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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 2019

RESULTS

The Board of Directors (the “Board”) of Automated Systems Holdings Limited (the “Company”) are pleased to announce the unaudited results of the Company and its subsidiaries (the “Group” or “ASL”) for the six months ended 30th June 2019. The 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 | |
|---|-------|--|------------------|
| | Notes | 2019 HK\$'000 | 2018 HK\$'000 |
| Revenue | 3 | 1,353,047 | 1,120,074 |
| Cost of goods sold | | (442,859) | (349,543) |
| Cost of services rendered | | (639,440) | (538,274) |
| Other income | 4 | 3,656 | 4,754 |
| Other (loss)/gain, net | 5 | (4,883) | 463 |
| Selling expenses | | (75,326) | (54,431) |
| Administrative expenses | | (111,688) | (93,774) |
| Finance income | 6 | 87 | 149 |
| Finance costs | | (13,867) | (11,038) |
| Share of results of associates | | (6,185) | (2,439) |
| Profit before income tax | 7 | 62,542 | 75,941 |
| Income tax expense | 8 | (18,964) | (24,455) |
| Profit for the period | | 43,578 | 51,486 |
| Profit for the period attributable to: | | | |
| Equity holders of the Company | | 41,398 | 51,486 |
| Non-controlling interests | | 2,180 | - |
| | | 43,578 | 51,486 |

Condensed Consolidated Statement of Profit or Loss (Continued)

| | | Unaudited | |
|--|----|-------------------------|-----------------|
| | | Six months ended | |
| | | 30th June | |
| | | 2019 | 2018 |
| | | <i>HK cents</i> | <i>HK cents</i> |
| Earnings per share attributable to equity holders of the Company: | 10 | | |
| Basic | | 5.14 | 6.40 |
| Diluted | | <u>4.42</u> | <u>5.31</u> |

Condensed Consolidated Statement of Comprehensive Income

| | | Unaudited | |
|--|--|-------------------------|-----------------|
| | | Six months ended | |
| | | 30th June | |
| | | 2019 | 2018 |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit for the period | | 43,578 | 51,486 |
| Other comprehensive income that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of overseas operations | | 1,487 | (523) |
| Share of other comprehensive income/(loss) of associates | | <u>96</u> | <u>(164)</u> |
| Total comprehensive income for the period | | <u>45,161</u> | <u>50,799</u> |
| Total comprehensive income attributable to: | | | |
| Equity holders of the Company | | 42,805 | 50,799 |
| Non-controlling interests | | <u>2,356</u> | <u>-</u> |
| | | <u>45,161</u> | <u>50,799</u> |

Condensed Consolidated Statement of Financial Position

| | | Unaudited 30th June 2019 <i>HK\$'000</i> | Audited 31st December 2018 <i>HK\$'000</i> |
|---|--------------|---|---|
| | <i>Notes</i> | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 11 | 307,414 | 304,495 |
| Investment properties | 12 | 54,000 | 54,000 |
| Intangible assets | | 115,338 | 118,053 |
| Goodwill | | 769,376 | 771,173 |
| Interests in associates | | 21,797 | 27,662 |
| Equity investment | | 598 | 598 |
| Finance lease receivables | | 973 | 1,128 |
| Deferred income tax assets | | 5,232 | 5,384 |
| | | 1,274,728 | 1,282,493 |
| CURRENT ASSETS | | | |
| Inventories | | 189,630 | 178,595 |
| Trade receivables | 13 | 222,439 | 315,007 |
| Finance lease receivables | | 2,798 | 3,346 |
| Other receivables, deposits and prepayments | 14 | 47,448 | 44,596 |
| Contract assets | | 286,859 | 260,462 |
| Tax recoverable | | 4,734 | 3,588 |
| Restricted bank deposits | 15 | 756 | 762 |
| Bank balances and cash | | 504,928 | 292,183 |
| | | 1,259,592 | 1,098,539 |
| TOTAL ASSETS | | 2,534,320 | 2,381,032 |

Condensed Consolidated Statement of Financial Position (Continued)

| | | Unaudited 30th June 2019 HK\$'000 | Audited 31st December 2018 HK\$'000 |
|---|--------------|--|--|
| | <i>Notes</i> | | |
| EQUITY | | | |
| Share capital | | 80,522 | 80,522 |
| Share premium | | 377,146 | 377,146 |
| Reserves | | 851,000 | 755,209 |
| Equity attributable to equity holders of the Company | | 1,308,668 | 1,212,877 |
| Non-controlling interests | | 42,649 | - |
| TOTAL EQUITY | | 1,351,317 | 1,212,877 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 18 | - | 257,425 |
| Deferred income tax liabilities | | 76,213 | 76,420 |
| Lease liabilities | | 3,176 | - |
| | | 79,389 | 333,845 |
| CURRENT LIABILITIES | | | |
| Trade payables | 16 | 227,573 | 258,940 |
| Other payables and accruals | 17 | 137,115 | 139,415 |
| Contingent consideration payable | | - | 69,565 |
| Receipts in advance | | 166,096 | 132,017 |
| Current income tax liabilities | | 19,227 | 10,083 |
| Borrowings | 18 | 477,272 | 224,290 |
| Financial liabilities at fair value through profit or loss | 19 | 72,565 | - |
| Lease liabilities | | 3,766 | - |
| | | 1,103,614 | 834,310 |
| TOTAL LIABILITIES | | 1,183,003 | 1,168,155 |
| TOTAL EQUITY AND LIABILITIES | | 2,534,320 | 2,381,032 |
| NET CURRENT ASSETS | | 155,978 | 264,229 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,430,706 | 1,546,722 |

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of Preparation

The interim financial information for the six months ended 30th June 2019 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 interim financial information should be read in conjunction with the consolidated financial statements of the Group for the year ended 31st December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2. Significant Accounting Policies

(i) New or amended HKFRSs

The interim financial information for the six months ended 30th June 2019 have been prepared in accordance with the accounting policies adopted in the consolidated financial statements for the year ended 31st December 2018, except for the adoption of the following new or amended HKFRSs that are firstly effective for the period beginning on 1st January 2019. The Group has not early adopted any other standards, interpretation or amendment that has been issued but are not yet effective.

| | |
|-----------------------|---|
| HKFRS 16 | <i>Leases</i> |
| Amendments to HKFRS 9 | <i>Prepayment Features with Negative Compensation</i> |
| Amendments to HKAS 19 | <i>Plan Amendment, Curtailment or Settlement</i> |
| Amendments to HKAS 28 | <i>Long-term Interests in Associates and Joint Ventures</i> |
| Amendments to HKFRSs | <i>Annual Improvements to HKFRSs 2015-2017 Cycle</i> |
| HK(IFRIC) – Int 23 | <i>Uncertainty over Income Tax Treatments</i> |

The adoption of these newly effective new or 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, except for the effects of the adoption of HKFRS 16 as stated in Note 2(ii). The accounting policies for financial liabilities at fair value through profit or loss (“FVTPL”) and business combination are stated in Note 2(iii) and Note 2(iv), respectively.

