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AUTOMATED SYSTEMS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 771)

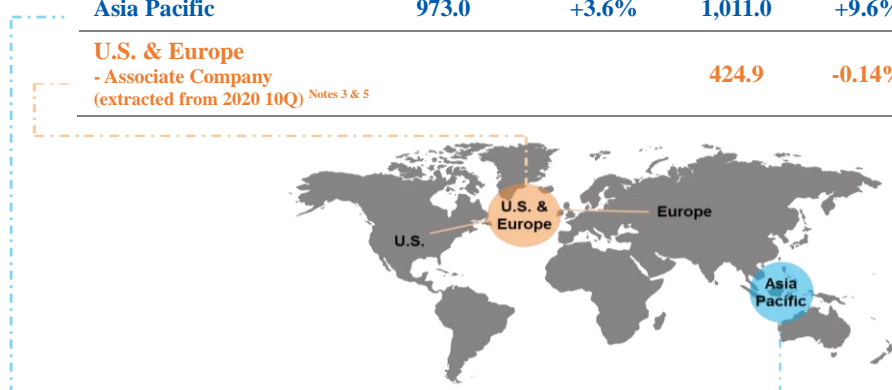
INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE 2020

FINANCIAL HIGHLIGHTS

Group Financial Indicator			
(In HK\$ million)	Unaudited 6 Months Ended 30 th June		
	2020	2019	% Change
Asia Pacific			
Orders Newly Secured	973.0	939.5	+3.6
Revenue	1,011.0	922.8	+9.6
Gross Profit	103.9	106.7	-2.7
Adjusted EBITDA ^{Note 1}	51.0	54.8	-6.9
U.S. & Europe – Associate Company			
One-off gain from disposal ^{Note 2}	772.3	N/A	N/A
Profit for the period attributable to equity holders of the Company	761.2	41.4	+1,738.7

Group Performance Overview (In HK\$ million)

Region	Orders Newly Secured	% Change	Revenue	% Change	Adjusted EBITDA ^{Note 1}	% Change
Hong Kong	942.1	+8.8%	925.6	+7.1%	48.4	-9.3%
Asia Pacific Subsidiaries	30.9	-57.9%	85.4	+46.0%	2.6	+76.5%
Asia Pacific	973.0	+3.6%	1,011.0	+9.6%	51.0	-6.9%
U.S. & Europe - Associate Company (extracted from 2020 10Q) ^{Notes 3 & 5}			424.9	-0.14%	32.9 ^{Note 4}	-57.3%



Note 1: Adjusted Earnings Before Interest, Taxes, Depreciation, and Amortisation (Adjusted EBITDA) is calculated based on profit for the period of continuing operations excluding interest income and expenses, tax, depreciation, amortisation, equity-settled share-based payments expense, share of results of associates and equity-transaction-related expenses (mainly include professional fees).

Note 2: The one-off gain arises from gain on disposal deducted by current and deferred income tax expenses arising from disposal.

Note 3: Amounts stated were extracted from Form 10Q for the quarter period ended 30 June 2020 ("Form 10Q") of Grid Dynamics Holdings, Inc. ("GDH") published on US Security and Exchange Commission website. The results of GDH were not consolidated in the Group's results, but after completion date of the disposal were accounted for using equity method and based on the Group's shareholding in GDH.

Note 4: According to Form 10Q of GDH, the Adjusted EBITDA is net income before interest income/expense, provision for income taxes and depreciation and amortization, and further adjusted for the impact of stock-based compensation expense, transaction-related costs (which include, when applicable, professional fees, staff retention bonuses, and consulting, legal and advisory costs related to merger and acquisition and capital-raising activities), impairment of goodwill and other income/expenses, net (which includes mainly interest income and expense, foreign currency transaction losses and gains, fair value adjustments and other miscellaneous expenses).

Note 5: Figures in US\$ have been converted to HK\$ at the rate of US\$1 = HK\$7.75 for illustration purposes.

RESULTS

The Board of Directors (the “Board”) of Automated Systems Holdings Limited (the “Company”) are pleased to announce the unaudited results of the Company and its subsidiaries (the “Group” or “ASL”) for the six months ended 30th June 2020. The interim financial information has been reviewed by the Company’s Audit Committee and the Company’s auditor.

Condensed Consolidated Statement of Profit or Loss

		Unaudited Six months ended 30th June	
	Notes	2020 HK\$'000	2019 HK\$'000 (restated)
Continuing operations			
Revenue	3	1,011,032	922,796
Cost of goods sold		(486,291)	(442,859)
Cost of services rendered		(420,886)	(373,252)
Other income	4	3,063	3,084
Other loss, net	5	(3,121)	(1,396)
Selling expenses		(39,440)	(38,968)
Administrative expenses		(28,584)	(29,248)
Finance income	6	178	87
Finance costs		(6,050)	(13,839)
Share of results of associates		(18,592)	(6,185)
		<hr/>	<hr/>
Profit before income tax	7	11,309	20,220
Income tax expense	8	(20,918)	(8,816)
		<hr/>	<hr/>
(Loss)/Profit for the period from continuing operations		(9,609)	11,404
Discontinued operations			
Profit for the period from discontinued operations	9(a)	770,654	32,174
		<hr/>	<hr/>
Profit for the period		761,045	43,578
		<hr/> <hr/>	<hr/> <hr/>

Condensed Consolidated Statement of Profit or Loss (Continued)

	<i>Notes</i>	Unaudited	
		Six months ended	
		30th June	
		2020	2019
		<i>HK\$'000</i>	<i>HK\$'000</i> (restated)
(Loss)/Profit for the period attributable to equity holders of the Company:			
-From continuing operations		(9,609)	11,404
-From discontinued operations		<u>770,810</u>	<u>29,994</u>
		<u>761,201</u>	<u>41,398</u>
(Loss)/Profit for the period attributable to non-controlling interests:			
-From continuing operations		-	-
-From discontinued operations		<u>(156)</u>	<u>2,180</u>
		<u>(156)</u>	<u>2,180</u>
Profit for the period		<u>761,045</u>	<u>43,578</u>

	<i>Notes</i>	Unaudited	
		Six months ended	
		30th June	
		2020	2019
		<i>HK cents</i>	<i>HK cents</i> (restated)
(Loss)/Earnings per share attributable to equity holders of the Company:			
From continuing and discontinued operations			
-Basic and diluted		<u>92.01</u>	<u>5.14</u>
From continuing operations			
-Basic and diluted		<u>(1.16)</u>	<u>1.42</u>
From discontinued operations			
-Basic and diluted		<u>93.17</u>	<u>3.72</u>

Condensed Consolidated Statement of Comprehensive Income

	Unaudited Six months ended 30th June	
	2020 HK\$'000	2019 HK\$'000
Profit for the period	761,045	43,578
Other comprehensive income that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of overseas operations	(4,194)	1,487
Release of translation reserve upon disposal of subsidiaries	3,413	-
Share of other comprehensive (loss)/income of associates	(972)	96
Total comprehensive income for the period	759,292	45,161
Total comprehensive income attributable to:		
Equity holders of the Company	759,448	42,805
Non-controlling interests	(156)	2,356
	759,292	45,161

