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AUTOMATED

AUTOMATED SYSTEMS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 771)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER 2018

RESULTS

The board (the “Board”) of directors (the “Directors”) of Automated Systems Holdings Limited (the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group” or “ASL”) for the year ended 31st December 2018 together with comparative figures for the year ended 31st December 2017 as follows:

Consolidated Statement of Profit or Loss

		Audited Year ended 31st December	
	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Revenue	3	2,344,457	1,917,453
Cost of goods sold		(716,939)	(648,321)
Cost of services rendered		(1,134,891)	(924,968)
Other income	4	7,979	5,686
Other loss, net	5	(15,686)	(8,216)
Fair value gain on revaluation of investment properties		1,700	1,700
Selling expenses		(114,083)	(103,056)
Administrative expenses		(217,307)	(146,584)
Finance income	6	259	370
Finance costs	7	(22,726)	(17,205)
Share of results of associates		(5,428)	(7,111)
Profit before income tax	8	127,335	69,748
Income tax expense	9	(43,002)	(17,169)
Profit for the year attributable to equity holders of the Company		84,333	52,579
		<i>HK cents</i>	<i>HK cents (Restated)</i>
Earnings per share	11		
Basic		10.48	7.49
Diluted		8.93	6.47

Consolidated Statement of Comprehensive Income

	Audited Year ended 31st December	
	2018 HK\$'000	2017 HK\$'000
Profit for the year	84,333	52,579
Other comprehensive income/(loss):		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Revaluation surplus of land and buildings	17,969	18,056
Deferred taxation arising from revaluation surplus of land and buildings	(2,965)	(2,979)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of overseas operations	(778)	6,049
Share of other comprehensive (loss)/ income of associates	(431)	1,004
Total comprehensive income for the year attributable to equity holders of the Company	98,128	74,709

Consolidated Statement of Financial Position

		Audited	
		31st December	
		2018	2017
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	12	304,495	291,055
Investment properties	13	54,000	52,300
Intangible assets		118,053	119,323
Goodwill		771,173	769,499
Interests in associates		27,662	46,948
Equity investment		598	598
Finance lease receivables		1,128	3,325
Prepayments	15	-	340
Deferred income tax assets		5,384	4,017
		1,282,493	1,287,405
CURRENT ASSETS			
Inventories		178,595	128,081
Trade receivables	14	315,007	275,952
Finance lease receivables		3,346	3,592
Other receivables, deposits and prepayments	15	44,596	32,946
Amounts due from customers contract work		-	204,644
Contract assets		260,462	-
Tax recoverable		3,588	41,334
Restricted bank deposits	16	762	4,168
Bank balances and cash	16	292,183	286,771
		1,098,539	977,488
TOTAL ASSETS		2,381,032	2,264,893
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Share capital		80,522	67,054
Share premium		377,146	376,464
Reserves		755,209	654,300
TOTAL EQUITY		1,212,877	1,097,818
NON-CURRENT LIABILITIES			
Borrowings	19	257,425	245,182
Contingent consideration payable		-	67,262
Deferred income tax liabilities		76,420	74,723
		333,845	387,167
CURRENT LIABILITIES			
Trade payables	17	258,940	175,802
Other payables and accruals	18	139,415	153,904
Contingent consideration payable		69,565	69,429
Receipts in advance		132,017	126,711
Current income tax liabilities		10,083	6,262
Borrowings	19	224,290	247,800
		834,310	779,908
TOTAL LIABILITIES		1,168,155	1,167,075
TOTAL EQUITY AND LIABILITIES		2,381,032	2,264,893
NET CURRENT ASSETS		264,229	197,580
TOTAL ASSETS LESS CURRENT LIABILITIES		1,546,722	1,484,985

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the accounting principles generally accepted in Hong Kong.

The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include 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”).

The consolidated financial statements have been prepared under the historical cost basis except that the land and buildings, investment properties, equity investment classified as financial assets at fair value through other comprehensive income and contingent consideration payable are stated at fair values.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed.

2. Application of new or amended HKFRSs

(a) New and amended HKFRSs that are effective for the annual periods beginning on 1st January 2018:

In the current year, the Group has applied for the first time the following new and amended HKFRSs issued by the HKICPA, which are relevant to the Group’s operations and effective for the Group’s consolidated financial statements for the annual period beginning on 1st January 2018:

HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers and the related Amendments</i>
Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
Amendments to HKFRS 1 and HKAS 28	<i>As Part of Annual Improvements to HKFRSs 2014-2016 Cycle</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
HK(IFRIC) – Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>

The adoption of these new and 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 impact of the adoption of HKFRS 9 and 15 as set out below:

HKFRS 9: Financial Instruments

HKFRS 9 replaces HKAS 39 “Financial Instruments: Recognition and Measurement”. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an “ECL model” for the impairment of financial assets.

