

AUTOMATED

A Member of the Teamsun Group

Automated Systems Holdings Limited

自動系統集團有限公司*

(Incorporated in Bermuda with Limited Liability)

Stock Code : 771

INTERIM REPORT

For the six months ended 30th June 2018



Empower



Secure



Manage

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* For identification purpose only

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

WANG Weihang
WANG Yueou (*Chief Executive Officer*)

NON-EXECUTIVE DIRECTORS

LI Wei (*Chairman*)
CUI Yong

INDEPENDENT NON-EXECUTIVE DIRECTORS

PAN Xinrong
DENG Jianxin
OR Siu Ching, Regina

AUDIT COMMITTEE

DENG Jianxin (*Chairman*)
LI Wei
PAN Xinrong
OR Siu Ching, Regina

REMUNERATION COMMITTEE

PAN Xinrong (*Chairman*)
LI Wei
OR Siu Ching, Regina

NOMINATION COMMITTEE

LI Wei (*Chairman*)
PAN Xinrong
DENG Jianxin

MANAGEMENT COMMITTEE

WANG Yueou (*Chairman*)
LI Wei
CUI Yong

INVESTMENT COMMITTEE

WANG Weihang (*Chairman*)
WANG Yueou
PAN Xinrong
DENG Jianxin

COMPANY SECRETARY

NGAN Wai Hing

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

SOLICITORS

Jones Day
Woo Kwan Lee & Lo
Appleby

AUDITOR

Grant Thornton Hong Kong Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Management (Bermuda) Limited
Canon's Court, 22 Victoria Street,
Hamilton HM 12, Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre,
183 Queen's Road East,
Hong Kong

SHARE LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 771

REGISTERED OFFICE

Canon's Court,
22 Victoria Street,
Hamilton HM 12, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

15th Floor, Topsail Plaza,
11 On Sum Street,
Shatin, New Territories,
Hong Kong

INDEPENDENT REVIEW REPORT



**TO THE BOARD OF DIRECTORS OF
AUTOMATED SYSTEMS HOLDINGS LIMITED**

(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 4 to 34, which comprises the condensed consolidated statement of financial position of Automated Systems Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as of 30th June 2018 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and other explanatory notes.

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12
28 Hennessy Road
Wanchai
Hong Kong

15th August 2018

Lam Yau Hing

Practising Certificate No.: P06622



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30th June 2018

	Notes	Unaudited Six months ended 30th June	
		2018 HK\$'000	2017 HK\$'000
Revenue	6	1,120,074	932,153
Cost of goods sold		(349,543)	(370,691)
Cost of services rendered		(538,274)	(411,819)
Other income	7	4,754	2,693
Other gain/(loss), net	8	463	(2,610)
Selling expenses		(54,431)	(44,512)
Administrative expenses		(93,774)	(63,119)
Finance income	9	149	187
Finance costs		(11,038)	(6,926)
Share of results of associates		(2,439)	(2,612)
Profit before income tax	10	75,941	32,744
Income tax expense	11	(24,455)	(14,698)
Profit for the period attributable to equity holders of the Company		51,486	18,046
		HK cents	HK cents (Restated)
Earnings per share	13		
Basic		6.40	2.86
Diluted		5.31	2.66

The notes on pages 11 to 34 form an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June 2018

	Unaudited	
	Six months ended 30th June	
	2018	2017
	HK\$'000	HK\$'000
Profit for the period	51,486	18,046
Other comprehensive income that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of overseas operations	(523)	4,209
Share of other comprehensive (loss)/income of associates	(164)	297
Total comprehensive income for the period attributable to equity holders of the Company	50,799	22,552

The notes on pages 11 to 34 form an integral part of this interim financial information.



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June 2018

	Notes	Unaudited 30th June 2018 HK\$'000	Audited 31st December 2017 HK\$'000
Non-current assets			
Property, plant and equipment	14	288,129	291,055
Investment properties	15	52,300	52,300
Intangible assets	16	119,044	119,323
Goodwill		772,674	769,499
Interests in associates		43,196	46,948
Equity investment		598	598
Finance lease receivables		2,010	3,325
Prepayments	18	-	340
Deferred income tax assets		4,181	4,017
		1,282,132	1,287,405
Current assets			
Inventories		147,554	128,081
Trade receivables	17	231,003	275,952
Finance lease receivables		3,214	3,592
Other receivables, deposits and prepayments	18	35,844	32,946
Contract assets		233,989	204,644
Tax recoverable		20,911	41,334
Restricted bank deposits	19	762	4,168
Bank balances and cash		294,288	286,771
		967,565	977,488
Total assets		2,249,697	2,264,893
Equity attributable to equity holders of the Company			
Share capital	23	80,481	67,054
Share premium		376,655	376,464
Reserves		686,753	654,300
Total equity		1,143,889	1,097,818

The notes on pages 11 to 34 form an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

As at 30th June 2018

	Notes	Unaudited 30th June 2018 HK\$'000	Audited 31st December 2017 HK\$'000
Non-current liabilities			
Borrowings	22	251,178	245,182
Contingent consideration payable		-	67,262
Deferred income tax liabilities		74,290	74,723
		325,468	387,167
Current liabilities			
Trade payables	20	177,386	175,802
Other payables and accruals	21	124,857	153,904
Contingent consideration payable		68,610	69,429
Receipts in advance		147,689	126,711
Current income tax liabilities		25,598	6,262
Borrowings	22	236,200	247,800
		780,340	779,908
Total liabilities		1,105,808	1,167,075
Total equity and liabilities		2,249,697	2,264,893
Net current assets		187,225	197,580
Total assets less current liabilities		1,469,357	1,484,985

The notes on pages 11 to 34 form an integral part of this interim financial information.



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2018

	Unaudited								
	Attributable to equity holders of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Special reserve (Note) HK\$'000	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Convertible bonds reserve HK\$'000	Share-based payment reserve HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
At 1st January 2017	35,079	114,497	34,350	205,580	(8,904)	-	126	338,305	719,033
Comprehensive income:									
Profit for the period	-	-	-	-	-	-	-	18,046	18,046
Other comprehensive income:									
Exchange differences on translation of overseas operations	-	-	-	-	4,209	-	-	-	4,209
Share of other comprehensive income of associates	-	-	-	-	297	-	-	-	297
Total comprehensive income for the period	-	-	-	-	4,506	-	-	18,046	22,552
Transaction with owners:									
Issue of ordinary shares on rights issue	17,539	171,579	-	-	-	-	-	-	189,118
Issue of ordinary shares on bonus issue	5,262	-	-	-	-	-	-	(5,262)	-
Recognition of equity-settled share-based payments	-	-	-	-	-	-	2,063	-	2,063
Equity component of convertible bonds (Note 22(ii))	-	-	-	-	-	15,536	-	-	15,536
Total transaction with owners	22,801	171,579	-	-	-	15,536	2,063	(5,262)	206,717
At 30th June 2017	57,880	286,076	34,350	205,580	(4,398)	15,536	2,189	351,089	948,302

The notes on pages 11 to 34 form an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Cont'd)

For the six months ended 30th June 2018

	Unaudited								
	Attributable to equity holders of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Special reserve (Note) HK\$'000	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Convertible bonds reserve HK\$'000	Share-based payment reserve HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
At 1st January 2018	67,054	376,464	34,350	220,657	(1,851)	11,097	4,425	385,622	1,097,818
Comprehensive income:									
Profit for the period	-	-	-	-	-	-	-	51,486	51,486
Other comprehensive income:									
Exchange differences on translation of overseas operations	-	-	-	-	(523)	-	-	-	(523)
Share of other comprehensive loss of associates	-	-	-	-	(164)	-	-	-	(164)
Total comprehensive income for the period	-	-	-	-	(687)	-	-	51,486	50,799
Transaction with owners:									
Issue of ordinary shares upon exercise of share options	13	191	-	-	-	-	(50)	-	154
Issue of ordinary shares on bonus issue (Note 23)	13,414	-	-	-	-	-	-	(13,414)	-
Forfeiture of unclaimed dividend	-	-	-	-	-	-	-	2	2
Recognition of equity-settled share-based payments	-	-	-	-	-	-	1,823	-	1,823
Lapse of share options transferred to retained earnings	-	-	-	-	-	-	(29)	29	-
Final dividend for the year ended 31st December 2017	-	-	-	-	-	-	-	(6,707)	(6,707)
Total transaction with owners	13,427	191	-	-	-	-	1,744	(20,090)	(4,728)
At 30th June 2018	80,481	376,655	34,350	220,657	(2,538)	11,097	6,169	417,018	1,143,889

Note: The special reserve of Automated Systems Holdings Limited (the "Company") and its subsidiaries (together, the "Group") represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1997.