Condensed Consolidated Statement of Financial Position

		Unaudited 30th June 2020 <i>HK\$'000</i>	Audited 31st December 2019 <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	12	303,367	321,595
Investment properties	13	55,800	55,800
Intangible assets		-	107,243
Goodwill		-	766,816
Interests in associates	14	1,812,968	19,625
Equity investment		598	598
Finance lease receivables		4,671	4,946
Deferred income tax assets		109	16,341
		<u>2,177,513</u>	<u>1,292,964</u>
CURRENT ASSETS			
Inventories		214,066	267,938
Trade receivables	15	191,916	344,219
Finance lease receivables		2,827	2,729
Other receivables, deposits and prepayments	16	21,323	70,135
Contract assets		235,276	362,333
Tax recoverable		-	1,660
Restricted bank deposits	17	-	556
Bank balances and cash		430,844	456,058
		<u>1,096,252</u>	<u>1,505,628</u>
TOTAL ASSETS		<u>3,273,765</u>	<u>2,798,592</u>

Condensed Consolidated Statement of Financial Position (Continued)

		Unaudited	Audited
		30th June	31st December
		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
EQUITY			
Share capital		82,731	82,731
Share premium		395,830	395,830
Reserves		1,611,641	926,711
		<hr/>	<hr/>
Equity attributable to equity holders of the Company		2,090,202	1,405,272
Non-controlling interests		-	47,510
		<hr/>	<hr/>
TOTAL EQUITY		2,090,202	1,452,782
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Deferred income tax liabilities		239,248	78,299
Lease liabilities		3,835	3,236
		<hr/>	<hr/>
		243,083	81,535
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade payables	18	224,249	360,282
Other payables and accruals	19	184,085	184,612
Receipts in advance		196,780	176,533
Current income tax liabilities		161,445	25,352
Borrowings	20	168,370	439,770
Financial liabilities at fair value through profit or loss		-	75,017
Lease liabilities		5,551	2,709
		<hr/>	<hr/>
		940,480	1,264,275
		<hr/>	<hr/>
TOTAL LIABILITIES		1,183,563	1,345,810
		<hr/>	<hr/>
TOTAL EQUITY AND LIABILITIES		3,273,765	2,798,592
		<hr/>	<hr/>
NET CURRENT ASSETS		155,772	241,353
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,333,285	1,534,317
		<hr/>	<hr/>

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of Preparation

(i) Basis of Preparation

The interim financial information for the six months ended 30th June 2020 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 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

(ii) Restatements due to discontinued operations

The presentation of comparative information in respect of the condensed consolidated statement of profit or loss for the period ended 30th June 2019 has been restated in order to disclose the discontinued operations separately from continuing operations.

2. Significant Accounting Policies

(i) New and amended HKFRSs that are effective for annual periods beginning from 1st January 2020

The interim financial information for the six months ended 30th June 2020 have been prepared in accordance with the accounting policies adopted in the consolidated financial statements for the year ended 31st December 2019, except for the adoption of the following new or amended HKFRSs that are firstly effective for the period beginning from 1st January 2020. The Group has not early adopted any other standards, interpretation or amendment that has been issued but are not yet effective.

Amendments to HKFRS 3	<i>Definition of Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</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. The accounting policy for discontinued operations is stated in Note 2(ii).

(ii) Discontinued operations

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale. The component comprises operations and cash flows that can be clearly distinguished from the rest of the Group and represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount in the consolidated statement of profit or loss comprising the total of: (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued operation.

3. Revenue and Segment Information

The Group's revenue is analysed as follows:

	Unaudited Six months ended 30th June	
	2020 HK\$'000	2019 HK\$'000 (restated)
Continuing operations		
Sales of goods	543,133	501,745
Revenue from service contracts	<u>467,899</u>	<u>421,051</u>
	<u>1,011,032</u>	<u>922,796</u>

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

The Group is currently organised into two (six months ended 30th June 2019: two) operating divisions - Information Technology Products ("IT Products") and Information Technology Services ("IT Services").

These divisions are the basis on which the Group reports its primary segment information to the chief operating decision maker. The business nature of each segment is disclosed as follows:

IT Products

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

IT Services

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

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

Unaudited

Six months ended 30th June 2020

	<u>Continuing operations</u>			<u>Discontinued operations</u>
	<u>IT Products</u> <i>HK\$'000</i>	<u>IT Services</u> <i>HK\$'000</i>	<u>Total</u> <i>HK\$'000</i>	<u>IT Services</u> <i>HK\$'000</i>
Revenue from external customers	543,133	467,899	1,011,032	166,610
Intersegment revenue	<u>975</u>	<u>11,560</u>	<u>12,535</u>	<u>-</u>
Segment revenue	544,108	479,459	1,023,567	166,610
Reportable segment profit	38,729	26,055	64,784	8,649
Segment depreciation	1,258	4,498	5,756	1,622
Segment amortisation	-	-	-	2,364
Additions to property, plant and equipment*	12	3,612	3,624	1,852
Additions to intangible assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,587</u>

* Additions to property, plant and equipment of HK\$7,816,000 were related to unallocated assets.

3. Revenue and Segment Information (Continued)

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

Unaudited

Six months ended 30th June 2019 (restated)

	<u>Continuing operations</u>			<u>Discontinued operations</u>
	<u>IT Products</u> <i>HK\$'000</i>	<u>IT Services</u> <i>HK\$'000</i>	<u>Total</u> <i>HK\$'000</i>	<u>IT Services</u> <i>HK\$'000</i>
Revenue from external customers	501,745	421,051	922,796	430,251
Intersegment revenue	4,819	12,215	17,034	272
Segment revenue	506,564	433,266	939,830	430,523
Reportable segment profit	38,909	29,494	68,403	127,717
Segment depreciation	1,241	3,868	5,109	4,707
Segment amortisation	-	-	-	7,513
Additions to property, plant and equipment*	3	1,709	1,712	5,338
Additions to intangible assets	-	-	-	5,026

* Additions to property, plant and equipment of HK\$10,486,000 were related to unallocated assets.

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

Unaudited

As at 30th June 2020

	<u>IT Products</u> <i>HK\$'000</i>	<u>IT Services</u> <i>HK\$'000</i>	<u>Total</u> <i>HK\$'000</i>
Reportable segment assets	319,560	336,132	655,692
Reportable segment liabilities	286,269	258,921	545,190

Audited

As at 31st December 2019

	<u>IT Products</u> <i>HK\$'000</i>	<u>IT Services</u> <i>HK\$'000</i>	<u>Total</u> <i>HK\$'000</i>
Reportable segment assets	376,863	1,546,696	1,923,559
Reportable segment liabilities	386,229	328,911	715,140

(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, 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.

3. Revenue and Segment Information (Continued)

(a) Segment accounting policies (Continued)

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 financial liabilities at fair value through profit or loss ("FVTPL").