When adopting HKFRS 9, the Group has applied the standard retrospectively to items that existed at 1st January 2018 in accordance with the transition requirement and also applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of HKFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings.

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

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

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

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

Impairment of financial assets

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECL earlier than under the “incurred loss” accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including trade receivables, other receivables and deposits, finance lease receivables and restricted bank deposits and bank balances and cash) and contract assets as defined in HKFRS 15.

The Group applies a simplified model of recognising lifetime ECL for contract assets arising from HKFRS 15, trade receivables and finance lease receivables. For other financial assets, the Group applies a “three-stage model” of recognising ECL.

2. Application of new or amended HKFRSs (Continued)

- (a) New and amended HKFRSs that are effective for the annual periods beginning on 1st January 2018: (Continued)

HKFRS 9: Financial Instruments (Continued)

Impairment of financial assets (Continued)

The Group has concluded that the impact of ECL on financial assets is insignificant as at 1st January 2018 and therefore no adjustment was recorded to opening equity.

HKFRS 15: Revenue from Contracts with Customers and the related Amendments

HKFRS 15 “Revenue from Contracts with Customers” and the related “Clarifications to HKFRS 15 Revenue from Contracts with Customers” (hereinafter referred to as “HKFRS 15”) replace HKAS 18 “Revenue”, HKAS 11 “Construction contracts” and several revenue-related interpretations.

Summary of nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- (a) When the customer simultaneously receives and consumes the benefits provided by the entity’s performance, as the entity performs;
- (b) When the entity’s performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced; or
- (c) When the entity’s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity’s activities do not fall into any of these 3 situations, then under HKFRS 15, the Group recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue.

(ii) Presentation of contract assets and contract liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue.

To reflect these changes in presentation as a result of the adoption of HKFRS 15, the Group has reclassified “Amounts due from customers for contract work” to “Contract assets” while contract liabilities is presented as “Receipts in advance” as at 1st January 2018.

The adoption of HKFRS 15 does not have a significant impact on presentation of contract assets and contract liabilities.

The Group has elected to use the cumulative effect transition method. The Group concluded that there is no significant impact on the initial application, therefore no adjustments has been made to the opening balance of retained earnings as at 1st January 2018. Comparative information has not been restated and continues to be reported under HKASs 11 and 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed as at 1st January 2018.

2. Application of new or amended HKFRSs (Continued)

(b) Issued but not yet effective HKFRSs:

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 16	<i>Leases¹</i>
HKFRS 17	<i>Insurance Contracts³</i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation¹</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material²</i>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement¹</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures¹</i>
Amendments to HKFRS 3	<i>Definition of a Business⁵</i>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2015-2017 Cycle¹</i>
HK(IFRIC) – Int 23	<i>Uncertainty over Income Tax Treatments¹</i>

¹ Effective for annual periods beginning on or after 1st January 2019

² Effective for annual periods beginning on or after 1st January 2020

³ Effective for annual periods beginning on or after 1st January 2021

⁴ Effective date not yet determined

⁵ Effective for business combination and asset acquisition for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1st January 2020

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Group's financial statements.

HKFRS 16: Leases

HKFRS 16 "Leases" will replace HKAS 17 and three related Interpretations.

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee would recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases of office premises, staff quarter and computer equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1st January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 on 1st January 2019 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1st January 2019. Comparative information will not be restated. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. Furthermore, the Group plans to use the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease. As at 31st December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to HK\$22,020,000 for office premises, staff quarter and computer equipment, the majority of which is payable either within one year after the reporting date or between one to five years.

Upon the initial application of HKFRS 16, the Group plans to measure the rights-of-use assets as if HKFRS 16 had always been applied by using the incremental borrowing rate at initial application date and the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted accordingly, after taking account the effects of discounting, as at 1st January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's consolidated financial statements from 2019 onwards.