The notes on pages 11 to 34 form an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June 2018

	Unaudited	
	Six months ended 30th June	
	2018	2017
	HK\$'000	HK\$'000
Operating activities		
Cash from operations	127,307	112,895
Hong Kong profits tax paid	(2,542)	(3,477)
Overseas tax refund/(paid)	17,312	(2,600)
Net cash from operating activities	142,077	106,818
Investing activities		
Cash outflow in respect of acquisition of subsidiaries	(101,272)	(762,948)
Transaction costs paid for acquisition of subsidiaries	-	(11,205)
Purchase of property, plant and equipment	(7,265)	(4,178)
Additions to intangible assets	(4,262)	-
Proceeds from disposal of property, plant and equipment	50	21
Interest received	230	26
Dividends received from an associate	485	484
Net cash used in investing activities	(112,034)	(777,800)
Financing activities		
Net proceeds from bank borrowings	-	246,546
Repayment of bank borrowings	(12,500)	-
Net increase in amount due to the ultimate holding company	1,298	-
Proceeds from issuance of ordinary shares	154	189,118
Interest paid	(5,041)	(1,894)
Dividends paid	(6,707)	-
Net proceeds from issuance of convertible bonds	-	345,947
Net cash (used in)/from financing activities	(22,796)	779,717
Net increase in cash and cash equivalents	7,247	108,735
Cash and cash equivalents at the beginning of the period	286,771	237,755
Effect of foreign exchange rate changes	270	(3,432)
Cash and cash equivalents at the end of the period	294,288	343,058

The notes on pages 11 to 34 form an integral part of this interim financial information.

NOTES TO THE INTERIM FINANCIAL INFORMATION

For the six months ended 30th June 2018

1 General Information

Automated Systems Holdings Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability. The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office is Canon’s Court, 22 Victoria Street, Hamilton HM12, Bermuda.

This interim financial information is presented in thousands of units of Hong Kong dollars (“HK\$’000”), unless otherwise stated, which was approved for issue on 15th August 2018.

This interim financial information has not been audited, but has been reviewed by the Company’s auditor.

2 Basis of Preparation

The interim financial information for the six months ended 30th June 2018 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 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 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

3 Principal Accounting Policies

The accounting policies applied in this interim financial information are consistent with those described in the consolidated financial statements for the year ended 31st December 2017, except as set out below:

(i) New or amended HKFRSs

The HKICPA has issued the following new or amended HKFRSs that are first effective for accounting periods beginning on 1st January 2018.

HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers and the related Amendments</i>
Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2014-2016 Cycle</i>
Amendments to HKAS 40	<i>Transfer of Investment Property</i>
HK(IFRIC) – Int 22	<i>Foreign Currency Transactions and Advance Consideration</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 impacts of the adoption of HKFRS 15 and HKFRS 9 as set out in Note 3(ii) and Note 3(iii) respectively.

For those new or amended HKFRSs 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.

(ii) HKFRS 15 “Revenue from Contracts with Customers” and related Amendments

HKFRS 15 “Revenue from Contracts with Customers” and related Amendments replaced HKAS 18 “Revenue”, HKAS 11 “Construction contracts” and related interpretation, which resulted in changes in accounting policies. The new accounting policies in relation to revenue recognition are set out below.

To determine whether to recognise revenue, the Group follows a 5-step approach:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) performance obligations are satisfied



NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

3 Principal Accounting Policies (Cont'd)

(ii) HKFRS 15 "Revenue from Contracts with Customers" and related Amendments (Cont'd)

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as receipts in advance in the condensed consolidated statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its condensed consolidated statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

(a) Sales of goods and services

Revenue from the sale of goods for a fixed fee is recognised when (or as) the Group transfers control of the assets to the customer.

For stand-alone sales of goods that are neither customised by the Group nor subject to significant integration services, control transfers at the point in time when the customer takes undisputed delivery of the goods.

When such items are either customised or sold together with significant integration services, the goods and services represent a single combined performance obligation over which control is considered to transfer over time. This is because the combined product is unique to each customer (has no alternative use) and the Group has an enforceable right to payment for the work completed to date. Revenue for these performance obligations is recognised over time as the customisation or integration work is performed, using the cost-to-cost method to estimate progress towards completion. As costs are generally incurred uniformly as the work progresses and are considered to be proportionate to the entity's performance, the cost-to-cost method provides a faithful depiction of the transfer of goods and services to the customer.

(b) Installation service

For sales of goods together with installation service, where the installation is simple and does not include an integration service and could be performed by another party, such installation is accounted for as a separate performance obligation. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin. For sales of goods, control transfers at the point in time when the customer takes undisputed delivery of the goods. Where the installation is complex and goods or services are highly interdependent or interrelated (i.e. the sales of goods are significantly affected by the successful installation services in the contract), the installation and goods or services are not separately identifiable and revenue is recognised upon completion of the installation.

(c) Maintenance service

The Group enters into fixed price maintenance contracts with its customers. Customers are required to pay in advance and the relevant payment due dates are specified in each contract. Revenue is recognised over time based on the maintenance service period.

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

3 Principal Accounting Policies (Cont'd)

(iii) HKFRS 9 "Financial Instruments"

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 "Financial Instruments" from 1st January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the interim financial information.

The adoption has not had a significant effect on the Group's accounting policies related to financial liabilities. The impact of HKFRS 9 on the classification and measurement of financial assets are set out below.

Reclassification from available-for-sale financial asset to financial asset at fair value through other comprehensive income ("FVOCI")

The Group has an unlisted equity investment and was classified as available-for-sale stated at cost less impairment under previous standard HKAS 39. With the adoption of HKFRS 9, this investment is classified as financial asset measured at fair value. The Group has elected to present any changes in the fair value in other comprehensive income as the investment is held as long-term strategic investments that are not expected to be sold in the short to medium term.

As a result, the above investment has been stated at fair value and there was no significant difference between the fair value and the carrying amount of the investment as at 1st January 2018, therefore no adjustment to the opening equity.

Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than incurred credit losses as is the case under HKAS 39. The Group's "trade receivables", "contract assets", "other receivables" and "finance lease receivables" which are measured at amortised cost are subject to HKFRS 9's new expected credit loss model.

Under HKFRS 9, the Group was required to revise its impairment methodology for each of these classes of assets. The Group applies the HKFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade receivables, contract assets and finance lease receivables. Impairment on other receivables is measured as either 12-month expected credit loss or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition.

The Group established expected credit loss model based on historical settlement records, past experience and available forward-looking information. The Group has concluded that the impact of ECL on financial assets is insignificant as at 1st January 2018.

The following describes the Group's updated accounting policy in relation to financial assets to reflect the adoption of HKFRS 9:

Classification of financial assets

The Group classifies its financial assets in the following measurement categories:

- debt instruments to be measured at amortised cost; and
- equity instruments to be measured subsequently at fair value through other comprehensive income.

For debt instruments, the classification depends on the entity's business model for managing the financial assets and its contractual cash flows characteristics. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.



NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

3 Principal Accounting Policies (Cont'd)

(iii) HKFRS 9 "Financial Instruments" (Cont'd)

Recognition and measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Assets that are held for collection of contractual cash flows where those cash flow represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to the condensed consolidated statement of profit or loss. Dividends from such investments continue to be recognised in the condensed consolidated statement of profit or loss as other income when the Group's right to receive dividend payments is established. Impairment losses (and reversal of impairment losses) on equity investments at FVOCI are not reported separately from other changes in fair value.

Impairment of financial assets

The Group assesses on a forward-looking basis the ECL associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 5(i) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, contract assets and finance lease receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

For other receivables, the Group adopted a "three-stage" model for impairment based on changes in credit quality since initial recognition as summarised below:

- The receivables with low credit risk on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Group;
- If a significant increase in credit risk since initial recognition is identified, the receivables is moved to "Stage 2" but is not yet deemed to be credit impaired;
- If the receivables is credit-impaired, the financial instrument is then moved to "Stage 3".

Receivables in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that result from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL measured based on ECL on a lifetime basis.

Measurement of ECLs

When estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

4 Estimates and Judgements

When preparing the interim financial information, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgements, estimates and assumptions applied in the interim financial information, including the key sources of estimation uncertainty, were the same as those applied in the Group's last annual financial statements for the year ended 31st December 2017, except for new significant judgements and key sources of estimation uncertainty related to the application of HKFRS 9, which are described below.

Provision for impairment of financial assets at amortised cost

The provisioning policy for financial assets at amortised cost of the Group is based on the evaluation of the risk of default and the expected loss rate. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, which include the current creditworthiness, the past collection history, the realisation of any repayment pattern promised as well as forward-looking estimates at the end of each reporting period.

