

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 2019

- 
- ▶ **EMPOWER**
 - ▶ **SECURE**
 - ▶ **MANAGE**

Local Support • Global Delivery

Hong Kong • Mainland China • United States • Europe • Taiwan • Macau • Thailand • Singapore • Malaysia

* For identification purpose only



2019 INTERIM RESULTS OVERVIEW

Financial Highlights of the Group's Core Business

Revenue

+20.8%

Up to
HK\$ 1,353.0 Million

Gross Profit

+16.6%

Up to
HK\$ 270.7 Million

Adjusted Net Profit

(Note 1)
+15.8%

Up to
HK\$ 77.4 Million

Orders Newly Secured

+34.8%

Up to
HK\$ 1,367.5 Million

Adjusted EBITDA

(Note 2)
+10.7%

Up to
HK\$ 117.7 Million

Review of the Business in Asia Pacific

Revenue

+16.4%

Up to
HK\$ 922.8 Million

Gross Profit

+1.3%

Up to
HK\$ 106.7 Million

Adjusted Net Profit

(Note 1)
+1.1%

Up to
HK\$ 36.5 Million

Orders Newly Secured

+25.3%

Up to
HK\$ 939.5 Million

Adjusted EBITDA

(Note 2)
+3.2%

Up to
HK\$ 54.8 Million

Operational Highlights of the Business in Asia Pacific

PERFORMANCE OF ORDERS NEWLY SECURED IN ASIA PACIFIC

Asia Pacific Subsidiaries
(Asia Pacific key business coverage spots)

7.8%

HK\$ 73.5 Million

ELM (Note 3)
(IBM Platinum
Business Partner)

8.4%

HK\$ 72.5 Million



Hong Kong

92.2%

HK\$ 866.0 Million

Hong Kong

ASL Hong Kong (Note 4)

91.6%

HK\$ 793.5 Million

3 CORE BUSINESSES OF ASL HONG KONG

Focus on 3 core businesses: Innovative Solutions Business, Intelligent Cybersecurity Business, and Integrated Managed Service Business

Further enhancing the capability in IT services integration and applications' implementation in real world

Others

6.1%

HK\$ 48.7 Million

Integrated

Managed Service
Business

51.4%

HK\$ 407.6 Million

Innovative
Solutions
Business

20.2%

HK\$ 160.1 Million

Intelligent
Cybersecurity
Business

22.3%

HK\$ 177.1 Million



3 CORE BUSINESSES OF ASL HONG KONG (CONT'D)



Innovative Solutions Business



Intelligent Cybersecurity Business



Integrated Managed Service Business

Win cases

- Captured its **first** big data project **in Asia** in the retail sector
- Obtained large-scale **Cloud Computing-related** landmark projects from two government departments
- Introduced AI and Cloud security solutions and leveraged its 7x24 Security Operation Center *plus* to obtain orders from **the financial industry and a government department** respectively
- Provision of IT support services in Hong Kong and Mainland China for a real estate services organization
- Providing **5-year** personal computer support and related services for a statutory body

Key projects

- Actively promoted, a new charging model, **SaaS**
- Cooperated with **Alibaba Cloud** to support enterprises' upgrading and transformation
- Launched the **A-Tips**, an ASL Threat Intelligence Platform, to improve security services
- Actively developing the **one-stop service platform**

Review of the Business in U.S. and Europe

Revenue
+31.6%

Up to
HK\$ 430.2 Million

Gross Profit (Note 5)
+29.2%

Up to
HK\$ 164.0 Million

Adjusted Net Profit (Note 1, 5)
+33.1%

Up to
HK\$ 40.9 Million

Orders Newly Secured
+62.0%

Up to
HK\$ 428.0 Million

Adjusted EBITDA (Note 2)
+18.3%

Up to
HK\$ 62.9 Million

Operational Highlights of the Business in U.S. and Europe

Win cases

- Revenue from certain customers reaches **HK\$100 million** approximately
- Continues to serve the **Fortune 500** customers, including Google and Apple
- Continues to expand the customer base: an American luxury department store chain, the world's leading ATM supplier, etc.

Key investment achievement

- Grid Dynamics, located at **Silicon Valley** and was acquired by the Group in 2017, was named a Leader among midsize agile software development service providers by **Forrester** in 2019. The recognition is attributed to the share option scheme, an incentive measure thereby encouraging employees' further contribution to the Group, and also to the R&D investment amounted to over **HK\$25.5 million** for boosting service and technical capabilities.

Outlooks

- Grasp the **business opportunities arising from new technologies**, including digital transformation, Cloud Computing, Internet of Things and 5G
- Exert **distinctive market advantages**
- **Drive corporate innovation to move forward** with investment worth tens of millions of Hong Kong dollars
- Continue to carry out annual marketing event – **ASL Solution Tour** – to promote technology integration capability of the Group to customers



Note 1: The amount is calculated based on profit for the period excluding some major extraordinary or non-operating income and expenses as defined by the Group's management. The adjusted net profit is profit for the period, excluding acquisition-related expenses (mainly include fair value loss on contingent consideration payable, interest expenses on borrowings and professional fees), equity-settled share-based payments expense and share of results of associates.

Note 2: Adjusted Earnings Before Interest, Taxes, Depreciation, and Amortisation (Adjusted EBITDA) is calculated based on adjusted net profit (Note 1) excluding interest income and expenses, tax, depreciation and amortisation.