3. Revenue and Segment Information

The Group's revenue is analysed as follows:

	Audited	
	Year ended	
	31st December	
	2018	2017
	HK\$'000	HK\$'000
Sales of goods	818,641	743,382
Revenue from service contracts	1,525,816	1,174,071
	2,344,457	1,917,453

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 (2017: two) operating divisions – Information Technology Products (“IT Products”) and Information Technology Services (“IT Services”). These divisions are the basis on which the Group reports its primary segment information to the chief operating decision maker. The business nature of each segment is disclosed as follows:

IT Products

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

IT Services

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

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, share of results of associates, unallocated depreciation for property, plant and equipment that are used for all segments, fair value gain on revaluation of investment properties, finance costs and unallocated corporate expenses (mainly include staff costs and other general administrative expenses) of the head office.

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

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

(a) The Group's revenue and results and assets and liabilities by operating segments for the year are presented below:

Audited

Year ended 31st December 2018

	IT Products	IT Services	Total
	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	818,641	1,525,816	2,344,457
Intersegment revenue	5,699	27,890	33,589
Segment revenue	824,340	1,553,706	2,378,046
Reportable segment profit	67,332	311,461	378,793
Segment depreciation	2,245	14,239	16,484
Segment amortisation	-	11,057	11,057
Additions to property, plant and equipment	59	14,662	14,721
Additions to intangible assets	-	9,582	9,582

3. Revenue and Segment Information (Continued)

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

Audited

Year ended 31st December 2017

	<u>IT Products</u> <i>HK\$'000</i>	<u>IT Services</u> <i>HK\$'000</i>	<u>Total</u> <i>HK\$'000</i>
Revenue from external customers	743,382	1,174,071	1,917,453
Intersegment revenue	<u>6,847</u>	<u>26,815</u>	<u>33,662</u>
Segment revenue	750,229	1,200,886	1,951,115
Reportable segment profit	57,532	186,795	244,327
Segment depreciation	3,037	14,660	17,697
Segment amortisation	-	7,304	7,304
Additions to property, plant and equipment	50	9,586	9,636
Additions to intangible assets	<u>-</u>	<u>57</u>	<u>57</u>

Audited

As at 31st December 2018

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

Audited

As at 31st December 2017

	<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	220,038	1,318,279	1,538,317
Reportable segment liabilities	<u>184,594</u>	<u>206,377</u>	<u>390,971</u>

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

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

Revenue	Audited	
	Year ended	
	31st December	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment revenue	2,378,046	1,951,115
Elimination of intersegment revenue	<u>(33,589)</u>	<u>(33,662)</u>
Revenue per consolidated statement of profit or loss	<u>2,344,457</u>	<u>1,917,453</u>

3. Revenue and Segment Information (Continued)

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

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

Profit or loss	Audited	
	Year ended	
	31st December	
	2018	2017
	HK\$'000	HK\$'000
Reportable segment profit	378,793	244,327
Unallocated amounts:		
Unallocated other income	7,349	4,008
Unallocated other loss, net	(15,686)	(8,216)
Fair value gain on revaluation of investment properties	1,700	1,700
Unallocated depreciation	(4,422)	(3,067)
Share of results of associates	(5,428)	(7,111)
Finance costs	(22,726)	(17,205)
Unallocated corporate expenses	(212,245)	(144,688)
	127,335	69,748

Assets	Audited	
	31st December	
	2018	2017
	HK\$'000	HK\$'000
Reportable segment assets	1,695,729	1,538,317
Unallocated assets:		
Interests in associates	27,662	46,948
Deferred income tax assets	5,384	4,017
Tax recoverable	3,588	41,334
Restricted bank deposits	762	4,168
Bank balances and cash	292,183	286,771
Unallocated corporate assets	355,724	343,338
	2,381,032	2,264,893

Liabilities	Audited	
	31st December	
	2018	2017
	HK\$'000	HK\$'000
Reportable segment liabilities	468,785	390,971
Unallocated liabilities:		
Current income tax liabilities	10,083	6,262
Deferred income tax liabilities	76,420	74,723
Unallocated corporate liabilities	612,867	695,119
	1,168,155	1,167,075

3. Revenue and Segment Information (Continued)

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

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

Place of domicile	Revenue from external customers	
	Audited	
	Year ended	
	31st December	
	2018	2017
	HK\$'000	HK\$'000
Hong Kong	1,514,300	1,421,800
United States of America ("US")	720,045	411,446
Mainland China	5,622	5,924
Macau	37,365	32,441
Thailand	48,831	32,249
Taiwan	18,294	13,593
	2,344,457	1,917,453