5 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk, and liquidity risk.

This interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the consolidated financial statements for the year ended 31st December 2017.

There have been no changes in the risk management department or risk management policies since the year ended 31st December 2017 except for the policy to monitor credit risk under ECL.

(i) Credit risk

The Group has policies in place to ensure that receivables with credit terms are made to counterparties with an appropriate credit history and management performs ongoing credit evaluations of the counterparties. The credit period granted to the customers and the credit quality of these customers are assessed, which takes into account their financial position, past experience and available forward-looking information. Management considers that the credit risk inherent in the Group's outstanding trade receivables within one year is not significant.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records, past experience and available forward-looking information. Management believes that the credit risk inherent in the Group's outstanding other receivable balance is not significant.

To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtors' ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtors;
- significant increases in credit risk on other financial instruments of the same debtors;
- significant changes in the expected performance and behaviour of the debtors, including changes in the payment status of debtors and changes in the operating results of the debtors.



NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

5 Financial Risk Management (Cont'd)

(ii) Fair value measurement

The following table presents the Group's financial instruments measured at fair value on a recurring basis categorised into the three level fair value hierarchies as defined in HKFRS 13, "Fair Value Measurement":

- Level 1: Fair value measured only using level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement dates.
- Level 2: Fair value measured using level 2 inputs, i.e. observable inputs which fail to meet with Level 1, and not using unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3: Fair value measured using significant unobservable inputs.

	Unaudited At 30th June 2018			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Recurring fair value measurement				
Financial asset at FVOCI				
Equity investment	-	598	-	598
Financial liability at fair value through profit or loss				
Contingent consideration payable	-	-	68,610	68,610
		Audited At 31st December 2017		
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurement				
Financial liability at fair value through profit or loss				
Contingent consideration payable	-	-	136,691	136,691

The fair value of equity investment is determined by using the adjusted net assets value method. The effects of unobservable inputs are not significant for equity investment.

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

5 Financial Risk Management (Cont'd)

(ii) Fair value measurement (Cont'd)

The valuation technique and significant unobservable inputs of the fair value of contingent consideration payable are as follows:

Valuation technique	Significant unobservable inputs	Sensitivity relationship of unobservable inputs to fair value
Probability-weighted payout approach	Probability of achieving the projected revenue and profit before tax of Grid Dynamics International, Inc. and its subsidiaries for the year ending 31st March 2019	The higher of the probability, the higher of the fair value, and vice versa
	Discount rate	The higher of the discount rate, the lower of the fair value, and vice versa

The reconciliation of the carrying amount of the Group's contingent consideration payable classified within level 3 of the fair value hierarchy is as follows:

	Contingent consideration payable HK\$'000
At 1st January 2018	136,691
Payment of contingent consideration	(70,623)
Fair value loss recognised in profit or loss	1,989
Exchange difference	553
At 30th June 2018	68,610

During the six months ended 30th June 2018, there were no transfers between Levels 1, 2 and 3.

The directors consider that the carrying amounts of other financial assets and financial liabilities in the interim financial information approximate their fair values.

6 Revenue and Segment Information

The Group's revenue is analysed as follows:

	Unaudited Six months ended 30th June	
	2018 HK\$'000	2017 HK\$'000
Sales of goods	406,516	429,745
Revenue from service contracts	713,558	502,408
	1,120,074	932,153

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

6 Revenue and Segment Information (Cont'd)

The Board of Directors (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 2017: 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 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 2018

	IT Products HK\$'000	IT Services HK\$'000	Total HK\$'000
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

Six months ended 30th June 2017

	IT Products HK\$'000	IT Services HK\$'000	Total HK\$'000
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

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

6 Revenue and Segment Information (Cont'd)

(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 gain/(loss), 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 accrued charges of the head office, borrowings and contingent consideration payable).

(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	
	2018 HK\$'000	2017 HK\$'000
Reportable segment revenue	1,136,906	946,877
Elimination of intersegment revenue	(16,832)	(14,724)
Revenue per condensed consolidated statement of profit or loss	1,120,074	932,153

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

Profit or loss	Unaudited Six months ended 30th June	
	2018 HK\$'000	2017 HK\$'000
Reportable segment profit	178,006	106,356
Unallocated amounts:		
Unallocated other income	4,723	1,824
Unallocated other gain/(loss), net	463	(2,610)
Unallocated depreciation	(2,203)	(314)
Share of results of associates	(2,439)	(2,612)
Finance costs	(11,038)	(6,926)
Unallocated corporate expenses	(91,571)	(62,974)
Profit before income tax per condensed consolidated statement of profit or loss	75,941	32,744

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

6 Revenue and Segment Information (Cont'd)

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

	Unaudited 30th June 2018 HK\$'000	Audited 31st December 2017 HK\$'000
Assets		
Reportable segment assets	1,554,195	1,538,317
Unallocated assets:		
Interests in associates	43,196	46,948
Deferred income tax assets	4,181	4,017
Tax recoverable	20,911	41,334
Restricted bank deposits	762	4,168
Bank balances and cash	294,288	286,771
Unallocated corporate assets	332,164	343,338
Total assets per condensed consolidated statement of financial position	2,249,697	2,264,893
Liabilities		
Reportable segment liabilities	376,111	390,971
Unallocated liabilities:		
Current income tax liabilities	25,598	6,262
Deferred income tax liabilities	74,290	74,723
Unallocated corporate liabilities	629,809	695,119
Total liabilities per condensed consolidated statement of financial position	1,105,808	1,167,075

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		Specified non-current assets	
	Unaudited		Unaudited	Audited
	Six months ended 2018 HK\$'000	30th June 2017 HK\$'000	30th June 2018 HK\$'000	31st December 2017 HK\$'000
Hong Kong	743,280	758,176	326,997	332,603
United States of America ("US")	326,954	137,138	891,208	890,827
Russia	-	-	7,602	4,751
Ukraine	-	-	3,457	2,163
Poland	-	-	2,170	845
Singapore	-	-	41,990	45,660
Mainland China	3,729	2,111	430	610
Macau	15,774	12,845	1,277	1,367
Taiwan	7,492	6,798	93	169
Thailand	22,845	15,085	119	130
	1,120,074	932,153	1,275,343	1,279,125

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

6 Revenue and Segment Information (Cont'd)

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

Information about major customers

The Group has a large number of customers, no revenue from any individual customer exceeded 10% or more of the Group's revenue during the six months ended 30th June 2018 and 2017.

7 Other Income

	Unaudited Six months ended 30th June	
	2018 HK\$'000	2017 HK\$'000
Interest on bank deposits	230	26
Rental income from investment properties	1,984	1,986
Waiver of consideration payable	2,355	-
Others	185	681
	4,754	2,693

8 Other Gain/(Loss), Net

	Unaudited Six months ended 30th June	
	2018 HK\$'000	2017 HK\$'000
(Loss)/Gain on disposal of property, plant and equipment	(23)	17
Fair value loss on contingent consideration payable	(1,989)	(1,158)
Provision for customers' claim	-	(3,642)
Exchange gain, net	2,475	3,050
Others	-	(877)
	463	(2,610)

9 Finance Income

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

10 Profit Before Income Tax

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

	Unaudited Six months ended 30th June	
	2018 HK\$'000	2017 HK\$'000
Depreciation and amortisation:		
Property, plant and equipment	10,213	10,245
Intangible assets (included in cost of services rendered)	4,998	583
Transaction costs for acquisition	-	8,992
Provision for impairment of trade receivables	3,318	-
Reversal of provision for impairment of trade receivables	(289)	(28)
Reversal of provision for obsolete inventories	-	(26)
Staff costs	436,879	315,756
Provision for customers' claim	-	3,642

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

11 Income Tax Expense

	Unaudited Six months ended 30th June	
	2018	2017
	HK\$'000	HK\$'000
Current taxation:		
Hong Kong profits tax	9,030	5,900
Overseas taxation	16,261	8,808
Over-provision in respect of prior period:		
Overseas taxation	(149)	-
	25,142	14,708
Deferred taxation:		
Current period	(687)	(10)
Income tax expense	24,455	14,698

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30th June 2017: 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.

12 Dividends

	Unaudited Six months ended 30th June	
	2018	2017
	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 2018 (six months ended 30th June 2017: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

13 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	
	2018 HK\$'000	2017 HK\$'000
Earnings for the purpose of basic earnings per share	51,486	18,046
Effect of dilutive potential ordinary shares		
– Interest on convertible bonds (Note (ii))	5,996	4,530
Earnings for the purpose of diluted earnings per share	57,482	22,576
	Number of shares	
	2018 '000	2017 '000 (Restated)
Weighted average number of ordinary shares for the purpose of basic earnings per share (Note (i))	804,727	631,246
Effect of dilutive potential ordinary shares		
– Share options (Note (iii))	2,156	100
– Convertible bonds (Note (ii))	274,725	217,142
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,081,608	848,488

Notes:

- (i) 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 effects of bonus issue (Note 23) being completed during the six months ended 30th June 2018.