(ii) HKFRS 16 “Leases”

HKFRS 16 “Leases” replaces HKAS 17 “Leases” along with three Interpretations (HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease”, HK(SIC)-Int 15 “Operating Leases - Incentives” and HK(SIC)-Int 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”). HKFRS 16 has been applied using the modified retrospective approach, with the cumulative effect of adopting HKFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from HKAS 17 and HK(IFRIC)-Int 4 and has not applied HKFRS 16 to arrangements that were previously not identified as lease under HKAS 17 and HK(IFRIC)-Int 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use assets for operating leases in existence at the date of initial application of HKFRS 16, being 1st January 2019. At this date, the Group has also elected to measure the right-of-use assets as if HKFRS 16 had been applied since the lease commencement date by using the incremental borrowing rate at the date of initial application.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of HKFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to HKFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under HKFRS 16 was 5.1%.

2. Significant Accounting Policies (Continued)

(ii) HKFRS 16 “Leases” (Continued)

The Group has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

The following is a reconciliation of total operating lease commitments at 31st December 2018 to the lease liabilities recognised at 1st January 2019:

| | HK\$'000 (Unaudited) |
|---|---------------------------------------|
| Total operating lease commitments disclosed at 31st December 2018 | 22,020 |
| Recognition exemptions: | |
| -Leases with remaining lease term of less than 12 months | (16,171) |
| Operating leases liabilities before discounting | 5,849 |
| Discounting using incremental borrowing rate as at 1st January 2019 | (284) |
| Operating lease liabilities recognised under HKFRS 16 at 1st January 2019 | <u>5,565</u> |

The following table summarises the impact of transition to HKFRS 16 on the Group's condensed consolidated statement of financial position at 1st January 2019:

| | HK\$'000 (Unaudited) |
|--|---------------------------------------|
| Increase in right-of-use assets presented in property, plant and equipment | 5,466 |
| Increase in lease liabilities | 5,565 |
| Decrease in retained earnings | <u>(99)</u> |

The adoption of HKFRS 16 result in change in accounting policy of leases as follows:

(a) The Group as a lessee

Applicable from 1st January 2019

For any new contracts entered into on or after 1st January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration’.

To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contracts contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use.

The Group assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

For leases of office premises, staff quarter and computer equipment in which the Group is a lessee, the Group elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

2. Significant Accounting Policies (Continued)

(ii) HKFRS 16 “Leases” (Continued)

(a) The Group as a lessee (Continued)

Applicable from 1st January 2019 (Continued)

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the condensed consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease term. The Group also assesses the right-of-use assets for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group’s incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 months or less.

On the condensed consolidated statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been presented separately.

Applicable before 1st January 2019

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon, at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

2. Significant Accounting Policies (Continued)

(ii) HKFRS 16 “Leases” (Continued)

(a) The Group as a lessee (Continued)

Applicable before 1st January 2019 (Continued)

Operating leases

Where the Group has the right-to-use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(b) The Group as a lessor

As a lessor, the Group classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

The Group also earns rental income from operating leases of its investment properties. Rental income is recognised on a straight-line basis over the term of the lease.

(iii) Financial liabilities at FVTPL

Convertible preferred shares

Convertible preferred shares issued by a subsidiary of the Company are designated as financial liabilities at FVTPL on initial recognition. The conversion option allows the holder to convert the preferred shares into ordinary shares and will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the subsidiary's own equity instruments, and therefore it does not meet the equity classification. At the end of each reporting period, subsequent to initial recognition, the entire convertible preferred shares are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

Transaction costs that relate to the issuance of the convertible preferred shares designated as financial liabilities at FVTPL are charged to profit or loss immediately.

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 FVTPL. Gains or losses arising from changes in fair value are taken directly to profit or loss.

(iv) Business combination

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the condensed consolidated statement of financial position within equity, separately from equity attributable to the equity holders of the Company. Non-controlling interests in the results of the Group are presented on the face of the condensed consolidated statement of profit or loss and condensed consolidated statement of comprehensive income as an allocation of the profit or loss and total comprehensive income for the period between non-controlling interests and the equity holders of the Company.

3. Revenue and Segment Information

The Group's revenue is analysed as follows:

| | Unaudited Six months ended 30th June | |
|--------------------------------|---|-----------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Sales of goods | 501,745 | 406,516 |
| Revenue from service contracts | 851,302 | 713,558 |
| | 1,353,047 | 1,120,074 |

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.

The Group is currently organised into two (six months ended 30th June 2018: 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.

(a) Segment accounting policies

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)/gain, net, unallocated depreciation for property, plant and equipment that are used for all segments, 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, tax recoverable, restricted bank deposit, bank balances and cash and unallocated corporate assets (mainly include property, plant and equipment and investment properties that are used by all segments, prepayments, deposits, other receivables and equity investment).

Reportable segment liabilities exclude current income tax liabilities, deferred income tax liabilities and unallocated corporate liabilities, mainly include lease liabilities, accrued charges of the head office, borrowings and contingent consideration payable.