Place of domicile	Specified non-current assets	
	Audited	
	31st December	
	2018	2017
	HK\$'000	HK\$'000
Hong Kong	342,060	332,603
US	885,091	890,827
Russia	10,417	4,751
Ukraine	5,331	2,163
Poland	3,808	845
Singapore	26,776	45,660
Mainland China	312	610
Macau	954	1,367
Thailand	124	130
Taiwan	29	169
Serbia	481	-
	1,275,383	1,279,125

4. Other Income

	Audited	
	Year ended	
	31st December	
	2018	2017
	HK\$'000	HK\$'000
Interest on bank deposits	785	137
Rental income from investment properties	3,708	3,651
Rental income from sublease	366	326
Waiver of consideration payable	2,355	-
Others	765	1,572
	7,979	5,686

5. Other Loss, Net

	Audited Year ended 31st December	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss on disposal of property, plant and equipment	(22)	(800)
Changes in fair value on contingent consideration payable	(3,093)	(3,221)
Provision for customers' claim	-	(3,642)
Impairment loss recognised on interests in associates	(11,900)	(4,400)
Exchange (loss)/gain, net	(671)	3,847
	(15,686)	(8,216)

6. Finance Income

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

7. Finance Costs

	Audited Year ended 31st December	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings	10,436	7,284
Interest on liability component of convertible bonds	12,243	9,910
Other interest expenses	47	11
	22,726	17,205

8. Profit Before Income Tax

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

	Audited Year ended 31st December	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditors' remuneration:		
Audit services		
- Current year	3,280	3,212
- (Over)/ underprovision in respect of prior year	(120)	113
Non-audit services	1,922	1,253
Bad debt expenses	14	-
Depreciation and amortisation:		
- Property, plant and equipment	20,906	20,764
- Intangible assets (included in cost of services rendered)	11,057	7,304
Directors' emoluments	8,823	7,907
Employee benefit expenses (excluding Directors' emoluments)	932,726	717,519
Transaction costs for acquisition of subsidiaries	-	9,025
Operating lease rentals in respect of:		
- Office premises and staff quarter	32,585	19,970
- Computer equipment	463	426
Provision for impairment of trade receivables	4,254	541
Reversal of provision for impairment of trade receivables	(289)	(107)
Provision for impairment of other receivables	832	-
Provision for obsolete inventories, net	43	78
Write off of inventories	98	-

9. Income Tax Expense

	Audited Year ended 31st December	
	2018	2017
	HK\$'000	HK\$'000
Current taxation:		
Hong Kong profits tax (Note (i))	14,123	10,316
Overseas taxation	32,538	19,260
(Over)/ Under-provision in respect of prior years:		
Hong Kong profits tax	(829)	109
Overseas taxation	(149)	110
	<u>45,683</u>	<u>29,795</u>
Deferred taxation:		
Current year	(2,681)	2,802
Effect of change in US tax rate (Note (ii))	-	(15,428)
	<u>(2,681)</u>	<u>(12,626)</u>
Income tax expense	<u>43,002</u>	<u>17,169</u>

Notes:

- (i) 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 year ended 31st December 2018, Hong Kong profits tax of Automated Systems (H.K.) Limited, a subsidiary of the Company, is calculated in accordance with the two-tiered profits tax rates regime.

- (ii) Following the enactment of the US Tax Cuts and Jobs Act on 22nd December 2017 which amongst other measures, reduced the US federal corporate income tax rate from 35% to 21%, the Group has re-measured its deferred income tax as at 31st December 2017 and recognised a reduction of deferred income tax of approximately HK\$15,428,000.

10. Dividends

	Audited Year ended 31st December	
	2018	2017
	HK\$'000	HK\$'000
Dividend approved and paid during the year:		
Final dividend in respect of the year ended 31st December 2017 of 1.0 HK cent per share	<u>6,707</u>	<u>-</u>
Dividends proposed:		
Final dividend in respect of the year ended 31st December 2017 of 1.0 HK cent per share (Note)	<u>-</u>	<u>6,705</u>

The directors did not recommend the payment of the final dividend for the year ended 31st December 2018. (2017: 1.0 HK cent per share).

Note: The proposed final dividend for the year ended 31st December 2017, as referred to above, is calculated on the basis of 670,544,804 ordinary shares in issue as at 31st December 2017 and at a final dividend of 1.0 HK cent per share. The actual amount of final dividend payable in respect of the year ended 31st December 2017 was subject to the actual number of ordinary shares in issue on the record date, which was 29th May 2018.