The 631,246,000 ordinary shares are derived from the weighted average number of ordinary shares in issue during the six-months ended 30th June 2017 after taking into account the effects of rights issue and bonus issue being completed during the six months ended 30th June 2017 and bonus issue (Note 23) 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 2018 and 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. 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 2017 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.
- (iii) 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 (Note 24(a)) and in March, April and December 2017 (Note 24(b)). The calculation of the diluted earnings per share for the six months ended 30th June 2017 assumed the exercise of the share options of the Company granted in March and May 2012 (Note 24(a)), but not on the share options granted in March and April 2017 (Note 24(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.

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

14 Property, Plant and Equipment

During the six months ended 30th June 2018, the additions of property, plant and equipment, mainly for computer and office equipment and furniture and fixtures, was approximately HK\$7,265,000 (six months ended 30th June 2017: HK\$4,178,000).

During the six months ended 30th June 2018, the Group disposed of certain property, plant and equipment at the carrying amount of approximately HK\$73,000 (six months ended 30th June 2017: HK\$4,000), resulting in a loss on disposal of approximately HK\$23,000 (six months ended 30th June 2017: gain on disposal of HK\$17,000).

The Group's land and buildings were stated at valuations made at 31st December 2017 less depreciation. The land and buildings were last revalued by an independent professional valuer at 31st December 2017 on market value basis which was determined by reference to market evidence of recent transactions for similar properties. As at 30th June 2018, 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 2018, if the land and buildings had not been revalued, they would have been included in interim financial information at historical cost, less accumulated depreciation and amortisation with carrying amount of approximately HK\$39,067,000 (31st December 2017: HK\$40,099,000).

As at 30th June 2018, the Group had pledged land and buildings with carrying amount of approximately HK\$267,341,000 (31st December 2017: HK\$271,950,000) to secure banking facilities granted to the Group as disclosed in Note 26.

15 Investment Properties

The investment properties of the Group were last revalued at 31st December 2017 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 2018, 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 2018, the Group had pledged investment properties with carrying amount of HK\$52,300,000 (31st December 2017: HK\$52,300,000) to secure banking facilities granted to the Group as disclosed in Note 26.

16 Intangible Assets

Intangible assets comprised of technical know-how, customer relationships and deferred development costs.

Acquired technical know-how and customer relationships in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are carried at cost less accumulated amortisation.

During the six months ended 30th June 2018, additions to deferred development costs for clearly-defined projects that will be recovered through future commercial activity amounted to HK\$4,262,000 (six months ended 30th June 2017: Nil).

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

17 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 2018 HK\$'000	Audited 31st December 2017 HK\$'000
Trade receivables – gross	239,658	281,637
Less: provision for impairment	(8,655)	(5,685)
Trade receivables – net	231,003	275,952

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

	Unaudited 30th June 2018 HK\$'000	Audited 31st December 2017 HK\$'000
0 – 30 days	145,408	136,266
31 – 60 days	38,623	51,806
61 – 90 days	13,707	43,326
Over 90 days	41,920	50,239
	239,658	281,637

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

	Unaudited 30th June 2018 HK\$'000	Audited 31st December 2017 HK\$'000
Not yet past due	150,928	149,210
Within 30 days	34,135	41,573
31 – 60 days	15,007	40,854
61 – 90 days	5,081	24,032
Over 90 days	34,507	25,968
	239,658	281,637

18 Other Receivables, Deposits and Prepayments

	Unaudited 30th June 2018 HK\$'000	Audited 31st December 2017 HK\$'000
Other receivables	3,618	3,788
Deposits	4,046	4,672
Prepayments	28,046	24,745
Amount due from an associate	134	81
	35,844	33,286
Less: Non-current portion	-	(340)
	35,844	32,946



NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

19 Restricted Bank Deposits

As at 30th June 2018, the Group has restricted bank deposit of approximately HK\$762,000 (31st December 2017: HK\$772,000) pledged to secure the performance bonds of the Group.

20 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 2018 HK\$'000	Audited 31st December 2017 HK\$'000
Current	116,171	114,418
Within 30 days	41,512	39,115
31 – 60 days	5,658	6,595
61 – 90 days	2,165	2,711
Over 90 days	11,880	12,963
	177,386	175,802

21 Other Payables and Accruals

	Unaudited 30th June 2018 HK\$'000	Audited 31st December 2017 HK\$'000
Other payables	25,471	57,844
Accruals	96,186	95,103
Amount due to the ultimate holding company	2,448	418
Amounts due to associates	752	539
	124,857	153,904

22 Borrowings

	Unaudited 30th June 2018 HK\$'000	Audited 31st December 2017 HK\$'000
Current		
Bank borrowings, secured (Note (i))	236,200	247,800
Non-current		
Convertible bonds (Note (ii))	251,178	245,182
	487,378	492,982

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

22 Borrowings (Cont'd)

Notes:

(i) Bank borrowings

The Group's bank borrowings are repayable as follows:

	Unaudited 30th June 2018 HK\$'000	Audited 31st December 2017 HK\$'000
Within one year or on demand	236,200	247,800

The Group's bank borrowings 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 4.71% (31st December 2017: 4.42%) per annum as at 30th June 2018.

As at 30th June 2018, the bank borrowings are secured by the followings:

- (1) the legal charges over the Group's land and buildings with carrying amount of HK\$267,341,000 (31st December 2017: HK\$271,950,000) (Note 14);
- (2) the legal charges over the Group's investment properties with carrying amount of HK\$52,300,000 (31st December 2017: HK\$52,300,000) (Note 15);
- (3) the guarantee given by the Company and certain subsidiaries of the Group up to a limit of 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 2018 and 31st December 2017.



NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

22 Borrowings (Cont'd)

Notes: (Cont'd)

(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 shares falling to be allotted and issued upon conversion of the Convertible Bonds and the conversion price have been adjusted to 321,100,917 shares and HK\$1.09 per share respectively, pursuant to the terms and conditions of the Convertible Bonds.

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 shares falling to be allotted and issued upon conversion of the Convertible Bonds and the conversion price have been further adjusted to 274,725,274 shares and HK\$0.91 per share, respectively.

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 2018, 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:

	HK\$'000
At 1st January 2018	245,182
Imputed interest expense	5,996
At 30th June 2018	251,178

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 2018, there was no conversion or redemption of the Convertible Bonds.

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

23 Share Capital

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st January 2017	600,000	60,000
Increase in authorised capital	1,400,000	140,000
At 31st December 2017 and 30th June 2018	2,000,000	200,000
Issued and fully paid:		
At 1st January 2017	350,789	35,079
Rights issue	175,394	17,539
Bonus issue	52,618	5,262
Issue of ordinary shares upon conversion of convertible bonds	91,743	9,174
At 31st December 2017 and 1st January 2018	670,544	67,054
Issue of ordinary shares upon exercise of share options	132	13
Bonus issue (Note)	134,135	13,414
At 30th June 2018	804,811	80,481

Note: On 16th May 2018, an ordinary resolution was duly passed by the shareholders of the Company at the annual general meeting to approve the bonus issue of shares ("2018 Bonus Issue") of par value HK\$0.10 each which was issued on the basis of two bonus shares for every ten existing shares on 29th May 2018. As of that date, there was a total of 670,676,804 ordinary shares in issue, resulting in the issuance of 134,135,360 bonus shares under 2018 Bonus Issue.

All the shares in issued during the period/year rank pari passu with the then existing shares of the Company in all respects.

24 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 are 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.

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

24 Share Option Schemes (Cont'd)

(a) 2002 Share Option Scheme (Cont'd)

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 of the Company on the Stock Exchange on the date of grant of the options; (b) the average of the closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant of the options; and (c) the nominal value of a share of the Company. 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 2018:

Grant date	Exercise price per share (Note)	Number of options					At 30th June 2018
		At 1st January 2018	Granted during the period	Exercised during the period	Lapsed during the period	Adjusted during the period (Note)	
19th March 2012	HK\$0.704	464,253	-	-	-	92,847	557,100
2nd May 2012	HK\$0.728	141,857	-	-	-	28,371	170,228
		606,110	-	-	-	121,218	727,328
Weighted average exercise price per share	HK\$0.852	-	-	-	HK\$0.710	HK\$0.710	
Number of options exercisable at 30th June 2018							727,328
Weighted average exercise price per share of options exercisable at 30th June 2018							HK\$0.710
Weighted average remaining contractual life							3.8 years

Note: The numbers of outstanding share options and exercise price per share have been adjusted as a result of the bonus issue of the Company (as detailed in Note 23), details of the adjustments are disclosed in the Company's announcements dated 8th June 2018.