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 2019

| | IT Products | IT Services | Total |
|--|--------------------|--------------------|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue from external customers | 501,745 | 851,302 | 1,353,047 |
| Intersegment revenue | 4,819 | 12,487 | 17,306 |
| Segment revenue | 506,564 | 863,789 | 1,370,353 |
| Reportable segment profit | 38,909 | 157,211 | 196,120 |
| Segment depreciation | 1,241 | 8,575 | 9,816 |
| Segment amortisation | - | 7,513 | 7,513 |
| Additions to property, plant and equipment | 3 | 7,047 | 7,050 |
| Additions to intangible assets | - | 5,026 | 5,026 |

3. Revenue and Segment Information (Continued)

(a) Segment accounting policies (Continued)

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

Unaudited

Six months ended 30th June 2018

| | <u>IT Products</u> <i>HK\$'000</i> | <u>IT Services</u> <i>HK\$'000</i> | <u>Total</u> <i>HK\$'000</i> |
|--|---------------------------------------|---------------------------------------|---------------------------------|
| Revenue from external customers | 406,516 | 713,558 | 1,120,074 |
| Intersegment revenue | 543 | 16,289 | 16,832 |
| Segment revenue | 407,059 | 729,847 | 1,136,906 |
| Reportable segment profit | 39,386 | 138,620 | 178,006 |
| Segment depreciation | 1,145 | 6,865 | 8,010 |
| Segment amortisation | - | 4,998 | 4,998 |
| Additions to property, plant and equipment | 19 | 6,589 | 6,608 |
| Additions to intangible assets | - | 4,262 | 4,262 |

Unaudited

As at 30th June 2019

| | <u>IT Products</u> <i>HK\$'000</i> | <u>IT Services</u> <i>HK\$'000</i> | <u>Total</u> <i>HK\$'000</i> |
|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------|
| Reportable segment assets | 254,466 | 1,388,998 | 1,643,464 |
| Reportable segment liabilities | 262,265 | 247,483 | 509,748 |

Audited

As at 31st December 2018

| | <u>IT Products</u> <i>HK\$'000</i> | <u>IT Services</u> <i>HK\$'000</i> | <u>Total</u> <i>HK\$'000</i> |
|--------------------------------|---------------------------------------|---------------------------------------|---------------------------------|
| Reportable segment assets | 323,664 | 1,372,065 | 1,695,729 |
| Reportable segment liabilities | 263,940 | 204,845 | 468,785 |

(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 and total assets and total liabilities of the Group as follows:

Revenue

| | Unaudited Six months ended 30th June | |
|--|---|--------------------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Reportable segment revenue | 1,370,353 | 1,136,906 |
| Elimination of intersegment revenue | (17,306) | (16,832) |
| Revenue per condensed consolidated statement of profit or loss | 1,353,047 | 1,120,074 |

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

3. Revenue and Segment Information (Continued)

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

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

| Profit or loss | Unaudited | |
|---|-------------------------|----------------------|
| | Six months ended | |
| | 30th June | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Reportable segment profit | 196,120 | 178,006 |
| Unallocated amounts: | | |
| Unallocated other income | 3,037 | 4,723 |
| Unallocated other (loss)/gain, net | (4,883) | 463 |
| Unallocated depreciation | (4,730) | (2,203) |
| Share of results of associates | (6,185) | (2,439) |
| Finance costs | (13,867) | (11,038) |
| Unallocated corporate expenses | (106,950) | (91,571) |
| | 196,120 | 178,006 |
| Profit before income tax per condensed consolidated statement of profit or loss | 62,542 | 75,941 |
| | 62,542 | 75,941 |
| Assets | Unaudited | Audited |
| | 30th June | 31st December |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Reportable segment assets | 1,643,464 | 1,695,729 |
| Unallocated assets: | | |
| Interests in associates | 21,797 | 27,662 |
| Deferred income tax assets | 5,232 | 5,384 |
| Tax recoverable | 4,734 | 3,588 |
| Restricted bank deposits | 756 | 762 |
| Bank balances and cash | 504,928 | 292,183 |
| Unallocated corporate assets | 353,409 | 355,724 |
| | 1,643,464 | 1,695,729 |
| Total assets per condensed consolidated statement of financial position | 2,534,320 | 2,381,032 |
| | 2,534,320 | 2,381,032 |
| Liabilities | Unaudited | Audited |
| | 30th June | 31st December |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Reportable segment liabilities | 509,748 | 468,785 |
| Unallocated liabilities: | | |
| Current income tax liabilities | 19,227 | 10,083 |
| Deferred income tax liabilities | 76,213 | 76,420 |
| Unallocated corporate liabilities | 577,815 | 612,867 |
| | 509,748 | 468,785 |
| Total liabilities per condensed consolidated statement of financial position | 1,183,003 | 1,168,155 |
| | 1,183,003 | 1,168,155 |

3. Revenue and Segment Information (Continued)

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

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 | |
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Hong Kong | 864,287 | 743,280 |
| United States of America ("US") | 430,251 | 326,954 |
| Mainland China | 1,969 | 3,729 |
| Macau | 12,951 | 15,774 |
| Taiwan | 10,092 | 7,492 |
| Thailand | 33,497 | 22,845 |
| | 1,353,047 | 1,120,074 |

| Place of domicile | Specified non-current assets | |
|-------------------|--------------------------------------|--|
| | Unaudited 30th June 2019 HK\$'000 | Audited 31st December 2018 HK\$'000 |
| Hong Kong | 342,543 | 342,060 |
| US | 877,713 | 885,091 |
| Russia | 10,226 | 10,417 |
| Ukraine | 6,497 | 5,331 |
| Poland | 6,713 | 3,808 |
| Singapore | 21,035 | 26,776 |
| Mainland China | 231 | 312 |
| Macau | 865 | 954 |
| Taiwan | 13 | 29 |
| Thailand | 732 | 124 |
| Serbia | 1,357 | 481 |
| | 1,267,925 | 1,275,383 |

4. Other Income

| | Unaudited Six months ended 30th June | |
|--|--|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Interest on bank deposits | 851 | 230 |
| Rental income from investment properties | 2,124 | 1,984 |
| Waiver of consideration payable | - | 2,355 |
| Others | 681 | 185 |
| | <u>3,656</u> | <u>4,754</u> |

5. Other (Loss)/Gain, Net

| | Unaudited Six months ended 30th June | |
|---|--|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Loss on disposal of property, plant and equipment | (5) | (23) |
| Fair value loss on contingent consideration payable | (921) | (1,989) |
| Exchange (loss)/gain, net | (3,957) | 2,475 |
| | <u>(4,883)</u> | <u>463</u> |

6. Finance Income

Finance income represents accretion of discount recognised upon initial recognition of finance lease receivables to their fair values.