Note 3: ELM Computer Technologies Limited (ELM)

Note 4: Automated Systems (H.K.) Limited (ASL Hong Kong)

Note 5: Including the amortisation of intangible assets in the acquisition of Grid Dynamics

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

WANG Weihang (*Chairman*)
WANG Yueou (*Chief Executive Officer*)

NON-EXECUTIVE DIRECTORS

LI Wei
CUI Yong

INDEPENDENT NON-EXECUTIVE DIRECTORS

PAN Xinrong
DENG Jianxin
OR Siu Ching, Rerina

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

WANG Weihang (*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 31, 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 2019 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

27th August 2019

Lam Yau Hing

Practising Certificate No.: P06622

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30th June 2019

	Notes	Unaudited Six months ended 30th June	
		2019 HK\$'000	2018 HK\$'000
Revenue	6	1,353,047	1,120,074
Cost of goods sold		(442,859)	(349,543)
Cost of services rendered		(639,440)	(538,274)
Other income	7	3,656	4,754
Other (loss)/gain, net	8	(4,883)	463
Selling expenses		(75,326)	(54,431)
Administrative expenses		(111,688)	(93,774)
Finance income	9	87	149
Finance costs		(13,867)	(11,038)
Share of results of associates		(6,185)	(2,439)
Profit before income tax	10	62,542	75,941
Income tax expense	11	(18,964)	(24,455)
Profit for the period		43,578	51,486
Profit for the period attributable to:			
Equity holders of the Company		41,398	51,486
Non-controlling interests		2,180	-
		43,578	51,486
		HK cents	HK cents
Earnings per share attributable to equity holders of the Company	13		
Basic		5.14	6.40
Diluted		4.42	5.31

The notes on pages 11 to 31 form an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June 2019

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

The notes on pages 11 to 31 form an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June 2019

	Notes	Unaudited 30th June 2019 HK\$'000	Audited 31st December 2018 HK\$'000
Non-current assets			
Property, plant and equipment	14	307,414	304,495
Investment properties	15	54,000	54,000
Intangible assets	16	115,338	118,053
Goodwill		769,376	771,173
Interests in associates		21,797	27,662
Equity investment		598	598
Finance lease receivables		973	1,128
Deferred income tax assets		5,232	5,384
		1,274,728	1,282,493
Current assets			
Inventories		189,630	178,595
Trade receivables	17	222,439	315,007
Finance lease receivables		2,798	3,346
Other receivables, deposits and prepayments	18	47,448	44,596
Contract assets		286,859	260,462
Tax recoverable		4,734	3,588
Restricted bank deposits	19	756	762
Bank balances and cash		504,928	292,183
		1,259,592	1,098,539
Total assets		2,534,320	2,381,032
Equity			
Share capital	23	80,522	80,522
Share premium		377,146	377,146
Reserves		851,000	755,209
Equity attributable to equity holders of the Company		1,308,668	1,212,877
Non-controlling interests		42,649	-
Total equity		1,351,317	1,212,877

The notes on pages 11 to 31 form an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

As at 30th June 2019

	Notes	Unaudited 30th June 2019 HK\$'000	Audited 31st December 2018 HK\$'000
Non-current liabilities			
Borrowings	22	-	257,425
Deferred income tax liabilities		76,213	76,420
Lease liabilities		3,176	-
		79,389	333,845
Current liabilities			
Trade payables	20	227,573	258,940
Other payables and accruals	21	137,115	139,415
Contingent consideration payable		-	69,565
Receipts in advance		166,096	132,017
Current income tax liabilities		19,227	10,083
Borrowings	22	477,272	224,290
Financial liabilities at fair value through profit or loss	24	72,565	-
Lease liabilities		3,766	-
		1,103,614	834,310
Total liabilities		1,183,003	1,168,155
Total equity and liabilities		2,534,320	2,381,032
Net current assets		155,978	264,229
Total assets less current liabilities		1,430,706	1,546,722

The notes on pages 11 to 31 form an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2019

	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 HK\$'000	Non-controlling interests 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	-	1,097,818
Comprehensive income:											
Profit for the period	-	-	-	-	-	-	-	51,486	51,486	-	51,486
Other comprehensive income:											
Exchange differences on translation of overseas operations	-	-	-	-	(523)	-	-	-	(523)	-	(523)
Share of other comprehensive loss of associates	-	-	-	-	(164)	-	-	-	(164)	-	(164)
Total comprehensive income for the period	-	-	-	-	(687)	-	-	51,486	50,799	-	50,799
Transaction with owners:											
Issue of ordinary shares upon exercise of share options	13	191	-	-	-	-	(50)	-	154	-	154
Issue of ordinary shares on bonus issue (Note 23)	13,414	-	-	-	-	-	-	(13,414)	-	-	-
Forfeiture of unclaimed dividend	-	-	-	-	-	-	-	2	2	-	2
Recognition of equity-settled share-based payments	-	-	-	-	-	-	1,823	-	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)	-	(6,707)
Total transaction with owners	13,427	191	-	-	-	-	1,744	(20,090)	(4,728)	-	(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	-	1,143,889

The notes on pages 11 to 31 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 2019

	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 HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
At 1st January 2019	80,522	377,146	34,350	235,661	(3,060)	11,097	27,288	449,873	1,212,877	-	1,212,877
Adjustment from the adoption of HKFRS 16	-	-	-	-	-	-	-	(99)	(99)	-	(99)
	80,522	377,146	34,350	235,661	(3,060)	11,097	27,288	449,774	1,212,778	-	1,212,778
Comprehensive income:											
Profit for the period	-	-	-	-	-	-	-	41,398	41,398	2,180	43,578
Other comprehensive income:											
Exchange differences on translation of overseas operations	-	-	-	-	1,311	-	-	-	1,311	176	1,487
Share of other comprehensive income of associates	-	-	-	-	96	-	-	-	96	-	96
Total comprehensive income for the period	-	-	-	-	1,407	-	-	41,398	42,805	2,356	45,161
Transaction with owners:											
Recognition of equity-settled share-based payments	-	-	-	-	-	-	12,034	-	12,034	-	12,034
Lapse of share options transferred to retained earnings	-	-	-	-	-	-	(49)	49	-	-	-
Disposal of partial interest in a subsidiary (Note 30)	-	-	-	-	-	-	(3,495)	44,546	41,051	40,293	81,344
Total transaction with owners	-	-	-	-	-	-	8,490	44,595	53,085	40,293	93,378
At 30th June 2019	80,522	377,146	34,350	235,661	(1,653)	11,097	35,778	535,767	1,308,668	42,649	1,351,317