(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:

	Unaudited Six months ended 30th June	
	2020 HK\$'000	2019 HK\$'000 (restated)
Continuing operations		
Revenue		
Reportable segment revenue	1,023,567	939,830
Elimination of intersegment revenue	<u>(12,535)</u>	<u>(17,034)</u>
Revenue per condensed consolidated statement of profit or loss	<u>1,011,032</u>	<u>922,796</u>
	Unaudited Six months ended 30th June	
	2020 HK\$'000	2019 HK\$'000 (restated)
Discontinued operations		
Revenue		
Reportable segment revenue	166,610	430,523
Elimination of intersegment revenue	<u>-</u>	<u>(272)</u>
Revenue per analysis of results from discontinued operations (Note 9(a)(i))	<u>166,610</u>	<u>430,251</u>

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

3. Revenue and Segment Information (Continued)

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

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

	Unaudited Six months ended 30th June	
	2020 HK\$'000	2019 HK\$'000 (restated)
Continuing operations		
Profit or loss		
Reportable segment profit	64,784	68,403
Unallocated amounts:		
Unallocated other income	2,837	2,477
Unallocated other loss, net	(3,121)	(1,396)
Unallocated depreciation	(5,128)	(4,457)
Share of results of associates	(18,592)	(6,185)
Finance costs	(6,050)	(13,839)
Unallocated corporate expenses	(23,421)	(24,783)
Profit before income tax per condensed consolidated statement of profit or loss	<u>11,309</u>	<u>20,220</u>
	Unaudited Six months ended 30th June	
	2020 HK\$'000	2019 HK\$'000 (restated)
Discontinued operations		
Profit or loss		
Reportable segment profit	8,649	127,717
Unallocated amounts:		
Unallocated other income	317	560
Unallocated other loss, net	(381)	(3,487)
Unallocated depreciation	(91)	(273)
Finance costs	(8)	(28)
Unallocated corporate expenses	(28,254)	(82,167)
(Loss)/Profit before income tax per analysis of results from discontinued operations (Note9 (a)(i))	<u>(19,768)</u>	<u>42,322</u>

3. Revenue and Segment Information (Continued)

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

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

	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Assets		
Reportable segment assets	655,692	1,923,559
Unallocated assets:		
Interests in associates	1,812,968	19,625
Deferred income tax assets	109	16,341
Tax recoverable	-	1,660
Restricted bank deposits	-	556
Bank balances and cash	430,844	456,058
Unallocated corporate assets	374,152	380,793
	<hr/>	<hr/>
Total assets per condensed consolidated statement of financial position	3,273,765	2,798,592
	<hr/>	<hr/>
	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Liabilities		
Reportable segment liabilities	545,190	715,140
Unallocated liabilities:		
Current income tax liabilities	161,445	25,352
Deferred income tax liabilities	239,248	78,299
Unallocated corporate liabilities	237,680	527,019
	<hr/>	<hr/>
Total liabilities per condensed consolidated statement of financial position	1,183,563	1,345,810
	<hr/>	<hr/>

3. Revenue and Segment Information (Continued)

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

The following table sets out information about the geographical segment location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or the goods were delivered.

Place of domicile	Revenue from external customers			
	Unaudited			
	Six months ended			
	30th June			
	Continuing operations		Discontinued operations	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(restated)		(restated)
Hong Kong	925,621	864,287	-	-
United States of America ("US")	-	-	166,610	430,251
Mainland China	1,769	1,969	-	-
Macau	27,733	12,951	-	-
Taiwan	5,907	10,092	-	-
Thailand	50,002	33,497	-	-
	1,011,032	922,796	166,610	430,251

Information about major customers from continuing operations

The Group's has one customer with whom transaction exceeded 10% of the Group's revenue amounted to approximately HK\$136,735,000 from continuing operations (six months ended 30th June 2019: Nil).

The following table sets out information about the geographical segment location of the Group's non-current assets (other than financial instruments and deferred income tax assets). 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	Specified non-current assets	
	Unaudited	Audited
	30th June	31st December
	2020	2019
	HK\$'000	HK\$'000
Hong Kong	356,116	355,956
US	1,796,041	871,823
Russia	-	8,789
Ukraine	-	5,925
Poland	-	3,716
Singapore	16,168	18,881
Mainland China	447	330
Macau	2,153	2,488
Taiwan	761	3
Thailand	449	585
Serbia	-	2,583
	2,172,135	1,271,079

3. Revenue and Segment Information (Continued)

(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 of time, details of the Group's timing of revenue recognition were as follows:

	Unaudited Six months ended 30th June			
	Continuing operations		Discontinued operations	
	2020	2019	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i> (restated)	<i>HK\$'000</i>	<i>HK\$'000</i> (restated)
Timing of revenue recognition				
At a point in time	628,975	566,868	-	-
Over time	382,057	355,928	166,610	430,251
Revenue from external customers	1,011,032	922,796	166,610	430,251

Revenue relates to performance obligation for continuing operations that are unsatisfied as at 30th June 2020 amounted to approximately HK\$1,073,519,000 (As at 30th June 2019 (restated): HK\$923,454,000) are expected to be recognised with one to five years.

4. Other Income

	Unaudited Six months ended 30th June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i> (restated)
Continuing operations		
Interest on bank deposits	367	291
Rental income from investment properties	2,121	2,124
Others	575	669
	3,063	3,084

5. Other Loss, Net

	Unaudited Six months ended 30th June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i> (restated)
Continuing operations		
Loss on disposal of property, plant and equipment	-	(5)
Fair value loss on contingent consideration payable	-	(921)
Exchange loss, net	(2,088)	(470)
Waiver of intercompany balances from Disposal group	(1,033)	-
	(3,121)	(1,396)

6. Finance Income

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

7. Profit Before Income Tax

	Unaudited Six months ended 30th June	
	2020	2019
	HK\$'000	HK\$'000 (restated)
Continuing operations		
Profit before income tax is arrived at after charging/(crediting):		
Depreciation:		
Property, plant and equipment – owned assets	8,010	7,476
Property, plant and equipment – right-of-use assets	2,874	2,090
Provision for impairment of trade receivables	1,509	775
Reversal of provision for impairment of trade receivables	(1)	(1,658)
Staff costs	220,684	222,727

8. Income Tax Expense

	Unaudited Six months ended 30th June	
	2020	2019
	HK\$'000	HK\$'000 (restated)
Continuing operations		
Current taxation:		
Hong Kong profits tax (Note (i))	6,573	7,734
Overseas taxation	626	494
Overseas withholding tax (Note (ii))	13,117	-
	<u>20,316</u>	<u>8,228</u>
Deferred taxation:		
Current period	<u>602</u>	<u>588</u>
Income tax expense	<u>20,918</u>	<u>8,816</u>

Notes:

- (i) 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 six months ended 30th June 2020 and 2019, Hong Kong profits tax of a subsidiary of the Company is calculated in accordance with the two-tiered profits tax rates regime.
- (ii) Pursuant to the US Foreign Account Tax Compliance Act, a tax law enacted in the US, a 30% withholding tax is levied on interest income received by a non-US resident from a US resident. The Group is liable to withholding tax on the interest income received in cash by a non-US subsidiary from the US subsidiary during the six months ended 30th June 2020 (Six months ended 30th June 2019: Nil).