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 2018 and 2017, 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.

(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.

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

24 Share Option Schemes (Cont'd)

(b) 2017 Share Option Scheme (Cont'd)

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 the 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 of the Company 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 of the Company 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 of the Company.

Details of specific categories of options are as follows:

Grant date	Exercise period	Number of options outstanding at 30th June 2018
31st March 2017		
- Tranche 1	31st March 2017 – 30th March 2027	2,971,650
	1st April 2018 – 30th March 2027	1,515,525
	1st April 2019 – 30th March 2027	1,535,325
- Tranche 2	28th March 2018 – 30th March 2027	3,014,550
	1st April 2019 – 30th March 2027	1,527,075
	1st April 2020 – 30th March 2027	1,527,075
- Tranche 3	Date of 2018 annual results announcement of the Company – 30th March 2027	3,070,650
	1st April 2020 – 30th March 2027	1,535,325
	1st April 2021 – 30th March 2027	1,535,325
- Tranche 4	Date of 2019 annual results announcement of the Company – 30th March 2027	3,070,650
	1st April 2021 – 30th March 2027	1,535,325
	1st April 2022 – 30th March 2027	1,535,325
		<u>24,373,800</u>

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

24 Share Option Schemes (Cont'd)

(b) 2017 Share Option Scheme (Cont'd)

Grant date	Exercise period	Number of options outstanding at 30th June 2018
28th April 2017		
– Tranche 1	1st June 2018 – 27th April 2027	907,500
	1st June 2019 – 27th April 2027	453,750
	1st June 2020 – 27th April 2027	453,750
– Tranche 2	1st June 2019 – 27th April 2027	907,500
	1st June 2020 – 27th April 2027	453,750
	1st June 2021 – 27th April 2027	453,750
– Tranche 3	1st June 2020 – 27th April 2027	907,500
	1st June 2021 – 27th April 2027	453,750
	1st June 2022 – 27th April 2027	453,750
– Tranche 4	1st June 2021 – 27th April 2027	907,500
	1st June 2022 – 27th April 2027	453,750
	1st June 2023 – 27th April 2027	453,750
		7,260,000
13th December 2017		
– Tranche 1	1st April 2019 – 12th December 2027	208,200
	1st April 2020 – 12th December 2027	104,100
	1st April 2021 – 12th December 2027	104,100
– Tranche 2	1st April 2020 – 12th December 2027	208,200
	1st April 2021 – 12th December 2027	104,100
	1st April 2022 – 12th December 2027	104,100
– Tranche 3	1st April 2021 – 12th December 2027	208,200
	1st April 2022 – 12th December 2027	104,100
	1st April 2023 – 12th December 2027	104,100
– Tranche 4	1st April 2022 – 12th December 2027	208,200
	1st April 2023 – 12th December 2027	104,100
	1st April 2024 – 12th December 2027	104,100
		1,665,600

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

24 Share Option Schemes (Cont'd)

(b) 2017 Share Option Scheme (Cont'd)

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 2018:

Grant date	Exercise price per share (Note)	Number of options					At 30th June 2018
		At 1st January 2018	Granted during the period	Exercised during the period	Lapsed during the period	Adjusted during the period (Note)	
31st March 2017	HK\$0.970	20,834,000	-	(132,000)	(423,500)	4,095,300	24,373,800
28th April 2017	HK\$0.909	6,050,000	-	-	-	1,210,000	7,260,000
13th December 2017	HK\$0.867	1,388,000	-	-	-	277,600	1,665,600
		28,272,000	-	(132,000)	(423,500)	5,582,900	33,299,400
Weighted average exercise price per share	HK\$1.142	-	HK\$1.164	HK\$1.073	HK\$0.951	HK\$0.951	
Number of options exercisable at 30th June 2018							8,409,225
Weighted average exercise price per share of options exercisable at 30th June 2018							HK\$0.963
Weighted average remaining contractual life							8.8 years

Note: The number of outstanding share options and exercise price per share have been adjusted as a result of the bonus issue (as detailed in Note 23), details of the adjustments are disclosed in the Company's announcement dated 8th June 2018.

During the six months ended 30th June 2018, the Group recognised total expense of approximately HK\$1,823,000 (six months ended 30th June 2017: HK\$2,063,000) 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 2018 from employees for taking up the shares under the options amounted to nil (six months ended 30th June 2017: HK\$63).

25 Contingent Liabilities

As at 30th June 2018, the Group had approximately HK\$762,000 (31st December 2017: HK\$772,000) restricted bank deposit held as security for performance bonds. As at 30th June 2018, performance bonds of approximately HK\$64,490,000 (31st December 2017: HK\$63,299,000) have been issued by the bank on behalf of the Group to customers as security of contracts.

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2018

26 Pledge of Assets

As at 30th June 2018, the Group's land and buildings with carrying amount of approximately HK\$267,341,000 (31st December 2017: HK\$271,950,000) and investment properties with carrying amount of HK\$52,300,000 (31st December 2017: HK\$52,300,000) were pledged to secure the banking facilities of the Group.

As at 30th June 2018, the Group's restricted bank deposit of approximately HK\$762,000 (31st December 2017: HK\$772,000) was pledged to secure the performance bonds of the Group.

27 Capital Commitments

As at 30th June 2018, the Group had contracted capital commitment of approximately HK\$141,000 (31st December 2017: HK\$208,000) for acquisition of property, plant and equipment and approximately HK\$11,240,000 (31st December 2017: HK\$11,367,000) for contracted capital commitment of equity investment.

28 Seasonality

Sales of products and the provision of related services are not subject to obvious seasonal factors.

29 Related Party Transactions

As at 30th June 2018, Teamsun Technology (HK) Limited owns 56.57% of the Company's issued shares (31st December 2017: 56.58%). The remaining 43.43% of the Company's issued shares (31st December 2017: 43.42%) were widely held. The ultimate holding company of the Company is Beijing Teamsun Technology Co., Ltd.

(a) During the period, the Group had the following transactions with related parties:

Nature of transactions	Unaudited Six months ended 30th June	
	2018 HK\$'000	2017 HK\$'000
Ultimate holding company:		
Expenses charged to the Group	832	–
The associates:		
Purchases by the Group	3,127	2,933
Other income charged by the Group	75	60
Rental income charged by the Group	179	181

Sales and purchase of the goods and services are transacted at normal commercial terms that are consistently applied to all customers and vendors.

(b) The remuneration of key management personnel for the six months ended 30th June 2018 amounted to approximately HK\$2,093,000 (six months ended 30th June 2017: HK\$1,952,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30th June 2018, total revenue of the Group was HK\$1,120.1 million, representing a 20.2% increase from the corresponding period last year. Product sale was decreased by 5.4% to HK\$406.5 million while service revenue was increased by 42.0% to HK\$713.6 million. In addition, product sales and service revenue contributed 36.3% and 63.7% to total revenue respectively, compared to 46.1% and 53.9% for the corresponding period last year.

For the six months ended 30th June 2018, commercial and public sector sales contributed 62.7% and 37.3% to total revenue respectively, compared to 52.3% and 47.7% for the corresponding period last year.

Gross profit for the six months ended 30th June 2018 was HK\$232.3 million, an increase of HK\$82.6 million or 55.2% compared with the same period last year. Gross profit margin for the period increased from 16.1% to 20.7%. The increase in gross profit and gross profit margin was mainly attributable to the gross profit contribution from Grid Dynamics International, Inc. ("Grid Dynamics").

During the period under review, the Group recorded a profit attributable to the Company's equity holders of HK\$51.5 million, an increase of 185.3% compared to last period of HK\$18.0 million. The significant increase was mainly resulted from (i) stable growth of core business in Hong Kong, Macau as well as in Asia Pacific, (ii) consolidation of six-month result of Grid Dynamics, compared to the corresponding period last year, merely result for the period from 7th April 2017 to 30th June 2017 was consolidated, and (iii) absence of one-off professional fee incurred for acquisition compared to the corresponding period last year.

For the six months ended 30th June 2018, orders newly secured by the Group amounted to approximately HK\$1,014.2 million. As at 30th June 2018, the order book balance was approximately HK\$1,016.0 million. The Group's cash stood at approximately HK\$294.3 million with a working capital ratio of 1.24:1. The Group maintained a healthy financial position. As at 30th June 2018, the outstanding borrowings amounted to HK\$487.4 million.