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 31 form an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June 2019

	Unaudited	
	Six months ended 30th June	
	2019	2018
	HK\$'000	HK\$'000
Operating activities		
Cash from operations	170,155	127,307
Hong Kong profits tax paid	(2,026)	(2,542)
Overseas tax (paid)/refund	(8,957)	17,312
Net cash from operating activities	159,172	142,077
Investing activities		
Cash outflow in respect of acquisition of subsidiaries	(70,623)	(101,272)
Purchase of property, plant and equipment	(8,330)	(7,265)
Additions to intangible assets	(5,026)	(4,262)
Proceeds from disposal of property, plant and equipment	1	50
Interest received	851	230
Dividend received from an associate	-	485
Net cash used in investing activities	(83,127)	(112,034)
Financing activities		
Repayment of bank borrowings	(11,250)	(12,500)
Principal portion of lease payments	(2,189)	-
Net increase in amount due to the ultimate holding company	-	1,298
Proceeds from issuance of ordinary shares	-	154
Proceed from issuance of financial liabilities at fair value through profit or loss (Note 24)	72,565	-
Proceed from disposal of partial interest in a subsidiary	81,344	-
Interest paid	(7,003)	(5,041)
Dividend paid	-	(6,707)
Net cash from/(used in) financing activities	133,467	(22,796)
Net increase in cash and cash equivalents	209,512	7,247
Cash and cash equivalents at the beginning of the period	292,183	286,771
Effect of foreign exchange rate changes	3,233	270
Cash and cash equivalents at the end of the period	504,928	294,288

The notes on pages 11 to 31 form an integral part of this interim financial information.

NOTES TO THE INTERIM FINANCIAL INFORMATION

For the six months ended 30th June 2019

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 HM 12, 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 27th August 2019.

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 2019 has been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The interim financial information should be read in conjunction with the consolidated financial statements of the Group for the year ended 31st December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

3 Significant Accounting Policies

(i) New or amended HKFRSs

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

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

The adoption of these newly effective new or amended HKFRSs has no material impact on how the results and financial position of the Group for the current and prior periods have been prepared and presented, except for the effects of the adoption of HKFRS 16 as stated in Note 3(ii). The accounting policies for financial liabilities at fair value through profit or loss (“FVTPL”) and business combination are stated in Note 3(iii) and Note 3(iv), respectively.

(ii) HKFRS 16 “Leases”

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

3 Significant Accounting Policies (Cont'd)

(ii) HKFRS 16 "Leases" (Cont'd)

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

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

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

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

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

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

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

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

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

(a) The Group as a lessee

Applicable from 1st January 2019

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

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

3 Significant Accounting Policies (Cont'd)

(ii) HKFRS 16 "Leases" (Cont'd)

(a) The Group as a lessee (Cont'd)

Applicable from 1st January 2019 (Cont'd)

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

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

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

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

Measurement and recognition of leases as a lessee

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

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

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

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

3 Significant Accounting Policies (Cont'd)

(ii) HKFRS 16 "Leases" (Cont'd)

(a) The Group as a lessee (Cont'd)

Applicable from 1st January 2019 (Cont'd)

Measurement and recognition of leases as a lessee (Cont'd)

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

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

Applicable before 1st January 2019

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

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

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

Operating leases

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

(b) The Group as a lessor

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

3 Significant Accounting Policies (Cont'd)

(iii) Financial liabilities at FVTPL

Convertible preferred shares

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

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

Derivative financial instruments

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

(iv) Business combination

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

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

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 2018, except for new significant judgements and key sources of estimation uncertainty related to the valuation of financial liabilities at FVTPL, which are described below.

Valuation of financial liabilities at FVTPL

The fair value of financial liabilities that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could materially affect the respective fair value of these financial liabilities.

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

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 2018.

There have been no changes in the risk management department or risk management policies since year ended 31st December 2018.

(i) 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 2019			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				
Financial liabilities at FVTPL (Note 24)	-	-	72,565	72,565
		Audited At 31st December 2018		
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total 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	-	-	69,565	69,565

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

5 Financial Risk Management (Cont'd)

(i) Fair value measurement (Cont'd)

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.

The valuation technique and significant unobservable inputs of the fair value of the Group's financial liabilities at FVTPL as at 30th June 2019 are disclosed in Note 24.

The reconciliation of the carrying amount of the Group's financial liabilities classified within level 3 of the fair value hierarchy are as follows:

	Contingent Consideration payable HK\$'000	Financial liabilities at FVTPL HK\$'000	Total HK\$'000
At 1st January 2019	69,565	-	69,565
Issuance of financial liabilities at FVTPL	-	72,565	72,565
Payment of contingent consideration	(70,624)	-	(70,624)
Fair value loss recognised in profit or loss	921	-	921
Exchange difference	138	-	138
At 30th June 2019	-	72,565	72,565

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

The Board 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 2018: two) operating divisions – Information Technology Products ("IT Products") and Information Technology Services ("IT Services"). These divisions are the basis on which the Group reports its primary segment information to the chief operating decision maker. The business nature of each segment is disclosed as follows:

IT Products

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

IT Services

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

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

6 Revenue and Segment Information (Cont'd)

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

Unaudited

Six months ended 30th June 2019

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

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

As at 30th June 2019

	IT Products HK\$'000	IT Services HK\$'000	Total HK\$'000
Reportable segment assets	254,466	1,388,998	1,643,464
Reportable segment liabilities	262,265	247,483	509,748