9. Discontinued operations

On 13th November 2019, the Company, Grid Dynamics International, Inc. (“Grid Dynamics”), ChaSerg Technology Acquisition Corp. (“ChaSerg”), CS Merger Sub 1 Inc. (“Merger Sub 1”) and CS Merger Sub 2 LLC (“Merger Sub 2”) entered into a conditional merger agreement (the “Merger Agreement”). The transactions contemplated under the Merger Agreement involve the acquisition of Grid Dynamics by ChaSerg, a special purpose acquisition company the shares of which are listed on The NASDAQ Stock Market LLC (“Nasdaq”) through the two-step mergers between Grid Dynamics and the wholly-owned subsidiaries of ChaSerg, Merger Sub 1 and Merger Sub 2 (the “Mergers”). The Mergers are effectively an injection of Grid Dynamics in exchange for cash and equity interests in ChaSerg and thereby effecting the separate listing of Grid Dynamics on Nasdaq.

On 5th March 2020, all the conditions precedent set out in the Merger Agreement have been fulfilled in accordance with the terms of the Merger Agreement (the “Completion”). Upon Completion, Grid Dynamics and its subsidiaries (the “Disposal Group”) become wholly-owned subsidiaries of Grid Dynamics Holdings, Inc. (“GDH”, formerly ChaSerg) (ticker symbol: GDYN). In connection with the Mergers, the Company through its wholly-owned subsidiary, GDD International Holding Company (“GDD”) received cash consideration of approximately US\$93,820,000 (equivalent to approximately HK\$727,507,000) and 19,490,295 consideration shares of GDH, which represents approximately 38.3% of the issued share capital of GDH as at the date of Completion (the “Completion Date”). Accordingly, Grid Dynamics ceased to be a subsidiary of the Group (the “Disposal”) and the Group’s interest in GDH is treated as interests in an associate and accounted for using equity method.

Details of the Merger are set out in the circular of the Company dated 31st December 2019 and the announcement of the Company dated 8th March 2020.

The Disposal Group represents a significant geographical component of the Group’s IT service segment, the results of the Disposal Group for the period from 1st January 2020 to the Completion Date are presented for as discontinued operations in the condensed consolidated statement of profit or loss for the six months ended 30th June 2020. The comparative figures in the condensed consolidated statement of profit or loss has been restated. Details of the assets and liabilities disposed of and calculation of gain on disposal are disclosed in Note 22.

9. Discontinued operations (Continued)

(a) Analysis of results from discontinued operations

The results of the discontinued operations included in the condensed consolidated statement of profit or loss and the cash flows are set out below.

(i) Profit for the period from discontinued operations:

	Unaudited	
	Period from 1st January 2020 to 5th March 2020 <i>HK\$'000</i>	Six months ended 30th June 2019 <i>HK\$'000</i>
Revenue	166,610	430,251
Cost of services rendered	(121,503)	(266,188)
Other income	615	572
Other loss, net	(381)	(3,487)
Selling expenses	(20,185)	(36,358)
Administrative expenses	(44,916)	(82,440)
Finance costs	(8)	(28)
	<hr/>	<hr/>
(Loss)/Profit before income tax	(19,768)	42,322
Income tax credit/(expense)	18,147	(10,148)
	<hr/>	<hr/>
(Loss)/Profit for the period	(1,621)	32,174
Gain on disposal of the Disposal Group (Note 22)	1,109,585	-
Current income tax expense arising from the Disposal (Note (a))	(154,432)	-
Deferred tax expense arising from the Disposal (Note (b))	(182,878)	-
	<hr/>	<hr/>
Profit for the period from discontinued operations	770,654	32,174
	<hr/>	<hr/>

Notes:

- (a) Current income tax expense arising from the Disposal of HK\$154,432,000 relates to US tax on assessable profit of GDD which includes the cash consideration of HK\$727,507,000. Such tax is calculated based on US federal tax rate at 21% and various US states tax at an average tax rate of 6%.
- (b) Deferred tax expense arising from the Disposal of approximately HK\$182,878,000 relates to the deferred capital gain on the consideration shares received from the Disposal.

9. Discontinued operations (Continued)

(a) Analysis of results from discontinued operations (Continued)

(ii) Cash flows for the period from discontinued operations:

	Unaudited	
	Period from	Six months
	1st January	ended
	2020 to	ended
	5th March	30th June
	2020	2019
	HK\$'000	HK\$'000
Net cash inflow from operating activities	2,562	76,846
Net cash outflow from investing activities	(5,122)	(9,804)
Net cash (outflow)/inflow from financing activities	(99)	114,044
	<u> </u>	<u> </u>
Net cash (outflow)/inflow	<u>(2,659)</u>	<u>181,086</u>

(b) (Loss)/Profit before income tax from discontinued operations

	Unaudited	
	Period from	Six months
	1st January	ended
	2020 to	ended
	5th March	30th June
	2020	2019
	HK\$'000	HK\$'000
(Loss)/Profit before income tax is arrived at after charging:		
Depreciation and amortisation:		
Property, plant and equipment – owned assets	1,622	4,707
Property, plant and equipment – right-of-use assets	91	273
Intangible assets (included in cost of services rendered)	2,364	7,513
Staff salaries and other benefits	124,388	288,648
Equity-settled share-based expenses	10,848	11,002
Staff retention bonus	26,073	9,768
	<u> </u>	<u> </u>

10. Dividends

	Unaudited	
	Six months ended	
	30th June	
	2020	2019
	HK\$'000	HK\$'000
Dividend approved and paid during the period:		
Final dividend in respect of the year ended 31st December 2019 of 3.0 HK cents per share	24,819	-
Special dividend of 7.3 HK cents per share	60,394	-
	<u> </u>	<u> </u>
	<u>85,213</u>	<u>-</u>

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June 2020 (six months ended 30th June 2019: Nil).

11. (Loss)/Earnings Per Share attributable to Equity Holders of the Company

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

	Unaudited Six months ended 30th June	
	2020 HK\$'000	2019 HK\$'000 (restated)
(Loss)/Profit attributable to equity holders of the Company		
- From continuing operations	(9,609)	11,404
- From discontinued operations	770,810	29,994
	<u>761,201</u>	<u>41,398</u>
	Number of shares	
	2020 HK\$'000	2019 HK\$'000 (restated)
Weighted average number of ordinary shares for the purpose of basic earnings per share (Note (a))	827,313	805,224
Effect of dilutive potential ordinary shares		
- Share options (Note (b))		258
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>827,313</u>	<u>805,482</u>
	Unaudited Six months ended 30th June	
	2020 HK cents	2019 HK cent (restated)
Earnings per share from continuing and discontinued operations		
- Basic and diluted	<u>92.01</u>	<u>5.14</u>
(Loss)/Earnings per share from continuing operations		
- Basic and diluted	<u>(1.16)</u>	<u>1.42</u>
Earnings per share from discontinued operations		
- Basic and diluted	<u>93.17</u>	<u>3.72</u>

Notes:

(a) The 827,313,000 ordinary shares are derived from the weighted average number of ordinary shares in issue during the six months ended 30th June 2020.