11. Earnings Per Share

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

	Audited Year ended 31st December	
	2018 HK\$'000	2017 HK\$'000
Earnings for the purpose of basic earnings per share	84,333	52,579
Effect of dilutive potential ordinary shares		
- Interest on convertible bonds (Note (iii))	12,243	9,910
Earnings for the purpose of diluted earnings per share	96,576	62,489
	Number of shares	
	2018	2017
	'000	'000 (Restated)
Weighted average number of ordinary shares for the purpose of basic earnings per share (Note (i))	805,004	702,073
Effect of dilutive potential ordinary shares		
- Share options (Note (ii))	2,074	98
- Convertible bonds (Note (iii))	274,725	263,014
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,081,803	965,185

Notes:

(i) The 805,004,000 ordinary shares are derived from the weighted average number of ordinary shares in issue during year 2018 after taking into account the effects of bonus issue being completed during the year ended 31st December 2018.

The 702,073,000 ordinary shares are derived from the weighted average number of ordinary shares in issue during year 2017 after taking into account the effects of rights issues and bonus issue being completed during the year ended 31st December 2017 and bonus issue being completed during the year ended 31st December 2018.

(ii) The calculation of the diluted earnings per share for the year ended 31st December 2018 assumed the exercise of the share options of the Company granted in March and May 2012, March, April and December 2017.

The calculation of the diluted earnings per share for the year ended 31st December 2017 assumed the exercise of the share options of the Company granted in March and May 2012, but not on the share options granted in March, April and December 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.

(iii) The calculation of the diluted earnings per share for the year ended 31st December 2018 and 2017 is based on the profit attributable to equity holders of the Company, adjusted to reflect the interest of the convertible bonds issued by the Company. The weighted average number of ordinary shares for the purpose of the diluted earnings per share for the year ended 31st December 2018 and 2017 have taken into account the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of the convertible bonds into ordinary shares for the year.

(iv) The dilutive effect of the share options granted by the Company's subsidiary was insignificant for the year ended 31st December 2018.

12. Property, Plant and Equipment

During the year ended 31st December 2018, the additions of property, plant and equipment, mainly for computer and office equipment and furniture and fixtures, was approximately HK\$16,390,000 (2017: HK\$10,603,000).

During the year ended 31st December 2018, the Group disposed of certain property, plant and equipment at the carrying amount of approximately HK\$75,000 (2017: HK\$842,000), resulting in a loss on disposal of approximately HK\$22,000 (2017: HK\$800,000).

The Group's land and buildings were stated at valuations made at 31st December 2018 and 2017. The land and buildings were last revalued by an independent professional valuer, at 31st December 2018 and 2017, at market value basis which is determined by reference to market evidence of recent transactions for similar properties. The revaluation gave rise to a revaluation surplus net of applicable deferred income taxes of approximately HK\$15,004,000 (2017: HK\$15,077,000) which has been credited to the property revaluation reserve.

As at 31st December 2018, if the land and buildings had not been revalued, they would have been included in these consolidated financial statements at historical cost, less accumulated depreciation and amortisation, of approximately HK\$38,034,000 (2017: HK\$40,099,000).

As at 31st December 2018, the Group had pledged land and buildings with carrying amount of HK\$280,700,000 (2017: HK\$271,950,000) to secure banking facilities granted to the Group.

13. Investment Properties

The investment properties of the Group were last revalued by an independent professional valuer at 31st December 2018 and 2017 at market value basis, which is determined by reference to market evidence of recent transactions for similar properties.

As at 31st December 2018, the Group had pledged investment properties with carrying amount of HK\$54,000,000 (2017: HK\$52,300,000) to secure banking facilities granted to the Group.

14. Trade Receivables

	Audited 31st December	
	2018	2017
	HK\$'000	HK\$'000
Trade receivables - gross	324,424	281,637
Less: provision for impairment	(9,417)	(5,685)
Trade receivables - net	<u>315,007</u>	<u>275,952</u>

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.