7. Profit Before Income Tax

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

| | Unaudited Six months ended 30th June | |
|---|--|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Depreciation and amortisation: | | |
| Property, plant and equipment – owned assets | 12,183 | 10,213 |
| Property, plant and equipment – right-of-use assets | 2,363 | - |
| Intangible assets (included in cost of services rendered) | 7,513 | 4,998 |
| Loss allowance of trade receivables | 775 | 3,318 |
| Reversal of loss allowance of trade receivables | (1,658) | (289) |
| Staff costs | 529,919 | 436,879 |
| | <u>529,919</u> | <u>436,879</u> |

8. Income Tax Expense

| | Unaudited Six months ended 30th June | |
|--|--|----------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Current taxation: | | |
| Hong Kong profits tax | 7,734 | 9,030 |
| Overseas taxation | 9,477 | 16,261 |
| Under/(Over)-provision in respect of prior period: | | |
| Overseas taxation | 1,769 | (149) |
| | 18,980 | 25,142 |
| Deferred taxation: | | |
| Current period | (16) | (687) |
| Income tax expense | 18,964 | 24,455 |

On 21st March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rate regime. The Bill was signed into law on 28th March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying entities will be taxed at 8.25%, and the profits above HK\$2 million will be taxed at 16.5%. The profits of entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at 16.5%. For the period ended 30th June 2019, Hong Kong profits tax of a subsidiary of the Company is calculated in accordance with the two-tiered profits tax rates regime.

For the period ended 30th June 2018, Hong Kong Profits Tax was calculated at a flat rate of 16.5% of the estimated assessable profit for the period.

9. Dividends

| | Unaudited Six months ended 30th June | |
|--|--|----------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Dividend approved and paid during the period: | | |
| Final dividend in respect of the year ended 31st December 2017 of 1.0 HK cent per share | - | 6,707 |

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June 2019 (six months ended 30th June 2018: Nil).

10. Earnings Per Share attributable to Equity Holders of the Company

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 | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Profit attributable to equity holders of the Company for the purpose of basic earnings per share | 41,398 | 51,486 |
| Effect of dilutive potential ordinary shares | | |
| - Interest on convertible bonds (Note (iii)) | 6,296 | 5,996 |
| Profit attributable to equity holders of the Company for the purpose of diluted earnings per share | <u>47,694</u> | <u>57,482</u> |
| | | |
| | Number of shares | |
| | 2019 | 2018 |
| | '000 | '000 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share (Note (i)) | 805,224 | 804,727 |
| Effect of dilutive potential ordinary shares | | |
| - Share options (Note (ii)) | 258 | 2,156 |
| - Convertible bonds (Note (iii)) | 274,725 | 274,725 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | <u>1,080,207</u> | <u>1,081,608</u> |

Notes:

(i) The 805,224,000 ordinary shares are derived from the weighted average number of ordinary shares in issue during the six months ended 30th June 2019.

The 804,727,000 ordinary shares are derived from the weighted average number of ordinary shares in issue during the six months ended 30th June 2018 after taking into account the effect of bonus issue being completed during the six months ended 30th June 2018.

(ii) The calculation of the diluted earnings per share for the six months ended 30th June 2019 assumed the exercise of the share options of the Company granted in March and May 2012 and in December 2017, but not on the share options granted in March and April 2017 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. The calculation of the diluted earnings per share for the six months ended 30th June 2018 assumed the exercise of the share options of the Company granted in March and May 2012 and in March, April and December 2017.

(iii) The calculation of the diluted earnings per share for the six months ended 30th June 2018 and 2019 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. The weighted average number of ordinary shares for the purpose of the diluted earnings per share for the six months ended 30th June 2018 and 2019 have taken into account the weighted average number of ordinary shares assumed to have been issued on the deemed conversion of the convertible bonds into ordinary shares for the period.

(iv) The dilutive effect of the share options and the convertible preferred shares granted by the Company's subsidiary was insignificant during the six months ended 30th June 2019.

11. Property, Plant and Equipment

During the six months ended 30th June 2019, the additions of property, plant and equipment, mainly for computer and office equipment, furniture and fixtures and right-of-use assets, was approximately HK\$17,536,000 (six months ended 30th June 2018: HK\$7,265,000). Additions of right-of-use assets of approximately HK\$9,206,000 during the six months ended 30th June 2019 mainly included office premises.

During the six months ended 30th June 2019, the Group disposed of certain property, plant and equipment at the carrying amount of approximately HK\$6,000 (six months ended 30th June 2018: HK\$73,000), resulting in a loss on disposal of approximately HK\$5,000 (six months ended 30th June 2018: HK\$23,000).

The Group's land and buildings were stated at valuations made at 31st December 2018 less depreciation. The land and buildings were last revalued by an independent professional valuer at 31st December 2018 on market value basis which was determined by reference to market evidence of recent transactions for similar properties. As at 30th June 2019, 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 2019, if the land and buildings had not been revalued, they would have been included in the interim financial information at historical cost, less accumulated depreciation and amortisation with carrying amount of approximately HK\$37,002,000 (31st December 2018: HK\$38,034,000).

11. Property, Plant and Equipment (Continued)

As at 30th June 2019, the Group had pledged land and buildings with carrying amount of approximately HK\$162,695,000 (31st December 2018: HK\$165,600,000) to secure Group's bank borrowings.

12. Investment Properties

The investment properties of the Group were last revalued at 31st December 2018 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 2019, 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 2019, the Group had pledged investment properties with carrying amount of HK\$54,000,000 (31st December 2018: HK\$54,000,000) to secure the Group's bank borrowing.