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.

(b) The calculation of diluted loss per share from continuing operations for the six months ended 30th June 2020 has not taken into account the effect of the share options of the Company as they are considered as anti-dilutive.

The calculation of diluted earnings per share from continuing operations 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 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.

11. (Loss)/Earnings Per Share attributable to Equity Holders of the Company (Continued)

Notes: (Continued)

- (c) The calculation of diluted (loss)/earnings per share from continuing operations for the six months ended 30th June 2019 and 2020 have not taken into account the effect of the conversion of the convertible bonds issued by the Company as they are considered as anti-dilutive.
- (d) The calculation of diluted earnings per share from discontinued operations for the six months ended 30th June 2019 and 2020 have not taken into account the effect of share options and convertible preferred shares of the Disposal Group as the effect was insignificant for the six months ended 30th June 2019 and it was considered anti-dilutive for the six months ended 30th June 2020.

12. Property, Plant and Equipment

During the six months ended 30th June 2020, the additions of property, plant and equipment, mainly for computer and office equipment, furniture and fixtures and right-of-use assets, was approximately HK\$13,292,000 (six months ended 30th June 2019: HK\$17,536,000). Addition of right-of-use assets of approximately HK\$7,322,000 during the six months ended 30th June 2020 mainly included office premises (six months ended 30th June 2019: HK\$9,206,000).

During the six months ended 30th June 2020, there was no disposal of property, plant and equipment (six months ended 30th June 2019: disposal of property, plant and equipment of approximately HK\$6,000, resulting in a loss on disposal of approximately HK\$5,000).

The Group's land and buildings were stated at valuations made at 31st December 2019 less depreciation. The land and buildings were last revalued by an independent professional valuer at 31st December 2019 on market value basis which was determined by reference to market evidence of recent transactions for similar properties. As at 30th June 2020, 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 2020, 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\$34,936,000 (31st December 2019: HK\$35,969,000).

As at 30th June 2020, the Group had pledged land and buildings with carrying amount of approximately HK\$168,087,000 (31st December 2019: HK\$171,200,000) to secure Group's bank borrowings as disclosed in Note 20.

13. Investment Properties

The investment properties of the Group were last revalued at 31st December 2019 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 2020, 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 2020, the Group had pledged investment properties with carrying amount of HK\$55,800,000 (31st December 2019: HK\$55,800,000) to secure the Group's bank borrowing as disclosed in Note 20.

14. Interests in Associates

	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
At beginning of the period/year	19,625	27,662
Acquisition of an associate (Note 22)	1,813,591	-
Share of results of associates	(18,592)	(8,287)
Share of other comprehensive (loss)/income of associates	(972)	193
Dividends received	-	(154)
Exchange realignment	(684)	211
	<u>1,812,968</u>	<u>19,625</u>
At end of the period/year	1,812,968	19,625

15. 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 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Trade receivables – gross	195,582	346,377
Less: ECL allowance	(3,666)	(2,158)
	<u>191,916</u>	<u>344,219</u>
Trade receivables – net	191,916	344,219

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

	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
0 - 30 days	85,409	160,655
31 - 60 days	42,957	79,678
61 - 90 days	27,955	69,664
Over 90 days	39,261	36,380
	<u>195,582</u>	<u>346,377</u>
	195,582	346,377

16. Other Receivables, Deposits and Prepayments

	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Other receivables	2,971	9,234
Deposits	4,566	5,715
Prepayments	11,140	44,157
Amount due from ultimate holding company	771	832
Amount due from an immediate holding company	408	1,836
Amount due from an associate	2,238	9,193
	<hr/>	<hr/>
Other receivables, deposits and prepayments – gross	22,094	70,967
Less: ECL allowance	(771)	(832)
	<hr/>	<hr/>
Other receivables, deposits and prepayments – net	21,323	70,135
	<hr/> <hr/>	<hr/> <hr/>

17. Restricted Bank Deposits

As at 30th June 2020, the Group had no restricted bank deposit (31st December 2019: HK\$556,000) pledged to secure the performance bonds of the Group.

18. 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 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Current	150,711	228,233
Within 30 days	49,991	74,101
31 - 60 days	3,665	21,428
61 - 90 days	3,389	8,978
Over 90 days	16,493	27,542
	<hr/>	<hr/>
	224,249	360,282
	<hr/> <hr/>	<hr/> <hr/>

19. Other Payables and Accruals

	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Other payables	7,402	15,765
Accruals	175,372	167,232
Amount due to ultimate holding company	1,173	1,189
Amounts due to associates	98	426
Amount due to a fellow subsidiary	40	-
	<hr/>	<hr/>
	184,085	184,612
	<hr/> <hr/>	<hr/> <hr/>

20. Borrowings

	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Current		
Bank borrowings, secured (Note (i))	168,370	191,113
Convertible bonds (Note (ii))	-	248,657
	<u>168,370</u>	<u>439,770</u>

Notes:

(i) Bank borrowings

The Group's bank borrowings are repayable as follows:

	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Within one year or on demand	<u>168,370</u>	<u>191,113</u>

The bank borrowings are repayable by 60 equal monthly instalments commencing from 29th March 2019 and bear interest at floating interest rate. The bank borrowings are denominated in HKD with an effective interest rate of 3.10% (31st December 2019: 4.82%) per annum as at 30th June 2020.

As at 30th June 2020, 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\$168,087,700 (31st December 2019: HK\$171,200,000) (Note 12);
- (2) the legal charges over the Group's investment properties with carrying amount of HK\$55,800,000 (31st December 2019: HK\$55,800,000) (Note 13);
- (3) the guarantee given by the Company and certain subsidiaries of the Group up to a limit of HK\$250,000,000 (31st December 2019: HK\$250,000,000);
- (4) assignment of rental and sales proceeds from the Group's land and buildings and investment properties;
- (5) assignment of insurance of all insurance policies (other than third party liabilities and public liabilities) over the Group's land and buildings and investment properties.

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

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

Subject to repayment on demand clauses which can be exercised at the banks' sole discretion, the above bank borrowings are classified as current liabilities as at 30th June 2020 and 31st December 2019.

20. Borrowings (Continued)

Notes: (Continued)

(ii) Convertible bonds

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

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.

As at 31st December 2019, Convertible Bonds with principal amount of HK\$230,000,000 and related accrued interest of HK\$18,657,000 remains outstanding.

On 23rd March 2020 (the next following business day of the Maturity Date), the Company has fully redeemed the outstanding principal amount of the Convertible Bonds of HK\$230,000,000 with accrued interests.