Based on the invoice dates, the ageing analysis of the trade receivables, is as follows:

	Audited 31st December	
	2018	2017
	HK\$'000	HK\$'000
0 - 30 days	149,555	136,266
31 - 60 days	96,852	51,806
61 - 90 days	37,137	43,326
Over 90 days	40,880	50,239
	<u>324,424</u>	<u>281,637</u>

15. Other Receivables, Deposits and Prepayments

	Audited 31st December	
	2018	2017
	HK\$'000	HK\$'000
Other receivables	4,258	3,788
Deposits	6,106	4,672
Prepayments	27,751	24,745
Amount due from an immediate holding company	1,072	-
Amount due from an associate	5,409	81
	<u>44,596</u>	<u>33,286</u>
Less: Non-current portion	-	(340)
	<u>44,596</u>	<u>32,946</u>

16. Restricted Bank Deposits and Bank Balances and Cash

As at 31st December 2018, bank balances carry interest at market rates with an average interest rate of 0.99% (2017: 0.04%) per annum. As at 31st December 2018, restricted bank deposits carried interest at market rates with an average interest rate of 0.38% (2017: 0.50%) per annum.

As at 31st December 2018, included in restricted bank deposits of approximately HK\$762,000 (2017: HK\$772,000) are pledged to secure the performance bonds of the Group.

17. Trade Payables

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

	Audited 31st December	
	2018	2017
	HK\$'000	HK\$'000
Current	185,967	114,418
Within 30 days	46,729	39,115
31 - 60 days	10,688	6,595
61 - 90 days	3,248	2,711
Over 90 days	12,308	12,963
	<u>258,940</u>	<u>175,802</u>

18. Other Payables and Accruals

	Audited 31st December	
	2018	2017
	HK\$'000	HK\$'000
Other payables	17,997	57,844
Accruals	119,728	95,103
Amount due to an ultimate holding company	1,208	418
Amounts due to associates	482	539
	<u>139,415</u>	<u>153,904</u>

19. Borrowings

	Audited 31st December	
	2018	2017
	HK\$'000	HK\$'000
Current		
Bank borrowings, secured (Note (i))	224,290	247,800
Non-current		
Convertible bonds (Note (ii))	257,425	245,182
Total borrowings	<u>481,715</u>	<u>492,982</u>

Notes:

- (i) Bank borrowings, secured
The Group's bank borrowings are repayable as follows:

	Audited 31st December	
	2018	2017
	HK\$'000	HK\$'000
Within one year or on demand	<u>224,290</u>	<u>247,800</u>

The Group's bank borrowings are repayable by five semi-annually instalments commencing from 29th March 2018 to 20th February 2020 and bears interest at floating rates. The bank borrowings are denominated in HKD with an effective interest rate of 4.68% (2017: 4.42%) per annum as at 31st December 2018.

19. Borrowings (Continued)

(i) Bank borrowings, secured (Continued)

As at 31st December 2018, the bank borrowings are secured by:

- (1) the legal charges over the Group's land and buildings with carrying amount of approximately HK\$280,700,000 (2017: HK\$271,950,000);
- (2) the legal charges over the Group's investment properties with carrying amount of HK\$54,000,000 (2017: HK\$52,300,000);
- (3) the guarantees given by the Company and certain subsidiaries of the Group up to a limit of HK\$250,000,000;
- (4) assignment of rental and sales proceeds from the Group's land, buildings and investment properties; and
- (5) assignment of insurance of all insurance policies (other than third party liabilities and public liabilities) over the Group's land, 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 as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become repayable on demand.

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

Subject to repayment on demand clauses which can be exercised at the banks' sole discretion, the above bank borrowings are classified as current liabilities as at 31st December 2018 and 2017.

(ii) Convertible bonds

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

At the issue date, the Convertible Bonds can be converted into 291,666,666 shares (the "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 respectively, pursuant to the terms and conditions of the Convertible Bonds.

On 25th August 2017, one of the bondholders, exercised the conversion right 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 31st December 2018, the Convertible Bonds contain two components i.e. liability and equity.

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

	<i>HK\$'000</i>
At 1st January 2018	245,182
Imputed interest expense	12,243
At 31st December 2018	257,425

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 year ended 31st December 2018, there was no conversion or redemption of the Convertible Bonds.