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 2019 HK\$'000 | Audited 31st December 2018 HK\$'000 |
|---------------------------|--|--|
| Trade receivables – gross | 230,965 | 324,424 |
| Less: loss allowance | (8,526) | (9,417) |
| Trade receivables – net | <u>222,439</u> | <u>315,007</u> |

An ageing analysis of the gross trade receivables as at the reporting date, based on the invoice dates, is as follows:

| | Unaudited 30th June 2019 HK\$'000 | Audited 31st December 2018 HK\$'000 |
|--------------|--|--|
| 0 - 30 days | 84,436 | 149,555 |
| 31 - 60 days | 83,660 | 96,852 |
| 61 - 90 days | 18,293 | 37,137 |
| Over 90 days | 44,576 | 40,880 |
| | <u>230,965</u> | <u>324,424</u> |

14. Other Receivables, Deposits and Prepayments

| | Unaudited 30th June 2019 HK\$'000 | Audited 31st December 2018 HK\$'000 |
|---|--|--|
| Other receivables | 5,498 | 4,258 |
| Deposits | 5,236 | 6,106 |
| Prepayments | 36,067 | 27,751 |
| Amount due from ultimate holding company | 832 | 832 |
| Amount due from immediate holding company | 462 | 1,072 |
| Amount due from an associate | 185 | 5,409 |
| Other receivables, deposits and prepayments – gross | 48,280 | 45,428 |
| Less: loss allowance | (832) | (832) |
| Other receivables, deposits and prepayments – net | <u>47,448</u> | <u>44,596</u> |

15. Restricted Bank Deposits

As at 30th June 2019, the Group has restricted bank deposit of approximately HK\$756,000 (31st December 2018: HK\$762,000) pledged to secure the performance bonds of the Group.

16. Trade Payables

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

| | Unaudited 30th June 2019 HK\$'000 | Audited 31st December 2018 HK\$'000 |
|----------------|--|--|
| Current | 153,538 | 185,967 |
| Within 30 days | 49,891 | 46,729 |
| 31 - 60 days | 3,947 | 10,688 |
| 61 - 90 days | 6,702 | 3,248 |
| Over 90 days | 13,495 | 12,308 |
| | 227,573 | 258,940 |

17. Other Payables and Accruals

| | Unaudited 30th June 2019 HK\$'000 | Audited 31st December 2018 HK\$'000 |
|--|--|--|
| Other payables | 11,503 | 17,997 |
| Accruals | 124,356 | 119,728 |
| Amount due to ultimate holding company | 1,206 | 1,208 |
| Amounts due to associates | 50 | 482 |
| | 137,115 | 139,415 |

18. Borrowings

| | Unaudited 30th June 2019 HK\$'000 | Audited 31st December 2018 HK\$'000 |
|-------------------------------------|--|--|
| Current | | |
| Bank borrowings, secured (Note (i)) | 213,551 | 224,290 |
| Convertible bonds (Note (ii)) | 263,721 | - |
| | 477,272 | 224,290 |
| Non-current | | |
| Convertible bonds (Note (ii)) | - | 257,425 |
| | 477,272 | 481,715 |

18. Borrowings (Continued)

Notes:

(i) Bank borrowings

The Group's bank borrowings are repayable as follows:

| | Unaudited | Audited |
|------------------------------|------------------|---------------|
| | 30th June | 31st December |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Within one year or on demand | 213,551 | 224,290 |

As at 31st December 2018, bank borrowings of approximately HK\$224,290,000 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 Hong Kong dollars ("HKD") with an effective interest rate of 4.68%.

During the six months ended 30th June 2019, the Group entered into a revised banking facilities with the bank in which the repayment terms of the outstanding balances of bank borrowings immediately before the modification was changed to repayable by 60 equal monthly instalments commencing from 29th March 2019 to 28th March 2024. As a result, a modification loss of approximately HK\$2,547,000 was recognised and included in finance costs. As at 30th June 2019, the bank borrowings bears interest at floating interest rate and are denominated in HKD with an effective interest rate of 4.82% per annum.

As at 30th June 2019, the bank borrowings are secured by the followings:

- (1) the legal charges over the Group's land and buildings with carrying amount of approximately HK\$162,695,000 (31st December 2018: HK\$165,600,000);
- (2) the legal charges over the Group's investment properties with carrying amount of HK\$54,000,000 (31st December 2018: HK\$54,000,000);
- (3) the guarantee given by the Company and certain subsidiaries of the Group up to a limit of HK\$250,000,000 (31st December 2018: HK\$250,000,000);
- (4) assignment of rental and sales proceeds from the Group's land and buildings and investment properties;
- (5) assignment of insurance of all insurance policies (other than third party liabilities and public liabilities) over the Group's land and buildings and investment properties.

The banking facilities of term loan is subject to the fulfillment of certain financial and non-financial covenants relating to certain subsidiaries of the Group, which 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 2019 and 31st December 2018.

18. Borrowings (Continued)

Notes: (Continued)

(ii) Convertible bonds

On 21st March 2017, the Company 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 Convertible Shares and the conversion price per share have been adjusted to 321,100,917 shares and HK\$1.09 per share.

On 25th August 2017, one of the bondholders, exercised the conversion rights attaching to the Convertible Bonds in the principal amount of HK\$100,000,000 at conversion price of HK\$1.09 per share. A total of 91,743,119 ordinary shares were allotted and issued to the bondholder and the aggregate outstanding principal amount of the Convertible Bonds has been reduced to HK\$250,000,000.

As a result of the bonus issue on 8th June 2018, the number of Convertible Shares and conversion price has been further adjusted from 229,357,798 shares with conversion price of HK\$1.09 per share to 274,725,274 shares with conversion price of HK\$0.91 per share.

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.

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 2019, the Convertible Bonds contains two components i.e. liability and equity.

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

| | <i>HK\$'000</i> (Unaudited) |
|--------------------------|--------------------------------|
| At 1st January 2019 | 257,425 |
| Imputed interest expense | <u>6,296</u> |
| At 30th June 2019 | <u>263,721</u> |

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 2019, there was no conversion or redemption of the Convertible Bonds.

19. Financial liabilities at FVTPL

| | Unaudited 30th June 2019 <i>HK\$'000</i> | Audited 31st December 2018 <i>HK\$'000</i> |
|--|---|---|
| Current | | |
| Convertible preferred shares and related put option (Note (i)) | 66,732 | - |
| Put option liability (Note (ii)) | <u>5,833</u> | - |
| | <u>72,565</u> | <u>-</u> |

Notes:

(i) Convertible preferred shares and related put option

On 6th May 2019, Grid Dynamics International, Inc. (“GDI”), a subsidiary of the Company incorporated in the US, entered into a subscription agreement with BGV Opportunity Fund LP (“BGV”), a connected person of the Company at subsidiary level, whereby GDI agreed to allot and issued 622,027 common stock (the “Common Shares”) and 622,027 Series A preferred stock (the “Convertible Preferred Shares”) (collectively, the “Securities”) at a total consideration of United States dollar (“USD”) 15,000,000 (the “Subscription”). The Subscription was completed on 15th May 2019 (the “Date of Initial Completion”).