Audited

As at 31st December 2018

	IT Products HK\$'000	IT Services HK\$'000	Total HK\$'000
Reportable segment assets	323,664	1,372,065	1,695,729
Reportable segment liabilities	263,940	204,845	468,785

(a) Segment accounting policies

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

6 Revenue and Segment Information (Cont'd)

(a) Segment accounting policies (Cont'd)

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

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

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

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

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

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

Profit or loss	Unaudited Six months ended 30th June	
	2019 HK\$'000	2018 HK\$'000
Reportable segment profit	196,120	178,006
Unallocated amounts:		
Unallocated other income	3,037	4,723
Unallocated other (loss)/gain, net	(4,883)	463
Unallocated depreciation	(4,730)	(2,203)
Share of results of associates	(6,185)	(2,439)
Finance costs	(13,867)	(11,038)
Unallocated corporate expenses	(106,950)	(91,571)
Profit before income tax per condensed consolidated statement of profit or loss	62,542	75,941

Assets	Unaudited 30th June 2019 HK\$'000	Audited 31st December 2018 HK\$'000
	Reportable segment assets	1,643,464
Unallocated assets:		
Interests in associates	21,797	27,662
Deferred income tax assets	5,232	5,384
Tax recoverable	4,734	3,588
Restricted bank deposits	756	762
Bank balances and cash	504,928	292,183
Unallocated corporate assets	353,409	355,724
Total assets per condensed consolidated statement of financial position	2,534,320	2,381,032

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

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 2019 HK\$'000	Audited 31st December 2018 HK\$'000
Liabilities		
Reportable segment liabilities	509,748	468,785
Unallocated liabilities:		
Current income tax liabilities	19,227	10,083
Deferred income tax liabilities	76,213	76,420
Unallocated corporate liabilities	577,815	612,867
Total liabilities per condensed consolidated statement of financial position	1,183,003	1,168,155

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

Place of domicile	Revenue from external customers Unaudited Six months ended 30th June		Specified non-current assets Unaudited 30th June	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	Audited 31st December 2018 HK\$'000
Hong Kong	864,287	743,280	342,543	342,060
United States of America ("US")	430,251	326,954	877,713	885,091
Russia	-	-	10,226	10,417
Ukraine	-	-	6,497	5,331
Poland	-	-	6,713	3,808
Singapore	-	-	21,035	26,776
Mainland China	1,969	3,729	231	312
Macau	12,951	15,774	865	954
Taiwan	10,092	7,492	13	29
Thailand	33,497	22,845	732	124
Serbia	-	-	1,357	481
	1,353,047	1,120,074	1,267,925	1,275,383

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 2019 and 2018.

(c) Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time, details of the Group's timing of revenue recognition were as follow:

	Unaudited Six months ended 30th June 2019 HK\$'000	2018 HK\$'000
Timing of revenue recognition		
At a point in time	997,119	803,409
Over time	355,928	316,665
Revenue from external customers	1,353,047	1,120,074

Revenue relates to performance obligation that are unsatisfied as at 30th June 2019 amounted to approximately HK\$1,120,000,000 are expected to be recognised with one to five years.

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

7 Other Income

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

8 Other (Loss)/Gain, Net

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

11 Income Tax Expense

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

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

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

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

12 Dividends

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

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

13 Earnings Per Share attributable to Equity Holders of the Company

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

	Unaudited Six months ended 30th June	
	2019 HK\$'000	2018 HK\$'000
Profit attributable to equity holders of the Company for the purpose of basic earnings per share	41,398	51,486
Effect of dilutive potential ordinary shares		
– Interest on convertible bonds (Note (iii))	6,296	5,996
Profit attributable to equity holders of the Company for the purpose of diluted earnings per share	47,694	57,482

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

13 Earnings Per Share attributable to Equity Holders of the Company (Cont'd)

	Number of shares 2019 '000	2018 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share (Note (i))	805,224	804,727
Effect of dilutive potential ordinary shares		
– Share options (Note (ii))	258	2,156
– Convertible bonds (Note (iii))	274,725	274,725
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,080,207	1,081,608

Notes:

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

The 804,727,000 ordinary shares are derived from the weighted average number of ordinary shares in issue during the six months ended 30th June 2018 after taking into account the effect of bonus issue (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 2019 assumed the exercise of the share options of the Company granted in March and May 2012 and in December 2017, but not on the share options granted in March and April 2017 which are considered as anti-dilutive as the average market price of the ordinary shares of the Company is less than the exercise price of these share options. The calculation of the diluted earnings per share for the six months ended 30th June 2018 assumed the exercise of the share options of the Company granted in March and May 2012 and in March, April and December 2017.

(iii) The calculation of the diluted earnings per share for the six months ended 30th June 2018 and 2019 is based on the profit attributable to equity holders of the Company, adjusted to reflect the interest of the convertible bonds issued by the Company. The weighted average number of ordinary shares for the purpose of the diluted earnings per share for the six months ended 30th June 2018 and 2019 have taken into account the weighted average number of ordinary shares assumed to have been issued on the deemed conversion of the convertible bonds into ordinary shares for the period.

(iv) The dilutive effect of the share options and the convertible preferred shares (Note 24(a)) granted by the Company's subsidiary was insignificant during the six months ended 30th June 2019.

14 Property, Plant and Equipment

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

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

The Group's land and buildings were stated at valuations made at 31st December 2018 less depreciation. The land and buildings were last revalued by an independent professional valuer at 31st December 2018 on market value basis which was determined by reference to market evidence of recent transactions for similar properties. As at 30th June 2019, the directors of the Company considered that the carrying amount of the Group's land and buildings did not differ significantly from their fair values.