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

	<i>HK\$'000</i> (Unaudited)
At 1st January 2020	248,657
Imputed interest expense	2,043
Payment for redemption	<u>(250,700)</u>
At 30th June 2020	<u>-</u>

21. Pledge of Assets

As at 30th June 2020, the Group’s land and buildings with carrying amount of approximately HK\$168,087,000 (31st December 2019: HK\$171,200,000) (Note 12) and investment properties with carrying amount of HK\$55,800,000 (31st December 2019: HK\$55,800,000) (Note 13) were pledged to secure the Group’s bank borrowings.

As at 30th June 2020, the Group had no restricted bank deposit (31st December 2019: HK\$556,000) (Note 17) pledged to secure the performance bonds of the Group.

22. Disposal of subsidiaries

Following the Completion as set out in Note 9, Grid Dynamics and its subsidiaries ceased to be subsidiaries of the Company. The following summarises the net assets of the Disposal Group at Completion Date and gain on disposal of subsidiaries:

Unaudited
HK\$'000

Property, plant and equipment	18,820
Intangible assets	107,963
Goodwill	763,394
Deferred income tax assets	36,959
Trade receivables	157,916
Other receivables, deposits and prepayments	44,351
Contract assets	6,974
Tax recoverable	2,561
Bank balances and cash	324,658
Lease liabilities	(967)
Financial liabilities at fair value through profit or loss	(61,471)
Other payables and accruals	(93,120)
Current income tax liabilities	(6,554)
Deferred income tax liabilities	(21,954)
	<hr/>
Net assets disposed of	1,279,530

Unaudited
HK\$'000

Gain on disposal of the Disposal Group:

Consideration:	
Cash consideration	727,507
Share consideration (Note)	1,813,591
	<hr/>
	2,541,098
Net assets of the Disposal Group	(1,279,530)
Non-controlling interests	47,354
Release of translation reserve of the Disposal Group	(3,413)
Derecognition of financial liabilities at FVTPL	10,865
Transaction costs directly attributable to the Disposal	(206,789)
	<hr/>
Gain on disposal of the Disposal Group	1,109,585

Note:

The share consideration represents 19,490,295 shares in GDH. The amount was determined with reference to the share price quote of US\$12 as at 5th March 2020.

22. Disposal of subsidiaries (Continued)

The gain on disposal of the Disposal Group is included in the profit for the period from discontinued operations in the condensed consolidated statement of profit or loss as set out in Note 9.

Unaudited
HK\$'000

Analysis of the cash flows in respect of the Disposal is as follows:

Cash consideration	727,507
Cash and cash equivalents disposed of	(324,658)
Transaction costs directly attributable to the Disposal (Note)	(118,563)
	<hr/>
Net cash and cash equivalents inflow in respect of the Disposal	284,286
	<hr/> <hr/>

Note:

As at 30th June 2020, transaction costs directly attributable to the Disposal amounted to HK\$88,226,000 remains unsettled and included in accruals under other payables.

DIVIDEND

The Directors did not recommend the payment of an interim dividend for the six months ended 30th June 2020 (six months ended 30th June 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30th June 2020, total revenue of the Group's continuing operation was HK\$1,011.0 million, representing a 9.6% increase from the corresponding period last year, in which product sales was increased by 8.2% to HK\$543.1 million and service revenue was increased by 11.1% to HK\$467.9 million. In addition, product sales and service revenue contributed 53.7% and 46.3% to total revenue of continuing operation respectively, compared to 54.4% and 45.6% for the corresponding period last year.

For the six months ended 30th June 2020, commercial and public sector sales contributed 42.8% and 57.2% to total revenue of continuing operation respectively, compared to 47.2% and 52.8% for the corresponding period last year.

Gross profit of continuing operation for the six months ended 30th June 2020 was HK\$103.9 million, a slight decrease of HK\$2.8 million or 2.7% compared with the same period last year.

During the period under review, the Group recorded a profit attributable to the Company's equity holders of HK\$761.2 million, an increase of 17.4 times compared to last period of HK\$41.4 million. The increase was mainly due to the gain of disposal of Grid Dynamics International, Inc. ("Grid Dynamics") and its subsidiaries. The one-off gain was approximately HK\$772.3 million after deducting the transaction costs, related current and related deferred income tax.

For the six months ended 30th June 2020, orders newly secured by the Group's continuing operation amounted to approximately HK\$973.0 million. As at 30th June 2020, the Group's order book balance of continuing operation was approximately HK\$1,073.5 million. The Group's net cash stood at approximately HK\$430.8 million with a working capital ratio of 1.17:1. The Group maintained a healthy financial position. As at 30th June 2020, the outstanding borrowings amounted to HK\$168.4 million.

Business Review

The Group's business covers the Asia Pacific region, the United States and Europe. Encountered with the impact brought by the Novel Coronavirus ("COVID-19") outbreak on the global economy, the Group's operation is inevitably affected.

The Group's profit for the period was HK\$761.0 million, representing an increase of 16.5 times compared with the corresponding period last year. The increase in profit for the period was driven by a one-off gain of the disposal of Grid Dynamics, and subsequently listed on NASDAQ under Grid Dynamics Holdings, Inc. ("GDH").

Business in Hong Kong and Asia Pacific

As the core business of the Group, the Asia Pacific region (including its Asia Pacific subsidiaries in and outside of Hong Kong), recorded its revenue, gross profit and adjusted EBITDA of HK\$1,011.0 million, HK\$103.9 million and HK\$51.0 million respectively, remaining at a relatively stable level compared with the corresponding period last year.

The COVID-19 pandemic has impacted Hong Kong's economy, resulting in economic volatility and thus intensifying market competition. Customers across various industries have been affected to different extents, meanwhile, it has also accelerated the digital transformation of various industries. By virtue of its solid competitive advantages, the three core businesses of the Asia Pacific region have remained relatively stable compared with the corresponding period last year. During the period, orders newly secured of the three core businesses of the Asia Pacific region reached HK\$825.1 million, with an increase of 7.9% compared to the corresponding period last year. The Group has received several major projects during this time, which reflects its impressive performance in response to the challenges of the COVID-19 pandemic and its remarkable results in reinforcing digital transformation.

Innovative Solutions Business

Innovative Solutions Business delivered the most outstanding performance when compared with the other two core businesses during the review period, with overall service orders newly secured recording a growth of 31.8%. Service revenue was HK\$149.5 million, with a significant year-on-year increase of 29.9%.

Under the pandemic, the demand of government and private enterprises toward technologies is rapidly changing. By virtue of the Group's professional, large-scale and stable development team, as well as possessing leading technologies that are much needed on the market, such as cloud computing and artificial intelligence, as well as our diversified delivery models, such as agile development and DevOps, the Group has successfully and efficiently fulfilled the needs of our customers. In addition, in terms of accelerating the application of innovative technologies, the Group has expanded the talent pool of overseas technical personnel in the first half of the year, further enhancing our delivery models and improving the quality of our services.