20. Share Option Schemes

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

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

(a) 2002 Share Option Scheme

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

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

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

The following table discloses details of the share options held by employees under the 2002 Share Option Scheme and movements in such holdings during the year ended 31st December 2018:

Grant date	Exercise price per share (Note)	Number of Options					At 31st December 2018
		At 1st January 2018	Granted during the year	Lapsed during the year	Exercised during the year	Adjusted during the year (Note)	
19th March 2012	HK\$0.704	464,253	-	-	-	92,847	557,100
2nd May 2012	HK\$0.728	141,857	-	-	-	28,371	170,228
		606,110	-	-	-	121,218	727,328
Weighted average exercise price per share		HK\$0.852	-	-	-	HK\$0.710	HK\$0.710
Number of options exercisable at 31st December 2018							727,328
Weighted average exercise price per share of options exercisable at 31st December 2018							HK\$0.710
Weighted average remaining contractual life							3.2 years

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

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

(b) 2017 Share Option Scheme

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

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

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

20. Share Option Schemes (Continued)

(b) 2017 Share Option Scheme (Continued)

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

Details of specific categories of options are as follows:

Grant date	Exercise period	Number of options outstanding at 31st December 2018
31st March 2017		
- Tranche 1	31st March 2017 - 30th March 2027	2,790,150
	1st April 2018 - 30th March 2027	1,424,775
	1st April 2019 - 30th March 2027	1,527,075
- Tranche 2	28th March 2018 - 30th March 2027	2,849,550
	1st April 2019 - 30th March 2027	1,527,075
	1st April 2020 - 30th March 2027	1,527,075
- Tranche 3	20th March 2019 - 30th March 2027	3,054,150
	1st April 2020 - 30th March 2027	1,527,075
	1st April 2021 - 30th March 2027	1,527,075
- Tranche 4	Date of 2019 Annual Results Announcement - 30th March 2027	3,054,150
	1st April 2021 - 30th March 2027	1,527,075
	1st April 2022 - 30th March 2027	1,527,075
		<hr/>
		23,862,300

Grant date	Exercise period	Number of options outstanding at 31st December 2018
28th April 2017		
- Tranche 1	1st June 2018 - 27th April 2027	907,500
	1st June 2019 - 27th April 2027	453,750
	1st June 2020 - 27th April 2027	453,750
- Tranche 2	1st June 2019 - 27th April 2027	907,500
	1st June 2020 - 27th April 2027	453,750
	1st June 2021 - 27th April 2027	453,750
- Tranche 3	1st June 2020 - 27th April 2027	907,500
	1st June 2021 - 27th April 2027	453,750
	1st June 2022 - 27th April 2027	453,750
- Tranche 4	1st June 2021 - 27th April 2027	907,500
	1st June 2022 - 27th April 2027	453,750
	1st June 2023 - 27th April 2027	453,750
		<hr/>
		7,260,000

Grant date	Exercise period	Number of options outstanding at 31st December 2018
13th December 2017		
- Tranche 1	1st April 2019 - 12th December 2027	208,200
	1st April 2020 - 12th December 2027	104,100
	1st April 2021 - 12th December 2027	104,100
- Tranche 2	1st April 2020 - 12th December 2027	208,200
	1st April 2021 - 12th December 2027	104,100
	1st April 2022 - 12th December 2027	104,100
- Tranche 3	1st April 2021 - 12th December 2027	208,200
	1st April 2022 - 12th December 2027	104,100
	1st April 2023 - 12th December 2027	104,100
- Tranche 4	1st April 2022 - 12th December 2027	208,200
	1st April 2023 - 12th December 2027	104,100
	1st April 2024 - 12th December 2027	104,100
		<hr/>
		1,665,600

20. Share Option Schemes (Continued)

(b) 2017 Share Option Scheme (Continued)

The following table discloses details of the share options held by employees (including Directors) under the 2017 Share Option Scheme and movements in such holdings during the year ended 31st December 2018:

Grant date	Exercise price per share (Note)	Number of Options					At 31st December 2018
		At 1st January 2018	Granted during the year	Lapsed during the year	Exercised during the year	Adjusted during the year (Note)	
31st March 2017	HK\$0.970	20,834,000	-	(522,500)	(544,500)	4,095,300	23,862,300
28th April 2017	HK\$0.909	6,050,000	-	-	-	1,210,000	7,260,000
13th December 2017	HK\$0.867	1,388,000	-	-	-	277,600	1,665,600
		28,272,000	-	(522,500)	(544,500)	5,582,900	32,787,900
Weighted average exercise price per share	HK\$1.142		-	HK\$1.019	HK\$1.050	HK\$0.951	HK\$0.951
Number of options exercisable at 31st December 2018							7,971,975
Weighted average exercise price per share of options exercisable at 31st December 2018							HK\$0.963
Weighted average remaining contractual life							8.20 years

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

During the year ended 31st December 2018, the Group recognised total expense of approximately HK\$3,221,000 (2017: HK\$4,299,000) in relation to equity-settled share-based payment transactions under the 2017 share option scheme and included in the consolidated statement of profit or loss with a corresponding credit to the share-based payment reserve.