Business Review

The Group's local and overseas core businesses in the first six months of 2018 grew steadily. The Group's profit for the six months ended 30th June 2018 recorded a significant increase of 185.3% as compared to the corresponding period last year, which is driven by the following factors: (i) the net profit of Grid Dynamics for the first six months of the year was consolidated into the interim financial statements of the Group, which is higher than that was consolidated for approximately three months for the corresponding period last year, meanwhile, the US Federal Corporate Income Tax Rate decreases, thus the Group's core business in the Europe and the United States recorded growth; and (ii) the net profit of the Group's core business in Hong Kong, Macau and the Asia Pacific recorded steady growth over the corresponding period last year.



MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Business Review (Cont'd)

In respect of the local public sector sales, the Group continued to derive benefit from the government's policy of actively promoting innovation and making use of information technology ("IT") to improve public services. The Group maintains a steady growth in receiving government orders, not only acquiring new-type infrastructure orders, but also achieving an increase in orders for providing solutions and services. In terms of service order, the Government is building a new generation of government Cloud service, which has led to an increase in the Group's business to provide related support services to the Government.

In respect of the local commercial sector sales, considering the situation that the banking industry is facing the new cybersecurity regulations and the prevailing trend of smart banking and mobile banking services, the Group has successfully seized the business opportunity and obtained a large number of orders, which has significantly contributed to sales in local commercial sector. During the period under review, the Group also obtained a number of large-scale infrastructure revamp projects, among which it is noteworthy that the Group has successfully penetrated its innovative and large-scale software-defined network solutions from the aviation industry to the education sector, by receiving related orders from universities. In addition, the Group continued to focus on expanding its one-stop IT managed services and cyber security business, which performed excellently and recorded a significant growth during the period.

With an upward trend for enterprises adopting Cloud and digital transformation, ASL worked closely with Alibaba Cloud, the leading digital transformation expert in the world, and reached a strategic partnership agreement in April 2018. Both parties have cooperated in various aspects covering Cloud security solution, sales and marketing, so as to further develop the Cloud market in Hong Kong and Macau.

As for overseas business, in the first half of 2018, Grid Dynamics opened its 6th research and development center in Serbia, Europe, which provides a highly skilled talent pool and a high-quality communications network, so as to further strengthen the Group's local support and global delivery capabilities to meet different customer needs in various regions.

Outlook and Prospects

To meet the market needs of digital transformation, the Group will concentrate its efforts on industry focused and technology-oriented business on the next phase of development. The Group will continue to actively enhance its digital transformation and concentrate the services on the three business areas in which the Group provides to its customers: Innovative Solutions, Intelligent Cybersecurity Services and next generation one-stop IT Integrated Managed Services. Through these services, the value of "EMPOWER", "SECURE" and "MANAGE" will be brought to customers respectively so as to capture the business opportunities driven by Cloud, Internet of Things and digital transformation.

In respect of Innovative Solutions, the Group expects that enterprises will continue to look for suppliers with industry domain knowledge, and to make use of IT to solve industry-specific problems more efficiently. To satisfy the demand, the Group will take advantage of its leading technologies in Cloud, big data, machine learning and artificial intelligence area and to leverage its strengths in DevOps, agile software development methodologies, automated testing and extensive industry experience, in order to provide clients with more innovative, reliable and industry-specific solutions, facilitate the clients (EMPOWER) to launch higher quality and omni-channels products and services more efficiently, thus to help the clients creating new marketing products and achieving digital transformation.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Outlook and Prospects (Cont'd)

In respect of Intelligent Cybersecurity Services, the Group will continue to utilize data security solutions and managed security services to capture the business opportunities arising from the security loopholes, ransomware incidents, stricter industry regulations and new security policies. In addition, the Group will also cooperate with vendors with new and leading security technologies such as machine learning, to provide the clients with around-the-clock, comprehensive and real-time security protection through the 7×24 Service Centers and advanced Security Operation Center *Plus* (SOC+) of the Group.

In respect of the next generation one-stop IT Integrated Managed Services, the increasing complexity of IT environment driven by Cloud and digital transformation will force enterprises, which have insufficient IT resources and professional knowledge, to outsource some or all of their IT operations to third parties, that will raise the demand of IT hosting services. As such, the Group is keen on providing in-depth integrated managed services to industries and clients which the Group has advantages. Supporting services are not only covering the traditional IT infrastructure but also extending to Cloud platforms of different environments (such as private Cloud, public Cloud, hybrid Cloud and multiple Cloud — which places Cloud resources on various Cloud platforms operating by different Cloud providers). The Group will also continue to develop traditional IT supporting services and provide a wider range of professional industry-focused consulting services, to support clients' daily key business operations. At the same time, the Group will take advantage of SOC+ to ensure clients' data security and to promote its brand and position as a one-stop leading provider of Information Technology Service Management (ITSM).

In respect of overseas business, the Group expects that Grid Dynamics will continue to benefit from clients' demand in Cloud, big data analytics and other aspects, which would drive the overseas business continues to grow steadily.

Science and technology develop rapidly in the digital era. With huge demands of IT professionals, recruiting a suitable employee is challenging. Having foreseen such circumstances, the Group expanded the talent pool through internal resource integration, training and university graduate trainee programs, so as to enable employees to continue to acquire new professional knowledge and skills and to fulfill clients' needs for innovative and customised services.

Looking forward, the Group will continue to seek for opportunities arising from Hong Kong's policies and China's Belt and Road. We will continue to keep Hong Kong and Macau as its core business areas, as well as to accelerate the globalisation of the Group, and strive to provide professional, reliable and innovative IT services to clients around the world.



MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Financial Resources and Liquidity

As at 30th June 2018, the Group's total assets of HK\$2,249.7 million were financed by current liabilities of HK\$780.3 million, non-current liabilities of HK\$325.5 million and shareholders' equity of HK\$1,143.9 million. The Group had a working capital ratio of approximately 1.24:1.

As at 30th June 2018, the Group had an aggregate composite banking facility from banks of approximately HK\$367.8 million (31st December 2017: HK\$371.0 million). The Group had pledged land and buildings in an aggregate amount of HK\$267.3 million (31st December 2017: HK\$272.0 million), investment properties with a carrying amount of HK\$52.3 million (31st December 2017: HK\$52.3 million) to secure the banking facilities granted to the Group. The Group's restricted bank deposit of approximately HK\$0.8 million (31st December 2017: 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\$64.5 million as at 30th June 2018 (31st December 2017: HK\$63.3 million). The Group's gearing ratio (total borrowings over total equity) was 42.6 % as at 30th June 2018 (31st December 2017: 44.9%).

Material Acquisition

During the six months ended 30th June 2018, neither the Company nor any of its subsidiaries had material acquisition or disposal.

Fund Raising Activities

Adjustment and Transfer 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, 8th June 2017, 25th August 2017, 8th June 2018 and 29th June 2018 and the circular of the Company dated 24th February 2017 respectively, in relation to, among other matters, HKD denominated zero coupon Convertible Bonds due on 21st March 2020 in an aggregate principal amount of HK\$350.0 million, 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 (subject to adjustment). 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 ("Viewforth") and China Fortune Rich Private Equity Fund Limited ("China Fortune") on 21st March 2017.

On 25th August 2017, China Fortune has exercised the conversion rights to convert the principal amount of HK\$100.0 million at the adjusted conversion price of HK\$1.09 per share into 91,743,119 Shares. The aggregate outstanding principal amount of the Convertible Bonds was HK\$250.0 million as at 30th June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Fund Raising Activities (Cont'd)

Adjustment and Transfer of Convertible Bonds (Cont'd)

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\$0.91 and 274,725,274 conversion shares respectively with effect from 30th May 2018 as a result of bonus issue of the Company approved at the annual general meeting of the Company held on 16th May 2018.

On 29th June 2018, Viewforth transferred the Convertible Bonds in a principal amount of the HK\$250 million which are convertible into 274,725,274 Conversion Shares at the Adjusted Conversion Price of HK\$0.91 per Conversion Share, to Triple Wise Asset Holdings Ltd. ("Triple Wise"). Triple Wise has become the registered holder of the Convertible Bonds in the total principal amount of HK\$250 million, which represented approximately 25.45% of the number of issued Shares as enlarged by the allotment and issue of the Conversion Shares.

During the reporting period, there was no conversion or redemption of the Convertible Bonds.

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 2018 (six months ended 30th June 2017: same).

Contingent Liabilities

As at 30th June 2018, the Group had HK\$0.8 million restricted bank deposit held as security for performance bonds (31st December 2017: HK\$0.8 million). As at 30th June 2018, performance bonds of approximately HK\$64.5 million (31st December 2017: HK\$63.3 million) had been issued by the bank on behalf of the Group to customers as security of contracts.