The significant terms of the Convertible Preferred Shares are as follows:

Voting rights

Holders of Convertible Preferred Shares shall have the right to vote at any general meeting of GDI on an as-converted basis, and not as a separate class, except as required by law.

19. Financial liabilities at FVTPL (Continued)

Notes (Continued):

(i) Convertible preferred shares and related put option (Continued)

Dividend

Holders of Convertible Preferred Shares shall be entitled to payment of dividends on an as-converted basis as and when dividends are paid on Common Shares. Such right to dividends shall not be cumulative and no right to dividend shall accrue by reason that no dividend was declared during a particular period, nor shall any undeclared or unpaid dividend bear or accrue interest.

Liquidation preference

In the event of any liquidation, dissolution or winding up of GDI, each Convertible Preferred Shares shall be entitled to USD24.1147 plus declared and unpaid dividends (or, if greater, the amount that the Convertible Preferred Shares would receive on an as-converted basis). The balance of any proceeds shall be distributed pro rata to holders of Common Shares.

Conversion option

Holders of Convertible Preferred Shares shall have the option to convert Convertible Preferred Shares to GDI ordinary shares at an initial conversion price of USD14.8647 per share, subject to adjustments for stock issuances, splits, combinations, dividends, distributions, merger and reorganisation and similar events. Also subject certain events, each of Convertible Preferred Shares shall be automatically converted into GDI ordinary shares at applicable conversion ratio and conversion price.

Put option on Convertible Preferred Shares granted by the Company (“Put Option on CPS”)

In connection with the Subscription, the Company, being the largest shareholder of GDI, granted a Put Option on CPS to BGV on the Date of Initial Completion. In the event the Board resolves not to proceed with an initial public offering of shares in GDI on a stock exchange in the US (“IPO”) within three years from the Date of Initial Completion (except for non-fulfilment of applicable requirements for listing on the part of GDI or reasons beyond the control of the Company), the BGV shall have the right to require, within 60 days of such board resolution, the Company to purchase all or part of the Convertible Preferred Shares then held by BGV at an amount equal to the original subscription price plus an annual return of 20% (simple interest). The consideration payable upon exercise of the Put Option on CPS was determined after arm’s length negotiation between the parties having considered the historical growth rate of GDI. The Put Option on CPS shall terminate at the earlier of the closing of the IPO of GDI and the third anniversary of the date of grant of the Put Option on CPS.

(ii) Put option on Common Shares granted by the Company (“Put Option on CS”)

In connection with the Subscription, the Company granted a Put Option on CS to BGV on the Date of Initial Completion. In the event the Board resolves not to proceed with an initial public offering of shares in GDI on a stock exchange in the US within three years from the Date of Initial Completion (except for non-fulfilment of applicable requirements for listing on the part of GDI or reasons beyond the control of the Company), the BGV shall have the right to require, within 60 days of such board resolution, the Company to purchase all or part of the Common Shares then held by BGV at an amount equal to the original subscription price plus an annual return of 20% (simple interest). The consideration payable upon exercise of the Put Option on CS was determined after arm’s length negotiation between the parties having considered the historical growth rate of GDI. The Put Option on CS shall terminate at the earlier of the closing of the IPO of GDI and the third anniversary of the date of grant of the Put Option on CS.

Details of the issuance of Securities were set out in the announcements of the Company dated 6th May 2019 and 17th May 2019.

The Convertible Preferred Shares is designated as financial liabilities at FVTPL and the Put Option is measured at FVTPL on initial recognition and are measured at fair value with changes in fair value recognised in profit or loss.

The Convertible Preferred Shares, the Put Option on CPS and the Put Option on CS were valued at fair value by the Company with reference to an independent valuation provided by an independent firm of professional valuers. On initial recognition, the fair value of convertible preferred shares and related put option and Put Option on CS amounted to approximately USD8,503,000 (equivalent to approximately HK\$66,732,000) and USD743,000 (equivalent to approximately HK\$5,833,000), respectively, and are estimated using the option-pricing model and equity allocation model.

Key valuation assumptions used to determine the fair value of Convertible Preferred Shares, Put Option on CPS and Put Option on CS on initial recognition are as follows:

| | |
|------------------------------|--------|
| - Volatility | 33.87% |
| - Risk free rate | 2.162% |
| - Probability of liquidation | 10% |
| - Probability of redemption | 10% |
| - Probability of conversion | 80% |

The Group determined the fair value of the Convertible Preferred Shares, Put Option on CPS and Put Option on CS at 30th June 2019 has no material difference with the fair value at initial recognition.

During the six months ended 30th June 2019, there was no conversion of the Convertible Preferred Shares and no redemption of the Securities.

20. Pledge of Assets

As at 30th June 2019, the Group's land and buildings with carrying amount of approximately HK\$162,695,000 (31st December 2018: HK\$165,600,000) and investment properties with carrying amount of HK\$54,000,000 (31st December 2018: HK\$54,000,000) were pledged to secure the Group's bank borrowings.

As at 30th June 2019, the Group's restricted bank deposit of approximately HK\$756,000 (31st December 2018: HK\$762,000) were pledged to secure the performance bonds of the Group.

21. Disposal of partial interest in a subsidiary

(a) Disposal of partial equity interest in GDI

During the six months ended 30th June 2019, GDD International Holdings Limited ("GDD"), a wholly owned-subsiidiary of the Group, disposed 342,500 and 82,936 common stock of equity interest in GDI to a director of GDI and a company controlled by a director of GDI at a consideration of USD2,055,000 (equivalent to approximately HK\$16,117,000) and USD1,000,000 (equivalent to approximately HK\$7,844,000), respectively.

(b) Issuance of Common Shares of GDI

During the six months ended 30th June 2019, GDI issued 622,027 Common Shares to BGV, which represents 4.93% of the enlarged issued share capital of GDI.

