HK\$173.6 million compared to the corresponding period last year. The Group's net cash stood at approximately HK\$343.1 million with a working capital ratio of 1.20:1. The Group maintained a healthy financial position and outstanding borrowings amounted to HK\$591.9 million as at 30th June 2017.

Following the Company's announcements dated 19th March 2014 and 21st May 2014 with regard to the termination of a business contract entered into between Automated Systems (H.K.) Limited ("AHK"), a wholly-owned subsidiary of the Company and a customer, AHK has reached a settlement with the customer before the date of this announcement. Such settlement brings no significant adverse impact on the Group's results as a best estimate on provision has been made properly during the period under review.

Business Review

The development of the Group's local core business remained stable during the first six months of this year. The Group completed the Acquisition of Grid Dynamics, a company incorporated in California, the United States, on 7th April this year at a total consideration of US\$118.0 million (equivalent to approximately HK\$916.8 million). The Acquisition resulted in a significant growth in the Group's revenue and gross profit during the period. Meanwhile, the Group's profit was similar to that for the corresponding period last year as a result of the professional fees and financial costs incurred for the Acquisition.

In respect of the public sector sales, the Group continued to be benefited from the Government's policies on actively promoting innovation and improving public services through the use of information technology ("IT"). In response to the trend of innovation and technology development, the Group has also adopted DevOps (the combination of a new advanced IT service delivery and agile application development methodologies) as a delivery model in governmental projects during the period to enhance the flexibility and effectiveness of delivery services.

In respect of the commercial sector sales, the Group has continued to focus on the managed service business adhering to last year's development strategy and has successfully obtained a three-year security managed service project contract from a large transport operator in Hong Kong during the period. The Group believes that the success is not merely attributable to winning the project contract, but also successfully further launching the Security Operation Center *Plus* (SOC+) of its own security managed services together with managed services and service desk services to the market. This evidenced that the Group was one of a few one-stop IT service providers which possesses both local supporting services capability and world-class security managed services.

In addition, upon the completion of the Acquisition on 7th April this year, Grid Dynamics has become a wholly-owned subsidiary of the Group. Grid Dynamics is a provider of open, scalable, next-generation e-commerce technology solutions in the areas of omni-channel digital platforms, cloud-enablement, big data analytics and continuous delivery. The Acquisition resulted in a significant increase in the Group's gross profit by 79.9% as compared with the corresponding period last year, and the coverage of the delivery services also expanded from the Asia-Pacific region to Europe and the United States.

Outlook and Prospects

New generation of digital technologies are growing rapidly and becoming increasingly popular in IT application across every industry while clients from commercial sector are open to cloud services. Meanwhile, due to large cloud service providers entering the market in Hong Kong in recent years, the Group expects that the demand from enterprises to invest in IT infrastructure will gradually decrease. These changes will bring challenges to the Group. However, the Group believes that the demand for IT infrastructure investment from financial industry clients will remain at a certain level; therefore, there will not be a significant impact on the Group's IT infrastructure business in the short term.

In the face of future development of the third generation IT platform, the Group will continue to make use of its current market position and advantages, further promoting the digital transformation of professional services. The Group will, depend on the needs of the customer, use the third platform technologies to develop new mission-critical business applications based on the concept of "customer-oriented" to meet customers' long-term needs for digital technologies, and to help customers reduce operating costs, streamline operational procedures and improve business agility. These are the major development strategies of the Group in the next stage.

With the convergence of IT products and services, it is particularly important for professional service providers to make use of their special skills and accumulated experience in their respective industries to make a profit. The Group will concentrate on further strengthening its innovative capabilities for particular industry solutions in emerging industries with advantages. In this regard, the Group will seek to understand the changes in customers' needs and to provide solutions that meet the core business needs of our customers based on the integration and reconstruction of their business procedures. The Group expects to focus on meeting the needs of particular major industries and provide customers with more appropriate and better services.

In addition, in response to rapid changes in the industry, the Group will continue to integrate its internal and external resources, attract talents and nurture teams with a wide range of practical experience. The Group, in the beginning of this year, focused on strengthening professional and technical training (including DevOps, Scrum (a methodology of agile software development), IT security and big data, etc.) for existing staff, and introduced a graduate trainee program to expand the talent pool and cultivate talents.

It is worth mentioning that the Group was entrusted as one of the contractors of “Standing Offer Agreement for Quality Professional Services 4” (SOA-QPS4) by the Office of the Government Chief Information Officer and was eligible for bidding four categories of IT services for various government bureau and departments under a period of 48 months, effective from 31st July 2017, which the Group is confident that it could bring a stable revenue to the Group for our relevant IT services. In respect of SOA-QPS4, the government has increased funding and has adopted a higher technical weighting with a price to technical ratio of 60:40 for some work assignments in the new round of contract bidding. As a quality IT services company, the Group believes that we could have more opportunities in getting government contracts in higher profit margin. Meanwhile, by taking the opportunity of SOA-QPS4, we endeavor to make use of the Group’s DevOps technology, experienced professional team and agile development adoption to introduce quality and innovative IT solutions and professional IT services to the government and assist the government in building Hong Kong to be a more competitive smart city.