During the period, with the help of our leading technologies and sufficient resources, the Group has successfully deployed manpower at a tight timeframe, in order to provide support to various government departments for the epidemic monitoring system, which is aimed at assisting the government and the public in fighting the pandemic. In addition, the Group continued to receive numerous service projects under the "Standing Offer Agreement for Quality Professional Services 4" category, and remains at the first position in the market share. In the healthcare sector, the Group has assisted a healthcare authority to upgrade their management system for clinical medical services in Hong Kong, aiming to promote community health.

Intelligent Cybersecurity Business

Service orders newly secured in this business performed steadily, with service revenue recorded HK\$72.0 million for the period, with a significant year-on-year increase of 20.7%.

New trends such as home office, mobile office, migration of applications to different cloud environments, diversified network structures, 5G mobile communication technology and DevSecOps have made corporate networking and security management more complicated, and have driven to the significant increase in new cyberattack methods. This is in addition to a shortage of local cybersecurity professionals. Being one of the top three local security service providers equipped with abilities and experience, the Group is therefore able to meet the relevant new demands. During the period, the performance of the financial industry was particularly remarkable.

During the first six months of 2020, the Group has successfully provided SD-WAN (Software-Defined Wide Area Network), a new and secure network technology, for a renowned multinational enterprise in Hong Kong. Moreover, the Group received large-scale Wi-Fi 6 projects from two prestigious universities, thereby laying the foundation in creating smart campus for the aforementioned universities.

Integrated Managed Services Business

During the period, service orders newly secured levels in this business are similar to the corresponding period last year, recording a service revenue of HK\$217.9 million, achieving a slight increase of 2.2% when compared to the same period last year.

The Group continued to expand its IT managed service support capability from frontend to backend, with its advantage lying in human resources, ITSM processes and technologies.

The Group captured the demand for IT managed services and successfully secured orders from customers of different industries, which included the use of ITSM to assist a government department in providing centralized support for the IT operations of nearly 40 departments, and, with the trust from several financial institutions, the Group received managed service project orders from them in supporting the IT operations for 6,000 users.

During the period, the Group was awarded “Top Contribution Partner in FY20” by Red Hat, a well-known open-source software solution provider, recognizing the Group’s outstanding performance in the market’s emerging technology – cloud-native application automation (container technology and automation platform technology).

New Businesses

Unified Operation Center (UOC)

In light of the pressing demands for digital transformation among various sectors, the Group launched its first Unified Operation Center (UOC) in Asia Pacific during May this year, and enhanced the UOC’s core service’s foundation under the partnership with Equinix, a global interconnection and world-class data center company. Located at the Group’s Hong Kong headquarters, the UOC is an omni-channel and cloud-based service platform. The UOC not only unifies the Group’s three core business advantages, but also combines its extensive experience in the industry. By providing unified IT services with “as-a-Service” new business operation model, the Group ultimately achieved “IT Operation as-a-Service” and assisted customers in managing costs more effectively and in boosting their businesses.

The market has responded well to this new service. The Group has secured orders from a multi-channel B2B trading platform company and an international non-profit aid agency within just two months after the launch of such service in the market, which demonstrated that the Group has adopted appropriate strategic directions and has effectively met the needs of the market.

Business in the United States and Europe

In 2020, the Group has achieved a new milestone in completing a merger. Grid Dynamics and its subsidiaries become wholly owned subsidiaries of GDH and successfully listed on NASDAQ (ticker symbol: GDYN). The closing price on the first day of listing was US\$12.0, with a market value of approximately US\$610.0 million (approximately HK\$4,730 million), and the Company’s interest in GDH was 38.3%, thus marking a grandiose ending to the year-long-preparation leading to Grid Dynamics’s listing plan. The Group has obtained a considerable amount of investment return through the listing of Grid Dynamics, which has greatly improved the Group’s asset-liability structure. Since GDH is currently an associate of the Group, the results of GDH is included in the results of the Group as interests in an associate and accounted for using equity method.

It is worth mentioning that, under the impact of the pandemic on the retail industry, although GDH was facing pressure from the drop in share price after its listing, it was listed in the U.S. Equity Russell 2000 Index on 29th June 2020, which serves as a recognition of GDH’s technological capabilities and long-term development. This is also expected to further enhance its reputation and expand its shareholder base. Certainly, considering the continuous geopolitical influences and the uncertainty in economic prospects, the Company will adhere to prudent principles and will continue to closely assess GDH’s investment value in the Group’s books.

Under the influence of the epidemic situation in the United States, GDH’s retail business suffered a significant drop in the second quarter this year, the revenue and adjusted EBITDA for the first six months (as disclosed in GDH’s Form 10Q for the quarter period ended 30th June 2020) recorded a decrease of 0.14% and 57.3% respectively.

Within the range of the Group's consolidated statements, taking into account the effect of reduction of contribution of Grid Dynamics's result to be included in the Group's profit from 100% full consolidation to 38.3% shared of GDH's results by the Group, the Group recorded a decrease in contribution from Grid Dynamics and GDH for the six months ended 30th June 2020 of approximately HK\$41 million compared to the corresponding period last year, the decrease was mainly attributable to (i) the impact of COVID-19 on the decrease in GDH's daily operating results; and (ii) over 200% increase in the costs on share incentives arising from the new share option scheme launched by GDH. Even though in the capital market, such non-cash costs are usually assessed separately from the core business, the Company is still required to make accounting adjustment in accordance with the HKFRS and to bear the costs in proportion to shareholding.

However, the Group also discovered that, the "new normal" has increased the market demand for cloud technology, thereby driving GDH to achieve outstanding results in customer base expansion during the first half of the year: the revenue of non-retail industry had a year-on-year growth of 46% in the second quarter; among which, the IT industry accounted for 54% of revenue in the second quarter, representing a year-on-year growth of 52%, with Apple and Google gradually emerged as GDH's top 5 major customers. Meanwhile, the United States market has also shown signs of recovery since May this year, thus, the Group believes that the business of GDH will gradually be restored in the second half of this year.

Outlook and Prospects

The Group has been closely monitoring the impact of the development of COVID-19 on its customers as well as the uncertainties brought by geopolitical tension, and improving its operational efficiency. The Group will also take appropriate contingency measures during the epidemic, in order to ensure the operations of the Group remain at a normal level besides striving to minimize the impact of COVID-19.

With respect to the Hong Kong and the Asia Pacific business, the Group expects that the impacts related to COVID-19 will surface in the next six months to one year. The listing of Grid Dynamics has contributed a considerable investment return to the Group, which enhanced the Group's resilience while supported the continuous development of its core business. The Group will continue to increase its investments in key development areas, including creating prototypes of new solutions such as IoT applications, and will continue to invest in UOC. The Group expects to introduce multiple application scenarios for its UOC services and accelerate the launch of its self-branded services with an innovative "as-a-Service" business model to meet the customers' needs for digital transformation. In addition, the Group will also leverage the advantages of its omni-channel cybersecurity and Security Operation Center *Plus* (SOC+) to continue monitoring the challenges encountered by customers in the region, with regard to network data brought by new trends of cloud computing, smart city and 5G while exploring business opportunities from within.