As at 30th June 2019, if the land and buildings had not been revalued, they would have been included in the interim financial information at historical cost, less accumulated depreciation and amortisation with carrying amount of approximately HK\$37,002,000 (31st December 2018: HK\$38,034,000).

As at 30th June 2019, the Group had pledged land and buildings with carrying amount of approximately HK\$162,695,000 (31st December 2018: HK\$165,600,000) to secure Group's bank borrowings as disclosed in Note 22.

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

15 Investment Properties

The investment properties of the Group were last revalued at 31st December 2018 by an independent professional valuer on market value basis which was determined by reference to market evidence of recent transactions for similar properties.

As at 30th June 2019, the directors of the Company considered that the carrying amount of the Group's investment properties which are carried at revalued amounts did not differ significantly from their fair values.

As at 30th June 2019, the Group had pledged investment properties with carrying amount of HK\$54,000,000 (31st December 2018: HK\$54,000,000) to secure Group's bank borrowing as disclosed in Note 22.

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 period ended 30th June 2019, additions to deferred development costs for clearly-defined projects that will be recovered through future commercial activity amounted HK\$5,026,000 (six months ended 30th June 2018: HK\$4,262,000).

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

18 Other Receivables, Deposits and Prepayments

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

19 Restricted Bank Deposits

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

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

21 Other Payables and Accruals

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

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

22 Borrowings

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

Notes:

(i) Bank borrowings

The Group's bank borrowings are repayable as follows:

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

As at 31st December 2018, bank borrowings of approximately HK\$224,290,000 are repayable by five semi-annually instalments commencing from 29th March 2018 to 20th February 2020 and bears interest at floating rates. The bank borrowings are denominated in Hong Kong dollars ("HKD") with an effective interest rate of 4.68%.

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

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

- (1) the legal charges over the Group's land and buildings with carrying amount of approximately HK\$162,695,000 (31st December 2018: HK\$165,600,000);
- (2) the legal charges over the Group's investment properties with carrying amount of HK\$54,000,000 (31st December 2018: HK\$54,000,000) (Note 15);
- (3) the guarantee given by the Company and certain subsidiaries of the Group up to a limit of HK\$250,000,000 (31st December 2018: HK\$250,000,000);
- (4) assignment of rental and sales proceeds from the Group's land and buildings and investment properties;
- (5) assignment of insurance of all insurance policies (other than third party liabilities and public liabilities) over the Group's land and buildings and investment properties.

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

22 Borrowings (Cont'd)

Notes: (Cont'd)

(i) Bank borrowings (Cont'd)

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

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

Subject to repayment on demand clauses which can be exercised at the banks' sole discretion, the above bank borrowings are classified as current liabilities as at 30th June 2019 and 31st December 2018.

(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 "Convertible Shares") at the initial conversion price of HK\$1.20 per share (subject to adjustment). As a result of the bonus issue on 8th June 2017, the number of Convertible Shares and the conversion price per share have been adjusted to 321,100,917 shares and HK\$1.09 per share.

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

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

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

The conversion option embedded in the Convertible Bonds meet the definition of equity instrument of the Company, and is classified as equity and included in the convertible bonds reserves. The liability component was initially recognised at its fair value and was subsequently measured at amortised cost. As at 30th June 2019, the Convertible Bonds contains two components i.e. liability and equity.

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

	HK\$'000 (Unaudited)
At 1st January 2019	257,425
Imputed interest expense	6,296
At 30th June 2019	263,721

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

During the six months ended 30th June 2019, there was no conversion or redemption of the Convertible Bonds.

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

23 Share Capital

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 31st December 2018 and 30th June 2019	2,000,000	200,000
Issued and fully paid:		
At 1st January 2018	670,544	67,054
Issue of ordinary shares upon exercise of share options	545	54
Bonus issue (Note)	134,135	13,414
At 31st December 2018 and 30th June 2019	805,224	80,522

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 Financial liabilities at FVTPL

	Unaudited 30th June 2019 HK\$'000	Audited 31st December 2018 HK\$'000
Current		
Convertible preferred shares and related put option (Note (a))	66,732	–
Put option liability (Note (b))	5,833	–
	72,565	–

Note:

(a) Convertible preferred shares and related put option

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

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

Voting rights

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

Dividend

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

Liquidation preference

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

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

24 Financial liabilities at FVTPL (Cont'd)

Note: (Cont'd)

(a) Convertible preferred shares and related put option (Cont'd)

Conversion option

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

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

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

(b) Put option on Common Shares granted by the Company ("Put Option on CS")

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

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

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

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

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

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

25 Contingent Liabilities

As at 30th June 2019, the Group had approximately HK\$756,000 (31st December 2018: HK\$726,000) restricted bank deposit held as security for performance bonds. As at 30th June 2019, performance bonds of approximately HK\$81,793,000 (31st December 2018: HK\$68,536,000) have been issued by the bank on behalf of the Group to customers as security of contracts.

26 Pledge of Assets

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

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

27 Capital Commitments

As at 30th June 2019, the Group had contracted capital commitment of approximately HK\$519,000 (31st December 2018: HK\$654,000) for acquisition of property, plant and equipment and approximately HK\$10,799,000 (31st December 2018: HK\$10,816,000) for capital expenditure of equity investment, respectively.

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 2019, Teamsun Technology (HK) Limited owns 56.54% of the Company's issued shares (31st December 2018: 56.54%). The remaining 43.46% of the Company's issued shares (31st December 2018: 43.46%) 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	
	2019 HK\$'000	2018 HK\$'000
Ultimate holding company:		
Expenses charged to the Group	-	832
The associates:		
Sales by the Group	2,034	-
Purchases by the Group	5,840	3,127
Other income charged by the Group	48	75
Rental income charged by the Group	188	179

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 2019 amounted to approximately HK\$3,061,000 (six months ended 30th June 2018: HK\$2,093,000).