Capital Commitments

As at 30th June 2018, the Group had contracted capital commitment of approximately HK\$11.4 million (31st December 2017: HK\$11.6 million).



MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Employee and Remuneration Policies

As at 30th June 2018, the Group, excluding its associates, employed 2,113 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.

ADDITIONAL INFORMATION

Dividend

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June 2018 (six months ended 30th June 2017: Nil).

Directors' Interests in Shares and Underlying Shares

As at 30th June 2018, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were recorded in the register required to be kept by the Company under Section 352 of the SFO; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange ("Directors' Interests in Shares and Underlying Shares"), were as follows:

(a) Shares

Name of company	Director	Personal interests	Family interests	Corporate interests	Other	Total	Approximate % of shareholding
Beijing Teamsun Technology Co., Ltd. ("Teamsun")	Wang Weihang	92,069,358	-	-	41,170,975 ¹	133,240,333	12.08%
	Li Wei	240,520	-	-	-	240,520	0.02%

(b) Underlying shares

Name of company	Director	Personal interests	Family interests	Corporate interests	Other	Total	Approximate % of Shareholding
The Company	Wang Yueou	4,620,000 ²	-	-	-	4,620,000	0.57%
	Li Wei	1,320,000 ²	-	-	-	1,320,000	0.16%
	Cui Yong	1,320,000 ²	-	-	-	1,320,000	0.16%
Teamsun	Li Wei	612,000 ³	-	-	-	612,000	0.06%
	Cui Yong	1,140,000 ³	-	-	-	1,140,000	0.10%

Notes:

- 41,170,975 shares of Teamsun were directly held by a trust scheme, of which a company with 51% equity interest holding by Mr. Wang Weihang, Beijing Jianzheng Investment Limited* (北京健正投資有限公司), is one of the founders, which has 100% voting rights of the shares of Teamsun held by the trust scheme. For the purpose of the SFO, Mr. Wang Weihang, being a beneficiary of the trust scheme, is deemed to be interested in 41,170,975 shares of Teamsun.
- Share options to acquire ordinary shares of the Company under a share option scheme adopted on 13th March 2017, further details of which are set out in section headed "Share Option Schemes" below. The company adjusted the number of outstanding share options after the completion of the bonus issue on 8th June 2018.
- Restricted shares of Teamsun may be unlocked and traded on the Shanghai Stock Exchange after unlocking conditions are met pursuant to Teamsun's second phase of equity incentive plan and Teamsun's 2017 restricted share incentive scheme. Details of Teamsun's second phase of equity incentive plan were disclosed in Teamsun's announcements dated 27th May 2015 and 14th July 2015; and details of Teamsun's 2017 restricted share incentive scheme were disclosed in Teamsun's announcements dated 14th October 2017, 23rd November 2017 and 15th December 2017.

For identification purpose only

ADDITIONAL INFORMATION (Cont'd)

Directors' Interests in Shares and Underlying Shares (Cont'd)

Save as mentioned above, as at 30th June 2018, none of the Directors and the chief executives of the Company had any Directors' Interests in Shares and Underlying Shares.

Substantial Shareholders

As at 30th June 2018, so far as was known to the Directors and chief executives of the Company, the following persons (other than Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO:

(a) Shares

Name of shareholder	Capacity	Nature	Number of ordinary shares of the Company held	Percentage of issued share capital
Teamsun Technology (HK) Limited ("Hong Kong Teamsun")	Beneficial owner	Long Position	455,268,915	56.57%
Teamsun	Interest of controlled corporation	Long Position	455,268,915 ¹	56.57%
Beijing International Trust Co., Ltd. ("Beijing Trust")	Trustee	Long Position	107,841,742 ²	13.40%

(b) Underlying shares

Name	Capacity	Nature	Number of underlying shares of the Company held	Percentage of issued share capital
China Construction Bank Corporation ("CCBC")	Interest of controlled corporation	Long Position	274,725,274 ³	34.14%
		Short Position	274,725,274 ⁵	34.14%
Central Huijin Investment Ltd. ("Central Huijin")	Interest of controlled corporation	Long Position	274,725,274 ⁴	34.14%
		Short Position	274,725,274 ⁵	34.14%
China Fortune Rich Private Equity Fund Limited ("China Fortune")	Beneficial owner	Long Position	274,725,274 ⁵	34.14%
DT Capital Management Co., Limited ("DT Capital")	Interest of controlled corporation	Long Position	274,725,274 ⁵	34.14%
Wang Zixi	Interest of controlled corporation	Long Position	274,725,274 ⁵	34.14%

ADDITIONAL INFORMATION (Cont'd)

Substantial Shareholders (Cont'd)

(b) Underlying shares (Cont'd)

Notes:

1. Teamsun was interested in the entire issued share capital of Hong Kong Teamsun and was therefore deemed to be interested in the 455,268,915 shares of the Company in which Hong Kong Teamsun was interested.
2. Beijing Trust held 107,841,742 shares, being the trustee of a unit trust of BOC – BJITIC Overseas Market Financing 016.
3. CCBC was interested in 274,725,274 underlying shares through a controlled corporation, Triple Wise Asset Holdings Ltd. ("Triple Wise"), to be derived from the convertible bonds of a principal amount of HK\$250,000,000 issued by the Company on 21st March 2017 (the "Convertible Bonds") at the adjusted conversion price of HK\$0.91 per share.
4. Triple Wise was wholly-owned by CCB International Overseas (Cayman) Limited ("CCB Cayman"), a company was wholly-owned by CCB International (Holdings) Limited ("CCB Holdings"). CCB Holdings was wholly-owned by CCB Financial Holdings Limited ("CCB Financial"), a company was wholly-owned by CCB International Group Holdings Limited ("CCB Group"). CCB Group was wholly-owned by CCBC, 57.11% of total ordinary shares issued of which was owned by Central Huijin. Therefore, CCB Cayman, CCB Holdings, CCB Financial, CCB Group, CCBC and Central Huijin are deemed to be interested in the 274,725,274 underlying shares of the Company in which Triple Wise was interested.
5. Triple Wise has granted a call option to acquire the Convertible Bonds to China Fortune, pursuant to which, 274,725,274 underlying shares to be derived from the Convertible Bonds.
6. China Fortune was wholly-owned by DT Capital, 60% of the issued share capital of which was owned by Wang Zixi. The interests in 274,725,274 underlying shares to be derived from the Convertible Bonds were related to a call option to acquire 274,725,274 underlying shares granted to China Fortune. Therefore, each of DT Capital and Wang Zixi was deemed to be interested in the 274,725,274 underlying shares of the Company in which China Fortune was interested.

Save as mentioned above, as at 30th June 2018, there was no other person (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company or the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register of interest required to be kept by the Company under Section 336 of the SFO.

Share Option Schemes

A. 2002 Share Option Scheme

The Company adopted a share option scheme (the "2002 Share Option Scheme") on 8th August 2002 for the purpose of providing incentives and rewards to any employee and/or Director of the Company or any of its subsidiaries. The 2002 Share Option Scheme expired on 7th August 2012. As a result, the Company can no longer grant any further share options under the 2002 Share Option Scheme. However, all share options granted prior to 7th August 2012 will remain in full force and effect.



ADDITIONAL INFORMATION (Cont'd)

Share Option Schemes (Cont'd)

A. 2002 Share Option Scheme (Cont'd)

The following table discloses movements in the Company's share options under the 2002 Share Option Scheme during the period:

Participants	Date of Grant	Exercise Period	Adjusted Exercise Price HK\$	Number of shares to be issued upon exercise of share options						At 30th June 2018
				At 1st January 2018	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Adjusted during the period	
Other Employees	19.3.2012	19.3.2013 to 18.3.2022	0.704 ¹	464,253	-	-	-	-	92,847 ¹	557,100
	2.5.2012	2.5.2013 to 1.5.2022	0.728 ¹	141,857	-	-	-	-	28,371 ¹	170,228
Total				606,110	-	-	-	-	121,218	727,328

Notes:

1. The number of outstanding share options and exercise price under the 2002 Share Option Scheme were adjusted as a result of the bonus issue of shares of the Company on 8th June 2018, the details of which are disclosed in the Company's announcement dated 8th June 2018.
2. All of the above share options were vested equally on each of the first, second and third anniversaries of the date of grant.
3. No Director held any share options under the 2002 Share Option Scheme during six months ended 30th June 2018.
4. The weighted average closing price of the share of the Company immediately before the date on which the share options were exercised was not applicable.