With respect to the United States and Europe business, despite the impact of the epidemic, the demand for cloud technology in the market under the "new normal" has significantly increased, not only benefited GDH in achieving impressive results in expanding its customer base in the first half of the year, but has also achieved almost 50% growth year-on-year in revenue from the non-retail industry during the second quarter, of which the technology industry accounted for more than half of the revenue in the second quarter, ranking first and represent an increase of 52% year-on-year. Since May this year, the United States market has shown signs of recovery and the Group believes that the GDH business will gradually recover in the second half of the year.

Overall, the Group will focus its business development in the Asia Pacific region as its main business line at the current stage, with the United States and Europe business as its auxiliary business line. As the largest shareholder of GDH, we believe that the complementarity and integration capabilities of the two business lines in terms of technology are critical. In the Asia Pacific region, the enhancement of high-value and professional service standards of integrated IT services, which is industry customer-based, is still driven by technological innovation and breakthroughs.

According to the estimation of the International Data Corporation (IDC), direct digital transformation investment from worldwide will record a compound annual growth rate (CAGR) of 17.5% from 2020 to 2023, with a market size of US\$7.4 trillion. Looking ahead, the Group believes that through the above measures, it can enhance its core capabilities, provide customers with higher quality services, and strengthen the Group's position as a professional and reliable information technology service provider in the region.

Financial Resources and Liquidity

As at 30th June 2020, the Group's total assets of HK\$3,273.8 million were financed by current liabilities of HK\$940.5 million, non-current liabilities of HK\$243.1 million and equity attributable to equity holders of the Company of HK\$2,090.2 million. The Group had a working capital ratio of approximately 1.17:1.

As at 30th June 2020, the Group had an aggregate composite banking facility from banks of approximately HK\$362.8 million (31st December 2019: HK\$363.4 million). The Group had pledged land and buildings in an aggregate amount of HK\$168.1 million (31st December 2019: HK\$171.2 million), investment properties with a carrying amount of HK\$55.8 million (31st December 2019: HK\$55.8 million) to secure Group's bank borrowings. The Group had no restricted bank deposit (31st December 2019: HK\$0.6 million) 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\$82.5 million as at 30th June 2020 (31st December 2019: HK\$85.9 million). The Group's gearing ratio (total borrowings over equity attributable to equity holders of the Company) was 8.1% as at 30th June 2020 (31st December 2019: 31.3%).

Material Acquisition and Disposal

Reference is made to the announcement of the Company dated 13th November 2019, the circular of the Company dated 31st December 2019 and the announcement of the Company dated 8th March 2020, respectively, in relation to, among other matters, very substantial disposal and very substantial acquisition in relation to the mergers and proposed spin-off and separate listing of Grid Dynamics and completion of disposal and spin-off of Grid Dynamics.

On 13th November 2019 (after trading hours), the Company, Grid Dynamics, ChaSerg, CS Merger Sub 1 Inc. ("Merger Sub 1") and CS Merger Sub 2 LLC ("Merger Sub 2") entered into the conditional merger agreement (the "Merger Agreement"). The transactions contemplated under the Merger Agreement involving the acquisition of Grid Dynamics by ChaSerg (a special purpose acquisition company the shares of which are listed on Nasdaq) through the two-step mergers (the "Mergers") between Grid Dynamics and the wholly-owned subsidiaries of ChaSerg, Merger Sub 1 and Merger Sub 2, are effectively an injection of Grid Dynamics in exchange for cash and equity interest in ChaSerg and thereby effecting the separate listing of Grid Dynamics on Nasdaq.

The shareholders of the Company approved the mergers and proposed spin-off in the special general meeting held on 22nd January 2020.

On 5th March 2020 (pacific time), all the conditions precedent set out in the Merger Agreement have been fulfilled in accordance with the terms of the Merger Agreement (the "Completion"). Upon Completion, Grid Dynamics has effectively become a wholly owned subsidiary of Grid Dynamics Holdings, Inc. ("GDH", formerly known as ChaSerg) and Grid Dynamics is effectively listed on Nasdaq (ticker symbol of GDH: GDYN). In connection with the Mergers, the Company received cash consideration of approximately USD93.8 million (equivalent to approximately HK\$727.5 million) which will predominantly be used to repay the relevant liabilities. Immediately upon Completion, the Company was interested in approximately 38.3% of the issued share capital of GDH as at the date of Completion, being the single largest shareholder of GDH, and was entitled to appoint up to two directors to the board of GDH. As Grid Dynamics is no longer a subsidiary of the Company, the Company will account for the results of GDH as an associate in the results of the Group.

Save as disclosed above, during the six months ended 30th June 2020, neither the Company nor any of its subsidiaries had material acquisition or disposal.

Fund Raising Activities

Redemption of Convertible Bonds

Reference is made to the announcement of the Company dated 23rd March 2020 in relation to the full redemption of convertible bonds.

On 23rd March 2020, the maturity date of the convertible bonds, the Company has made full redemption of outstanding principal amount of the convertible bonds of HK\$230,000,000 with accrued interests. Subsequently, no convertible bonds were outstanding, and all redeemed convertible bonds were cancelled.

Save as disclosed above, during the six months ended 30th June 2020, there was no conversion or redemption of the convertible bonds.

Treasury Policies

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

Foreign Exchange Exposure

The Group mainly earns revenue and incurs costs in HKD and USD. Foreign exchange exposure to USD of the Group will continue to be minimal as long as the policy of the Government of the Hong Kong Special Administrative Region to link HKD to USD remains in effect. There was no material exposure to fluctuations in exchange rates and therefore no related hedging financial instrument was applied during the six months ended 30th June 2020 (six months ended 30th June 2019: same).

Contingent Liabilities

As at 30th June 2020, the Group had no restricted bank deposit held as security for performance bonds (31st December 2019: HK\$0.6 million). As at 30th June 2020, performance bonds of approximately HK\$82.5 million (31st December 2019: HK\$85.9 million) had been issued by the bank on behalf of the Group to customers as security of contracts.

Capital Commitments

As at 30th June 2020, the Group had contracted capital commitment of approximately HK\$10.8 million (31st December 2019: HK\$10.8 million).

Employee and Remuneration Policies

As at 30th June 2020, the Group, excluding its associates, employed 1043 permanent and contract staff in Hong Kong, Mainland China, Taiwan, Macau and Thailand. The Group remunerates its employees based on their performance, working experience and the prevailing market conditions. Bonuses are granted on a discretionary basis. Other employee benefits include mandatory provident fund, insurance, medical coverage and share options scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30th June 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the six months ended 30th June 2020, 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 2020, except as noted below:

with respect to Code provision A.6.7, a non-executive Director and an independent non-executive Director were unable to attend the annual general meeting of the Company held on 27th May 2020 due to other commitments.

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

Hong Kong, 26th August 2020

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