(c) Exercise of share options of GDI

During the six months ended 30th June 2019, an employee and a director of GDI exercised 60,000 and 150,000 share options of GDI, respectively, at an exercise price of USD7.54 per share and resulted in the issuance of 210,000 common stock of GDI, which represents 1.64% of the enlarged issued share capital of GDI.

Upon completion of the above transactions, the Group's shareholdings in GDI was diluted to 90.20% without losing control over GDI, accordingly the above transactions were accounted for as transactions with owner with an increase in non-controlling interests.

DIVIDEND

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June 2019 (six months ended 30th June 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30th June 2019, total revenue of the Group was HK\$1,353.0 million, representing a 20.8% increase from the corresponding period last year. Product sales was increased by 23.4% to HK\$501.7 million and service revenue was increased by 19.3% to HK\$851.3 million. In addition, product sales and service revenue contributed 37.1% and 62.9% to total revenue respectively, compared to 36.3% and 63.7% for the corresponding period last year.

For the six months ended 30th June 2019, commercial and public sector sales contributed 64.0% and 36.0% to total revenue respectively, compared to 62.7% and 37.3% for the corresponding period last year.

Gross profit for the six months ended 30th June 2019 was HK\$270.7 million, an increase of HK\$38.5 million or 16.6% compared with the same period last year. The increase in gross profit of the Group was attributed to the growth in overseas business and continuous enhancement of operational efficiency of local core businesses.

During the period under review, the Group recorded a profit attributable to the Company's equity holders of HK\$41.4 million, a decrease of 19.6% compared to last period of HK\$51.5 million. The decrease was mainly due to (i) the Group's increased spending in research and development, the transformation of commercial application capabilities, as well as the cross-sector cross-border expansion of its business in United States compared to corresponding period last year; (ii) equity-settled share-based payment expenses of approximately HK\$11.0 million was recognized during the period for share options granted by a subsidiary, Grid Dynamics International, Inc. ("Grid Dynamics"), on 12th November 2018 and for the six months ended 30th June 2019; and (iii) the Group's shareholdings in Grid Dynamics was diluted, which leads profit for the period of Grid Dynamics attributable to the Company's equity holders decreased.

For the six months ended 30th June 2019, orders newly secured by the Group amounted to approximately HK\$1,367.5 million. As at 30th June 2019, the Group's order book balance was approximately HK\$1,119.5 million. The Group's net cash stood at approximately HK\$504.9 million with a working capital ratio of 1.14:1. The Group maintained a healthy financial position. As at 30th June 2019, the outstanding borrowings amounted to HK\$477.3 million.

Business Review

In the first half of 2019, the Group's local and overseas core businesses achieved satisfactory growth. For the six months ended 30th June 2019, the revenue of the Group, gross profit of the Group and profit attributable to the Company's equity holders recorded HK\$1,353.0 million, HK\$270.7 million and HK\$41.4 million respectively, revenue and gross profit increased by 20.8% and 16.6% respectively when compared to the corresponding period last year. The Group's core businesses in Hong Kong, Macau, and Asia Pacific grew steadily with its revenue recorded an increase of 16.4% when compared to the corresponding period last year, and the gross profit margin was continuously improving, reflecting the fruitful results from the Group's ongoing implementation of technological upgrade and service transformation.

During the period, the Group continued to benefit from market demands for the software, hardware and related services of existing operational systems. In view of the prevailing trend of digital transformation and Cloud Computing, public and commercial organizations actively engage in the adoption of new technologies for the enhancement of service quality or improvement of operations. These new business opportunities provide momentum for the development of the Group, facilitating the rapid growth of the Group's new technology business, as well as creating new growth for businesses and bringing forth significant contributions to revenue and profits. The Group continued to focus on the upgrade and transformation of three core businesses: (1) Innovative Solutions, (2) Intelligent Cybersecurity and (3) Integrated Managed Services, in which it obtained numerous significant orders.

Innovative Solutions Business

This business segment delivered strong performance during the period, and the overall orders newly secured recorded a remarkable double-digit growth, including those orders obtained in Hong Kong, Macau, Asia Pacific together with Grid Dynamics International, Inc. ("Grid Dynamics", a US subsidiary of the Group), which accounted for over 50% of the overall orders newly secured of the Group. During the period, the Group captured the opportunities arising from the market's buoyant demand for new technologies such as Cloud Computing, artificial intelligence, Robotic Process Automation and Open API, and its trustworthiness among the customers gained the Group's first big data project in Asia which was jointly cooperated with a global information technology ("IT") vendor in the retail sector. Moreover, the Group utilized its all-round strengths in establishing and managing various Cloud platforms (public Cloud, hybrid Cloud and private Cloud), and successfully obtained large-scale Cloud-related landmark projects from two government departments. In addition, the Group actively promoted the new charging model - Software as a Service (SaaS), and successfully migrated the self-developed software product targeted for the real estate sector from the internal server operating environment (on premises) to a Cloud platform. The Group cooperated with Alibaba Cloud, the world's leading digital transformation expert, in May this year to launch new services to the market, and the Group also adopted the SaaS model to fulfil the needs of local and cross-border real-estate customers.

Intelligent Cybersecurity Business

This business segment achieved outstanding performance in obtaining orders newly secured with its growth doubled when compared to the corresponding period last year and recorded a double-digit proportion of the overall orders newly secured of the Group. The significant increase in proportion boded well for the future of the Group. Under the new financial cybersecurity regulations, the establishment of virtual banks and the government's concern over cybersecurity, the Group introduced artificial intelligence and Cloud security solutions and leveraged its advanced 7x24 Security Operation Center *Plus* (SOC+), thereby obtaining a security managed service project and a SOC+ order from the highly-regulated finance industry and a government department respectively. In addition, the Group also launched the A-Tips, an ASL Threat Intelligence Platform, for service improvement. Such platform integrated automation, big data analytics, global defence information and the Group's extensive experience in the industries, and provided customers with better security services in respect of threat prevention and defence.