NOTES TO THE INTERIM FINANCIAL INFORMATION (Cont'd)

For the six months ended 30th June 2019

30. Disposal of partial interest in a subsidiary

(a) Disposal of partial equity interest in GDI

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

(b) Issuance of Common Shares of GDI

As disclosed in Note 24, during the six months ended 30th June 2019, GDI issued 622,027 Common Shares to BGV, which represents 4.93% of the enlarged issued share capital of GDI.

(c) Exercise of share options of GDI

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

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

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

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

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

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

Business Review

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

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Business Review (Cont'd)

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

Innovative Solutions Business

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

Intelligent Cybersecurity Business

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

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Business Review (Cont'd)

Integrated Managed Services Business

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

Overseas Business

During the period, Grid Dynamics showed a robust growth, its revenue and gross profit recorded a remarkable increase of 31.6% and 28.2% respectively when compared to last year. With its professional competency and good reputation, Grid Dynamics continued to uphold its leading position in the industry during the period, and further expanded its customer base in its well-established financial, retail and technology industries. An overall increase of over 50% of orders newly secured led to a significant increase in the overall revenue.

Annual Marketing Event – ASL Solution Tour

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

Outlook and Prospects

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

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Outlook and Prospects (Cont'd)

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

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

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

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

Financial Resources and Liquidity

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

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

Material Acquisition

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

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Treasury Policies

The Group generally financed its operations with internally generated resources and credit facilities provided by banks. Bank facilities available for the Group include trust receipt loans, clean import loans, overdrafts and term loans. The interest rates of most of them are fixed by reference to the respective countries' Interbank Offer Rate. The bank deposits are mainly denominated in Hong Kong dollars ("HKD") and United States dollars ("USD"). The bank borrowings are denominated in HKD.

Foreign Exchange Exposure

The Group mainly earns revenue and incurs costs in HKD and USD. Foreign exchange exposure to USD of the Group will continue to be minimal as long as the policy of the Government of the Hong Kong Special Administrative Region to link HKD to USD remains in effect. There was no material exposure to fluctuations in exchange rates and therefore no related hedging financial instrument was applied during the six months ended 30th June 2019 (six months ended 30th June 2018: same).

Contingent Liabilities

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

Capital Commitments

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

Employee and Remuneration Policies

As at 30th June 2019, the Group, excluding its associates, employed 2,378 permanent and contract staff in Hong Kong, Mainland China, Taiwan, Macau, Thailand, the United States, Russia, Poland, Ukraine and Serbia. The Group remunerates its employees based on their performance, working experience and the prevailing market conditions. Bonuses are granted on a discretionary basis. Other employee benefits include mandatory provident fund, insurance, medical coverage and share options scheme.

ADDITIONAL INFORMATION

Dividend

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

Directors' Interests in Shares and Underlying Shares

As at 30th June 2019, 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 percentage of shareholding
The Company	Li Wei	412,500 ¹	-	-	-	412,500	0.05%
Beijing Teamsun Technology Co., Ltd. ("Teamsun")	Wang Weihang	92,069,358	-	-	41,170,975 ²	133,240,333	12.08%
	Li Wei	602,520	-	-	-	602,520	0.05%
	Cui Yong	640,000	-	-	-	640,000	0.06%

(b) Underlying shares

Name of Company	Director	Personal interests	Family interests	Corporate interests	Other	Total	Approximate percentage of shareholding
The Company	Wang Yueou	4,620,000 ³	-	-	-	4,620,000	0.57%
	Li Wei	907,500 ³	-	-	-	907,500	0.11%
	Cui Yong	1,320,000 ³	-	-	-	1,320,000	0.16%
Teamsun	Li Wei	250,000 ⁴	-	-	-	250,000	0.02%
	Cui Yong	500,000 ⁴	-	-	-	500,000	0.05%
Grid Dynamics International, Inc. ("Grid Dynamics")	Wang Yueou	90,000 ⁵	-	-	-	90,000	0.67%

Notes:

1. Mr. Li Wei exercised his share option to subscribe for 412,500 shares of the Company on 12th July 2018 and 412,500 shares of the Company were allotted on 19th July 2018.

ADDITIONAL INFORMATION (Cont'd)

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

(b) Underlying shares (Cont'd)

Notes: (Cont'd)

- 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.
- 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, 14th July 2015 and 7th August 2018; and details of Teamsun's 2017 restricted share incentive scheme were disclosed in Teamsun's announcements dated 14th October 2017, 23rd November 2017, 15th December 2017 and 8th December 2018.
- Share options to subscribe for shares of common stock of Grid Dynamics ("GDI Share(s)") under a share option scheme of Grid Dynamics adopted on 21st December 2018, further details of which are set out in section headed "Share Option Schemes" below.

Save as mentioned above, as at 30th June 2019, 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 2019, 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	56.54%
Teamsun	Interest of controlled corporation	Long Position	455,268,915 ¹	56.54%
Beijing International Trust Co., Ltd. ("Beijing Trust")	Trustee	Long Position	107,841,742 ²	13.39%

For identification purpose only

ADDITIONAL INFORMATION (Cont'd)

Substantial Shareholders (Cont'd)

(b) Underlying shares

Name of shareholder	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	34.12%
Central Huijin Investment Ltd. ("Central Huijin")	Interest of controlled corporation	Long Position	274,725,274 ⁴	34.12%

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.

Save as mentioned above, as at 30th June 2019, 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.

ADDITIONAL INFORMATION (Cont'd)

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.

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	Exercise Price HK\$	Number of Shares to be issued upon exercise of share options						
				At 1st January 2019	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Adjusted during the period	At 30th June 2019
Other Employees	19.3.2012	19.3.2013 to 18.3.2022	0.704	557,100	-	-	-	-	-	557,100
	2.5.2012	2.5.2013 to 1.5.2022	0.728	170,228	-	-	-	-	-	170,228
Total				727,328	-	-	-	-	-	727,328

Notes:

1. All of the above share options were vested equally on each of the first, second and third anniversaries of the date of grant.
2. No Director held any share options under the 2002 Share Option Scheme for the six months ended 30th June 2019.
3. 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.