2017 is the Group’s 20th listing anniversary in Hong Kong, therefore, not only did the successful completion of the Acquisition lay a solid foundation for the future development of the Group, but also marked the Group’s new journey of development. With Grid Dynamics joining the Group, a large number of its world-class developers have become part of the Group, thus extending the coverage of Group’s several offshore delivery centers from Asia to Europe, further creating a global delivery model for customers. At the same time, the technological resources and business strength of Grid Dynamics would not only accelerate the Group to enter the segmented markets in the industry, but also improve the overall technological strengths of the Group. Through this, the Group could grasp the opportunities brought by third platform technologies and further expand its services coverage into Europe and the United States. The Group expected that Grid Dynamics would bring a significant growth in the profit of the Group.

Looking forward, as the Group has further extended its service delivery coverage from Hong Kong-based Greater China region to North America and Europe, this will establish the Group’s position as a global, trustworthy and professional one-stop IT service partner.

Financial Resources and Liquidity

As at 30th June 2017, the Group’s total assets of HK\$2,172.7 million were financed by current liabilities of HK\$778.2 million, non-current liabilities of HK\$446.2 million and shareholders’ equity of HK\$948.3 million. The Group had a working capital ratio of approximately 1.20:1.

As at 30th June 2017, the Group had an aggregate composite banking facility from banks of approximately HK\$420.0 million (31st December 2016: HK\$170.0 million). The Group had pledged land and buildings in an aggregate amount of HK\$258.2 million (31st December 2016: HK\$107.3 million), investment properties with a carrying amount of HK\$50.6 million (31st December 2016: Nil) to secure the banking facilities granted to the Group. The Group’s restricted bank deposit of approximately HK\$0.5 million (31st December 2016: HK\$0.5 million) were pledged to secure the performance bonds of the Group. The performance bonds issued by the Group to customers as security of contracts were approximately HK\$60.3 million as at 30th June 2017 (31st December 2016: HK\$62.6 million). The Group’s gearing ratio (total borrowings over total equity) was 62.4% as at 30th June 2017 (31st December 2016: 1.4%).

Material Acquisition

Reference is made to the announcements of the Company dated 19th December 2016 and 7th April 2017 and the circular of the Company dated 6th March 2017, respectively, in relation to, among other matters, the acquisition of Grid Dynamics. On 19th December 2016, the Board announced that the Company and Grid Dynamics entered into an agreement and plan of merger (the “Merger Agreement”). The Company agreed to acquire Grid Dynamics with a total cash consideration of up to approximately US\$118.0 million (equivalent to approximately HK\$916.8 million) by the way of merger, which is subject to the terms and conditions set out in the Merger Agreement. On 7th April 2017, all the conditions to the closing of the Acquisition (the “Closing”) as set out in the Merger Agreement had been fulfilled and the Closing took place on the same date. Upon the Closing, Grid Dynamics has become an indirect wholly-owned subsidiary of the Company and the financial results, assets and liabilities of Grid Dynamics and its subsidiaries are consolidated into the consolidated financial statements of the Group with effect from 7th April 2017.

Fund Raising Activities

(i) Rights Issue

Reference is made to the announcements of the Company dated 12th January 2017 and 24th February 2017, respectively and the prospectus of the Company dated 3th February 2017, in relation to, among other matters, the issue of rights shares (the “Rights Shares”) of the Company (the “Rights Issue”). On 12th January 2017, the Board announced that the Company proposed to raise gross proceeds of approximately HK\$192.9 million to approximately HK\$193.2 million by issuing not less than 175,394,450 Rights Shares and not more than 175,652,950 Rights Shares at the subscription price of HK\$1.10 per Rights Share on the basis of one (1) Rights Share for every two (2) existing shares held on the record date (i.e. 27th January 2017). The Rights Issue was completed on 27th February 2017 and 175,394,450 Rights Shares were issued.

For the actual net proceeds of approximately HK\$189.1 million from the Rights Issue, approximately HK\$170.2 million has been used for financing the Acquisition and approximately HK\$18.9 million has been used for repaying bank borrowings and improving the liquidity for the operations of the Group in Hong Kong. The uses are consistent with the intended use of proceeds as disclosed in the prospectus of the Company dated 3rd February 2017.