Integrated Managed Services Business

This business segment achieved considerable progress during the year, which recorded an approximately double-digit growth, and accounted for over 30% of the overall orders newly secured of the Group. The Group continued to intensify its efforts to expand managed services, and it received an order from an existing real estate services organization for the provision of quality IT support services, governed by a Service Level Agreement (SLA), in Hong Kong and in its offices of over 10 cities in Mainland China. With its excellent services and the strong relationships established with its customers, the Group continues to be engaged as a services provider of personal computer support and related services under a 5-year contract for a statutory body. Moreover, the Group actively promoted and enhanced its managed services on applications and related orders have been obtained

successfully, including a tendering qualification of the long-term large-scale projects from a government organization.

Overseas Business

During the year, Grid Dynamics showed a robust growth, its revenue and gross profit recorded a remarkable increase of 31.7% and 28.2% respectively when compared to last year. With its professional competency and good reputation, Grid Dynamics continued to uphold its leading position in the industry during the period, and further expanded its customer base in its well-established financial, retail and technology industries. An overall increase of over 50% of orders newly secured led to a significant increase in the overall revenue.

Annual Marketing Event - ASL Solution Tour

During the first half of 2019, the Group launched the “ASL Solution Tour”. Targeting customers across Hong Kong, Taiwan and Mainland China as well as the Guangdong-Hong Kong-Macao Greater Bay Area, the tour served as an annual key promotion event of the Group and was held in Macau, Taiwan and Hong Kong respectively. Through this tour, the Group promoted the message of “Hong Kong Powerhouse, Global Delivery” to enhance its global brand image, and also promoted its one-stop, diversified and innovative IT services and solutions which can assist customers in the process of frontend-to-backend digital transformation. The tour has achieved an unprecedented success which brought together customers, partners and industry professionals from Hong Kong, Taiwan and Mainland China and the world’s leading IT suppliers.

Outlook and Prospects

Looking forward, the Group expects that the trends of digital transformation, Cloud Computing, Internet of Things and 5G will continue to stimulate strong demand of the market for new technologies. In light of the complexity of new technologies, customers may face challenges in mastering relevant technologies or in shortage of manpower. There is thus an increased demand for IT companies that possess IT capabilities in various fields, including the integration of traditional systems, the application of new technologies and the integration of products and platforms of different IT vendors as well. Apart from the above capabilities, in terms of Cloud Computing, the Group possesses professional consultancy teams as well as outstanding building and management abilities, by which it assists clients in migrating their applications to different types of Cloud platforms from various vendors to cope with relevant market demand, and with the strong support provided to the Group from numerous strategic IT vendors. It is believed that these are enormous potentials for the Group’s development, especially when further expanding its new technology business and facilitating the group for upgrading and transformation.

Meanwhile, the Group plans to invest resources worth tens of millions of Hong Kong dollars in the coming years on the enhancement of service platforms in omni-channel and Cloud services, aiming to increase its potential for sustainable development and to deepen the cooperation with its customers. The relevant plans are underway and are advancing actively.

In addition, for overseas business, the Group will continue to inject both internal resources and external investments to facilitate Grid Dynamics in its research and development of cutting-edge technology in areas including artificial intelligence and machine learning, the transformation of commercial application capabilities, as well as the cross-sector and cross-border expansion of its business.

In terms of risks and challenges, trade disputes have cast a shadow over the whole world. It is believed that the economic and trade instabilities will persist in the second half of the year, and enterprises have become more prudent about making large-scale investments in the IT field. The Group will closely monitor the impacts of such conditions have on the demand and supply of IT. Meanwhile, Hong Kong recently has undergone intensifying political disputes, and it is expected that budget approvals for IT, particularly approvals for large-scale projects, may possibly be postponed. Furthermore, the global business development of the Group is subject to apparent geopolitical influences.

Lastly, we will adhere to the principle of being proactively cautious, seeking suitable investment opportunities and broadening our market presence. We will persevere and strive to create values for our investors.

Financial Resources and Liquidity

As at 30th June 2019, the Group's total assets of HK\$2,543.3 million were financed by current liabilities of HK\$1,103.6 million, non-current liabilities of HK\$79.4 million and equity attributable to equity holders of the Company of HK\$1,308.7 million. The Group had a working capital ratio of approximately 1.14:1.

As at 30th June 2019, the Group had an aggregate composite banking facility from banks of approximately HK\$363.3 million (31st December 2018: HK\$388.1 million). The Group had pledged land and buildings in an aggregate amount of HK\$162.7 million (31st December 2018: HK\$165.6 million), investment properties with a carrying amount of HK\$54.0 million (31st December 2018: HK\$54.0 million) to secure Group's bank borrowings. The Group's restricted bank deposit of approximately HK\$0.8 million (31st December 2018: HK\$0.8 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\$81.8 million as at 30th June 2019 (31st December 2018: HK\$68.5 million). The Group's gearing ratio (total borrowings over total equity) was 35.3% as at 30th June 2019 (31st December 2018: 39.7%).

Material Acquisition

During the six months ended 30th June 2019, neither the Company nor any of its subsidiaries had material acquisition or disposal.

Treasury Policies

The Group generally financed its operations with internally generated resources and credit facilities provided by banks. 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 2019 (six months ended 30th June 2018: same).

Contingent Liabilities

As at 30th June 2019, the Group had HK\$0.8 million restricted bank deposit held as security for performance bonds (31st December 2018: HK\$0.8 million). As at 30th June 2019, performance bonds of approximately HK\$81.8 million (31st December 2018: HK\$68.5 million) had been issued by the bank on behalf of the Group to customers as security of contracts.

Capital Commitments

As at 30th June 2019, the Group had contracted capital commitment of approximately HK\$11.3 million (31st December 2018: HK\$11.5 million).

Employee and Remuneration Policies

As at 30th June 2019, the Group, excluding its associates, employed 2,378 permanent and contract staff in Hong Kong, Mainland China, Taiwan, Macau, Thailand, the United States, Russia, Poland, Ukraine and Serbia. 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 2019, 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 to 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 2019, 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 2019, except as noted below:

(a) with respect to Code provision A.6.7, two Non-Executive Directors were unable to attend the annual general meeting of the Company held on 22nd May 2019 (the “2019 AGM”) due to other commitments; and

(b) with respect to Code provision E.1.2, Mr. Li Wei, the former chairman of the Board, was unable to attend the 2019 AGM due to other commitments.

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

Hong Kong, 27th August 2019

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.