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 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 2017 Share Option Scheme will expire on 12th March 2027.

ADDITIONAL INFORMATION (Cont'd)

Share Option Schemes (Cont'd)

B. 2017 Share Option Scheme (Cont'd)

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

Participants	Date of grant	Vesting Period and Exercise Period	Exercise Price HK\$	Number of Shares to be issued upon exercise of share options						At 30th June 2019
				At 1st January 2019	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Adjusted during the period	
Directors										
Wang Yueou	31.3.2017	(Note 1)	0.970	4,620,000	-	-	-	-	-	4,620,000
Li Wei	31.3.2017	(Note 1)	0.970	907,500	-	-	-	-	-	907,500
Cui Yong	31.3.2017	(Note 1)	0.970	1,320,000	-	-	-	-	-	1,320,000
Other Employees										
	31.3.2017	(Note 1)	0.970	17,014,800	-	-	(356,400)	-	-	16,658,400
	28.4.2017	(Note 1)	0.909	7,260,000	-	-	-	-	-	7,260,000
	13.12.2017	(Note 1)	0.867	1,665,600	-	-	(158,400)	-	-	1,507,200
Total				32,787,900	-	-	(514,800)	-	-	32,273,100

Notes:

- 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.

ADDITIONAL INFORMATION (Cont'd)

Share Option Schemes (Cont'd)

B. 2017 Share Option Scheme (Cont'd)

Notes:

1. (Cont'd)

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 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	20.3.2019 to 1.4.2021	20.3.2019 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%
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 offer 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.
- During the six months ended 30th June 2019, 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)

C. Share Option Scheme of a subsidiary of the Company

Grid Dynamics, an indirect subsidiary of the Company, adopted a share option scheme (the "GDI Share Option Scheme") on 21st December 2018. The GDI Share Option Scheme will be expired on 20th December 2028. A summary of the GDI Share Option Scheme is as follows:

The purpose of the GDI Share Option Scheme is to advance the interests of Grid Dynamics and its shareholders by providing an incentive to attract, retain and reward persons performing services for Grid Dynamics and any entities which are its parent companies or subsidiaries (the "Participating Company Group") and by motivating such persons to contribute to the growth and profitability of Grid Dynamics. The participants include employees, consultants and directors of the Participating Company Group.

The options will be exercisable until the expiration of ten (10) years after the effective date of grant of such option, or such other applicable date (i.e. no incentive stock option granted to a person who, at the time an option is granted to such person, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Participating Company Group, shall be exercisable after the expiration of five (5) years after the effective date of grant of such option, and with the exception of (i) an option granted to an officer, a director of the Participating Company Group (the "GDI Scheme Director") or a consultant, a person engaged to provide consulting or advisory services (other than as an employee or a GDI Scheme Director) to the Participating Company Group and (ii) an option that is exercisable based on the accomplishment of specific performance-based milestones, no option shall become exercisable at a rate less than twenty percent (20%) per year over a period of five (5) years from the effective date of grant of such option, subject to the participant's continued service).

The following table discloses movements in the share options under the GDI Share Option Scheme during the period:

Participants	Date of grant	Vesting Period and Exercise Period	Exercise Price US\$	Number of Shares to be issued upon exercise of share options						At 30th June 2019
				At 1st January 2019	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Adjusted during the period	
Director of the Company										
Wang Yueou	21.12.2018	(Note 1)	7.54	90,000	-	-	-	-	-	90,000
Excess Single Participant Limit										
Leonard Livschitz ²	21.12.2018	(Note 1)	7.54	937,500	-	-	-	-	-	937,500
Victoria Livschitz ²	21.12.2018	(Note 1)	7.54	300,000	-	(150,000)	-	-	-	150,000
Yury Gryzlov ²	21.12.2018	(Note 1)	7.54	150,000	-	-	-	-	-	150,000
Others										
	21.12.2018	(Note 1)	7.54	772,500	-	(60,000)	-	-	-	712,500
	22.5.2019	(Note 3)	7.54	-	20,000	-	-	-	-	20,000
Total				2,250,000	20,000	(210,000)	-	-	-	2,060,000

ADDITIONAL INFORMATION (Cont'd)

Share Option Schemes (Cont'd)

C. Share Option Scheme of a subsidiary of the Company (Cont'd)

Notes:

1. On 12th November 2018 (Pacific Time), GDI Board proposed to grant share options to 57 participants under the GDI Share Option Scheme to subscribe for up to 2,250,000 GDI Shares at the exercise price of US\$7.54 per GDI Share (the "Exercise Price"). The grant of share options exceeding the Scheme Mandate Limit was approved by the shareholders of the Company at the special general meeting held on 21st December 2018 (the "SGM"). Among the abovementioned options: (i) options to subscribe for 2,127,500 GDI Shares were granted to 16 grantees who are directors of Grid Dynamics or senior management of Participating Company Group and are so granted in such capacity (the "GDI Senior Management Grant"); and (ii) options to subscribe for 122,500 GDI Shares were granted to 41 grantees who were so to be granted in their capacity as employees and/or officers of the Participating Company Group (the "GDI Employees Grant"). Options of the above grants are divided into four tranches. There will be no performance target which must be achieved before the unvested options may be exercised.