ADDITIONAL INFORMATION (Cont'd)

Share Option Schemes (Cont'd)

B. 2017 Share Option Scheme

The Company adopted a new share option scheme (the "2017 Share Option Scheme") on 13th March 2017 for the purpose of providing incentives or rewards to any eligible employee, executive or officer including directors of the Company and its subsidiaries for their contribution, to subscribe for ordinary shares of par value HK\$0.10 each of the Company. The total number of shares of the Company which may be issued upon exercise of all options to be granted under the 2017 Share Option Scheme and any other share option schemes of the Company (if any) 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 of the Company 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 by the eligible participant before the option can be exercised. The period during which an option may be exercised will be determined by the Directors 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 of the Company on the Stock Exchange's daily quotation sheets on the date an offer is made; (b) the average of the closing prices of the shares of the Company on the Stock Exchange for the five business days immediately preceding the date an offer is made; and (c) the nominal value of a share of the Company. The 2017 Share Option Scheme will expire on 12th March 2027.

The following table discloses movements in the Company's share options under the 2017 Share Option Scheme during the period:

Participants	Dated of grant	Vesting Period and Exercise Period	Adjusted Exercise Price HK\$	Number of Shares to be issued upon exercise of share options						
				At 1st January 2018	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Adjusted during the period	At 30th June 2018
Directors										
Wang Yueou	31.3.2017	(Note 2)	0.970 ¹	3,850,000	-	-	-	-	770,000 ¹	4,620,000
Li Wei	31.3.2017	(Note 2)	0.970 ¹	1,100,000	-	-	-	-	220,000 ¹	1,320,000
Cui Yong	31.3.2017	(Note 2)	0.970 ¹	1,100,000	-	-	-	-	220,000 ¹	1,320,000
Other Employees										
	31.3.2017	(Note 2)	0.970 ¹	14,784,000	-	(132,000)	(423,500)	-	2,885,300 ¹	17,113,800
	28.4.2017	(Note 2)	0.909 ¹	6,050,000	-	-	-	-	1,210,000 ¹	7,260,000
	13.12.2017	(Note 2)	0.867 ¹	1,388,000	-	-	-	-	277,600 ¹	1,665,600
Total				28,272,000	-	(132,000)	(423,500)	-	5,582,900	33,299,400

ADDITIONAL INFORMATION (Cont'd)

Share Option Schemes (Cont'd)

B. 2017 Share Option Scheme (Cont'd)

Notes:

- The number and exercise price of outstanding share options granted on 31st March 2017, 28th April 2017 and 13th December 2017 under the 2017 Share Option Scheme were adjusted as a result of the bonus issue of shares of the Company on 8th June 2018, the details of which are disclosed in the Company's announcement dated 8th June 2018.
- On 31st March 2017, the Company granted share options to certain eligible participants under the 2017 Share Option Scheme to subscribe for a total of 19,140,000 shares of the Company at the exercise price of HK\$1.28. The share options are divided into four tranches, each of which consists of one fourth of the share options and is associated with performance targets within a specific financial period, the details of which are disclosed in the Company's announcement dated 31st March 2017.

On 28th April 2017, the Company granted share options to certain eligible participants under the 2017 Share Option Scheme to subscribe for a total of 6,500,000 shares of the Company at the exercise price of HK\$1.20. The share options are divided into four tranches, each of which consists of one fourth of the share options and is associated with performance targets within a specific financial period, the details of which are disclosed in the Company's announcement dated 28th April 2017.

On 13th December 2017, the Company granted share options to certain eligible participants under the 2017 Share Option Scheme to subscribe for a total of 1,388,000 shares of the Company at the exercise price of HK\$1.04. The share options are divided into four tranches, each of which consists of one fourth of the share options and is associated with performance targets within a specific financial period, the details of which are disclosed in the Company's announcement dated 13th December 2017.

The vesting period and exercise period of each tranche of the share options granted on 31st March 2017, 28th April 2017 and 13th December 2017, respectively, are as follows:

Date of Grant	Tranches	Vesting Period	Exercise Periods	Percentage of share options of each tranche shall be exercisable
31.3.2017	First tranche	31.3.2017 to 1.4.2019	31.3.2017 to 30.3.2027	50%
			1.4.2018 to 30.3.2027	25%
			1.4.2019 to 30.3.2027	25%
	Second tranche	28.3.2018 to 1.4.2020	28.3.2018 to 30.3.2027	50%
		1.4.2019 to 30.3.2027	25%	
		1.4.2020 to 30.3.2027	25%	
	Third tranche	Date of publication of the annual results announcement of the Company for the financial year ending 31st December 2018 (the "Date of 2018 Results Announcement") to 1.4.2021	Date of 2018 Results Announcement to 30.3.2027	50%
			1.4.2020 to 30.3.2027	25%
			1.4.2021 to 30.3.2027	25%
	Fourth tranche	Date of publication of the annual results announcement of the Company for the financial year ending 31st December 2019 (the "Date of 2019 Results Announcement") to 1.4.2022	Date of 2019 Results Announcement to 30.3.2027	50%
			1.4.2021 to 30.3.2027	25%
			1.4.2022 to 30.3.2027	25%
28.4.2017	First tranche	1.6.2018 to 1.6.2020	1.6.2018 to 27.4.2027	50%
			1.6.2019 to 27.4.2027	25%
			1.6.2020 to 27.4.2027	25%
	Second tranche	1.6.2019 to 1.6.2021	1.6.2019 to 27.4.2027	50%
			1.6.2020 to 27.4.2027	25%
			1.6.2021 to 27.4.2027	25%
	Third tranche	1.6.2020 to 1.6.2022	1.6.2020 to 27.4.2027	50%
			1.6.2021 to 27.4.2027	25%
			1.6.2022 to 27.4.2027	25%
	Fourth tranche	1.6.2021 to 1.6.2023	1.6.2021 to 27.4.2027	50%
			1.6.2022 to 27.4.2027	25%
			1.6.2023 to 27.4.2027	25%

ADDITIONAL INFORMATION (Cont'd)

Share Option Schemes (Cont'd)

B. 2017 Share Option Scheme (Cont'd)

Notes: (Cont'd)

Date of Grant	Tranches	Vesting Period	Exercise Periods	Percentage of share options of each tranche shall be exercisable
13.12.2017	First tranche	1.4.2019 to 1.4.2021	1.4.2019 to 12.12.2027	50%
			1.4.2020 to 12.12.2027	25%
			1.4.2021 to 12.12.2027	25%
	Second tranche	1.4.2020 to 1.4.2022	1.4.2020 to 12.12.2027	50%
			1.4.2021 to 12.12.2027	25%
			1.4.2022 to 12.12.2027	25%
	Third tranche	1.4.2021 to 1.4.2023	1.4.2021 to 12.12.2027	50%
			1.4.2022 to 12.12.2027	25%
			1.4.2023 to 12.12.2027	25%
	Fourth tranche	1.4.2022 to 1.4.2024	1.4.2022 to 12.12.2027	50%
			1.4.2023 to 12.12.2027	25%
			1.4.2024 to 12.12.2027	25%

- The offers for a total number of 6,500,000 options was made to eligible participants, in which an offer of 1,000,000 options was not accepted by an eligible participant, pursuant to the 2017 Share Option Scheme, the offer of these options was automatically lapsed and became null and void.
- The closing prices of the shares of the Company immediately before 31st March 2017, 28th April 2017 and 13th December 2017 on which the share options were granted under the 2017 Share Option Scheme were HK\$1.25, HK\$1.08 and HK\$0.90 per share of the Company, respectively.
- The weighted average closing price of the share of the Company immediately before the date on which the share options were exercised was HK\$1.48.

During the six months ended 30th June 2018, the Group recognised total expense of approximately HK\$1,824,000 (six months ended 30th June 2017: HK\$2,063,000) 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 2018 from employees for taking up the shares under the options amounted to nil (six months ended 30th June 2017: HK\$63).

Purchase, Sale or Redemption of Listed Securities

During the six months ended 30th June 2018, 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.

ADDITIONAL INFORMATION (Cont'd)

Update on Directors' Information

Pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the change in information of Directors of the Company is set out below:

1. Mr. Li Wei ("Mr. Li") entered into a renewed secondment agreement with the Company for extending term of one year with effect from 1st July 2018 with the fee for secondment of HK\$480,000.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted 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 2018, 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 2018, except as noted below:

1. with respect to Code provision A.6.7, one Non-Executive Director did not attend the annual general meeting of the Company held on 16th May 2018 (the "2018 AGM") due to other commitments; and
2. with respect to Code provision E.1.2, Mr. Li Wei, the Chairman of the Board, was unable to attend the 2018 AGM due to other commitments.

As at 15th August 2018, 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.