(ii) Placing of Convertible Bonds

Reference is made to the announcements of the Company dated 12th January 2017, 23rd February 2017, 8th March 2017, 21st March 2017 and 8th June 2017 and the circular of the Company dated 24th February 2017 respectively, in relation to, among other matters, the placing (the “Placing”) of the convertible bonds (the “Convertible Bonds”). On 12th January 2017, the Company and GF Securities (Hong Kong) Brokerage Limited (the “Placing Agent”) entered into the placing agreement (the “Placing Agreement”). The Placing Agent has conditionally agreed to procure, on a best efforts basis, placee(s) to subscribe for the Convertible Bonds in an aggregate principal amount of up to HK\$350.0 million at the issue price equal to 100% of the principal amount of the Convertible Bonds due on the third anniversary of the date of issue at zero interest rate, with the conversion rights to convert the principal amount thereof into 291,666,666 conversion shares at the initial conversion price of HK\$1.20 per conversion share.

All conditions set out in the Placing Agreement have been fulfilled and the completion of the Placing took place on 21st March 2017 in accordance with the terms and conditions of the Placing Agreement. The Convertible Bonds with an aggregate principal amount of HK\$350.0 million, convertible into 291,666,666 conversion shares, have been successfully placed to two Placees, namely Viewforth Limited and China Fortune Rich Private Equity Fund Limited. The conversion price of the Convertible Bonds and the number of conversion shares falling to be allotted and issued upon conversion of the Convertible Bonds were adjusted to HK\$1.09 and 321,100,917 conversion shares respectively with effect from 30th May 2017 as a result of bonus issue of the Company approved at the annual general meeting of the Company held on 17th May 2017. During the reporting period, there was no conversion or redemption of the Convertible Bonds.

For the actual net proceeds of approximately HK\$345.9 million from the Placing of Convertible Bonds, approximately HK\$311.3 million has been used for financing the Acquisition and approximately HK\$34.6 million has been used for staff incentive and remuneration payment and improvement in the liquidity for the operations of the Group as enlarged upon completion of the Acquisition. The uses are consistent with the intended use of proceeds as disclosed in the circular of the Company dated 24th February 2017.

Treasury Policies

The Group generally financed its operations with internally generated resources and credit facilities provided by banks, as well as proceeds raised from issuance of bonds and equity financing exercise. Bank facilities available for the Group include trust receipt loans, clean import loans, overdrafts and term loans. The interest rates of most of them are fixed by reference to the respective countries’ Interbank Offer Rate. The bank deposits are mainly denominated in Hong Kong dollars (“HKD”) and United States dollars (“USD”). The bank borrowings are denominated in HKD.

Foreign Exchange Exposure

The Group mainly earns revenue and incurs costs in HKD and USD. Foreign exchange exposure to USD of the Group will continue to be minimal as long as the policy of the Government of the Hong Kong Special Administrative Region to link HKD to USD remains in effect. There was no material exposure to fluctuations in exchange rates and therefore no related hedging financial instrument was applied during the six months ended 30th June 2017 (six months ended 30th June 2016: same).

Contingent Liabilities

As at 30th June 2017, the Group had HK\$0.5 million restricted bank deposit held as security for performance bonds (31st December 2016: HK\$0.5 million). As at 30th June 2017, performance bonds of approximately HK\$60.3 million (31st December 2016: HK\$62.6 million) had been issued by the bank on behalf of the Group to customers as security of contracts.

For the six months ended 30th June 2017, an additional provision for customers' claim of HK\$3.6 million (six months ended 30th June 2016: HK\$6.3 million) was recognised in profit or loss within other loss, net for disputes arising in the ordinary course of business. The Directors are of the opinion that adequate provisions have been made in the condensed consolidated interim financial information during the period under review.

Capital Commitments

As at 30th June 2017, the Group had contracted capital commitment of approximately HK\$47,000 (31st December 2016: HK\$132,000).

Employee and Remuneration Policies

As at 30th June 2017, the Group, excluding its associates, employed 2,062 permanent and contract staff in Hong Kong, Mainland China, Taiwan, Macau, Thailand, the United States, Russia, Poland and Ukraine. The Group remunerates its employees based on their performance, working experience and the prevailing market conditions. Bonuses are granted on a discretionary basis. Other employee benefits include mandatory provident fund, insurance, medical coverage and share options scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30th June 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, risk management and internal control systems and financial reporting matters including the review of the unaudited interim results.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the six months ended 30th June 2017, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

CORPORATE GOVERNANCE

The Company has complied with the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules throughout the accounting period for the six months ended 30th June 2017, except as noted below:

With respect to Code provision A.6.7, all Non-Executive Directors and Independent Non-Executive Directors did not attend the special general meeting of the Company held on 13th March 2017 due to other commitments; and one Non-Executive Director and one Independent Non-Executive Director did not attend the special general meeting of the Company held on 22nd March 2017 due to other commitments.

By Order of the Board
Automated Systems Holdings Limited
Wang Yueou
Executive Director and Chief Executive Officer

Hong Kong, 24th August 2017

As at the date of this announcement, the Board comprises Mr. Wang Weihang and Mr. Wang Yueou being Executive Directors; Mr. Li Wei and Mr. Cui Yong being Non-Executive Directors; and Mr. Pan Xinrong, Mr. Deng Jianxin and Ms. Or Siu Ching, Rerina being Independent Non-Executive Directors.