The vesting period and exercise period of the share options granted on 21st December 2018 under the GDI Senior Management Grant are as follows:

Date of Grant	Tranches	Vesting Period	Exercise Periods	Percentage of options of each tranche shall be exercisable
21.12.2018	First tranche	12.11.2018	12.11.2018 to 11.11.2028	25%
	Second tranche	1.1.2019	1.1.2019 to 11.11.2028	25%
	Third tranche	1.1.2020	1.1.2020 to 11.11.2028	25%
	Fourth tranche	1.1.2021	1.1.2021 to 11.11.2028	25%

Immediately prior to the consummation of a change in control of Grid Dynamics (including Ownership Change Event as defined in the appendix to the Company's Circular dated 3rd December 2018 or the liquidation or dissolution of Grid Dynamics), all the unvested options shall automatically vest in full.

The vesting period and exercise period of the share options granted on 21st December 2018 under the GDI Employees Grant are as follows:

Date of Grant	Tranches	Vesting Period	Exercise Periods	Percentage of options of each tranche shall be exercisable
21.12.2018	First tranche	12.11.2018	12.11.2018 to 11.11.2028	25%
	Second tranche	12.11.2019	12.11.2019 to 11.11.2028	25%
	Third tranche	12.11.2020	12.11.2020 to 11.11.2028	25%
	Fourth tranche	12.11.2021	12.11.2021 to 11.11.2028	25%

Immediately prior to the consummation of a change in control of Grid Dynamics (including Ownership Change Event as defined in the appendix to the Company's Circular dated 3rd December 2018 or the liquidation or dissolution of Grid Dynamics), the vesting of options shall accelerate by an additional 12 months.

Notwithstanding the foregoing vesting schedules, certain options may be exercised by the participants for issuance of both vested and unvested GDI Shares. In the event a participant elects to exercise the unvested options, the unvested GDI Shares issued thereunder shall be treated as restricted stock and are entitled to the same rights as vested GDI Shares. The details of which are disclosed in the Company's announcements dated 21st December 2018 and 18th March 2019, respectively.

ADDITIONAL INFORMATION (Cont'd)

Share Option Schemes (Cont'd)

C. Share Option Scheme of a subsidiary of the Company (Cont'd)

Notes: (Cont'd)

- At the SGM, the shareholders of the Company approved the grant of options to Leonard Livschitz, Victoria Livschitz and Yury Gryzlov exceeding the Single Participant Limit to subscribe for up to 937,500 GDI Shares, 300,000 GDI Shares, and 150,000 GDI Shares, respectively, under the GDI Share Option Scheme which represent approximately 7.81%, 2.50%, and 1.25%, respectively, of the total GDI shares in issue as at that date. For details, please refer to the Company's announcement dated 21st December 2018.
- On 27th March 2019, the GDI Board has resolved to grant options to two participants under the GDI Share Option Scheme to subscribe for an aggregate of up to 20,000 GDI Shares subsequent to the passing of an ordinary resolution of the shareholders of the Company at the annual general meeting of the Company held on 22nd May 2019 (the "2019 AGM") approving the refreshment of scheme mandate limit (i.e. options to subscribe for up to 2,250,000 GDI Shares) for further grant of options to subscribe for up to 750,000 GDI Shares. The foregoing two participants are not the director, chief executive or substantial shareholder of the Company or their respective associate. Options of the above grants are divided into four tranches. There will be no performance target which must be achieved before the unvested options may be exercised.

The vesting period and exercise period of the share options granted on 22nd May 2019 under are as follows:

Date of grant	Tranches	Vesting Period	Exercise Periods	Percentage of options of each tranche shall be exercisable
22.5.2019	First tranche	1.2.2020	1.2.2020 to 26.3.2029	25%
	Second tranche	1.2.2021	1.2.2021 to 26.3.2029	25%
	Third tranche	1.2.2022	1.2.2022 to 26.3.2029	25%
	Fourth tranche	1.2.2023	1.2.2023 to 26.3.2029	25%

Immediately prior to the consummation of a change in control of GDI (including Ownership Change Event as defined in the appendix of the Company's circular dated 3rd December 2018, or the liquidation or dissolution of GDI), all the unvested Options shall automatically vest in full.

Notwithstanding the foregoing vesting schedules, certain Options may be exercised by the Grantees for issuance of both vested and unvested GDI Shares. In the event a Grantee elects to exercise the unvested Options, the unvested GDI Shares issued thereunder shall be treated as restricted stock are entitled to the same rights as vested shares of GDI's common stock. The details of which are disclosed in the Company's announcement dated 27th March 2019.

ADDITIONAL INFORMATION (Cont'd)

Purchase, Sale or Redemption of Listed Securities

During the six months ended 30th June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Audit Committee

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

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. Ms. Or Siu Ching, Rerina ("Ms. Or") has been appointed as a senior vice president of Schneider Electric S.E. (collectively with its subsidiaries, referred to as "Schneider Electric"), a company listed on Euronext Paris Stock Exchange (Stock Code: SU), in February 2019. Ms. Or resigned as a director and a president of Schneider Electric (Hong Kong) Limited and a director of certain subsidiaries of Schneider Electric in January 2019.
2. Mr. Wang Weihang ("Mr. Wang") has been appointed as the chairman of the Board and the chairman of the nomination committee of the Company ("Nomination Committee") with effect from the conclusion of the 2019 AGM. In conjunction with the appointment of Mr. Wang as the chairman of the Board and the chairman of the Nomination Committee, Mr. Li has ceased to be the chairman of the Board and the chairman of the Nomination Committee with effect from the conclusion of the 2019 AGM.
3. 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 2019 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 2019, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

Corporate Governance

The Company has complied with the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules throughout the accounting period for the six months ended 30th June 2019, except as noted below:

1. with respect to Code provision A.6.7, two Non-Executive Directors were unable to attend the 2019 AGM due to other commitments; and
2. with respect to Code provision E.1.2, Mr. Li Wei, the former chairman of the Board, was unable to attend the 2019 AGM due to other commitments.

As at 27th August 2019, 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.