(c) GDI Share Option Scheme

The adoption of the share option scheme ("GDI Share Option Scheme") of a subsidiary of the Company, Grid Dynamics International Inc. ("Grid Dynamics"), were approved by the shareholders of the Company at the special general meeting on 21st December 2018 (the "Adoption Date"). The GDI Share Option Scheme is valid and effective for a period of ten years from 12th November 2018 or until its termination by the board of directors of Grid Dynamics ("GDI Board"), whichever is earlier.

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 that Grid Dynamics designates as within Grid Dynamics, its parent companies or subsidiaries and by motivating such persons to contribute to the growth and profitability of Grid Dynamics.

The GDI Board shall have the full and final power and authority, in its discretion to determine the persons to whom, and the time or times at which, options shall be granted and the number of shares of common stock of Grid Dynamics ("GDI Shares") to be subject to each option.

The total number of GDI Shares which may be issued upon exercise of all options to be granted under the GDI Share Option Scheme and any other share option schemes of Grid Dynamics shall not in aggregate exceed 10% of the total number of GDI Shares in issue as at the Adoption Date, unless the Company obtains a fresh approval from the shareholder(s) of Grid Dynamics and the shareholders of the Company.

An option shall be deemed to have been granted and accepted by the grantees and to have taken effect when the duplicate of the stock option agreement comprising acceptance of the offer has been duly signed by the grantees within 28 days. No payment is required to accept an offer.

20. Share Option Schemes (Continued)
(c) GDI Share Option Scheme (Continued)

Details of specific categories of options are as follows:

Grant date	Exercise period	Number of options outstanding at 31st December 2018
21st December 2018		
Grid Dynamics Senior Management Grant		
- Tranche 1	12th November 2018 - 11th November 2028	531,875
- Tranche 2	1st January 2019 - 11th November 2028	531,875
- Tranche 3	1st January 2020 - 11th November 2028	531,875
- Tranche 4	1st January 2021 - 11th November 2028	531,875
Grid Dynamics Employees Grant		
- Tranche 1	12th November 2018 - 11th November 2028	30,625
- Tranche 2	12th November 2019 - 11th November 2028	30,625
- Tranche 3	12th November 2020 - 11th November 2028	30,625
- Tranche 4	12th November 2021 - 11th November 2028	30,625
		2,250,000

The following table discloses details of the share options held by employees (including directors) of Grid Dynamics under the GDI Share Option Scheme and movements in such holdings during the year ended 31st December 2018:

Grant date	Exercise price per share	Number of Options					At 31st December 2018
		At 1st January 2018	Granted during the year	Lapsed during the year	Exercised during the year	At 31st December 2018	
21st December 2018	US\$7.54	-	2,250,000	-	-	2,250,000	
Weighted average exercise price per share		-	US\$7.54	-	-	US\$7.54	
Number of options exercisable at 31st December 2018						562,500	
Weighted average exercise price per share of options exercisable at 31st December 2018						US\$7.54	
Weighted average remaining contractual life						9.9 years	

In respect of the share options granted during the year ended 31st December 2018, the estimated fair values of the options on the dates of grant were calculated using the binomial option pricing model. The estimated fair values amounted to US\$2.16 per share. The inputs into the model were as follows:

	Granted on 21st December 2018
Share price at grant date	US\$7.90
Exercise price at grant date	US\$7.54
Expected volatility	39.28%
Option life	9.9 years
Risk-free rate	2.79%
Expected dividend	4.0%

The expected volatility was determined by using the historical volatility of the comparable companies of Grid Dynamics for the closing share price for the period of 10 years before the date of grant.

During the year ended 31st December 2018, the Group recognised total expense of approximately HK\$19,862,000 (2017: Nil) in relation to equity-settled share-based payment transactions under the GDI Share Option Scheme and included in the consolidated statement of profit or loss with a corresponding credit to the share-based payment reserve.

21. Pledge of Assets

As at 31st December 2018, land and buildings with carrying amount of HK\$280,700,000 (2017: HK\$271,950,000) and investment properties with carrying amount of HK\$54,000,000 (2017: HK\$52,300,000) were pledged to secure the banking facilities granted to the Group.

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

22. Events After the Reporting Date

On 25th January 2019, GDD International Holding Company ("GDD"), an indirect wholly-owned subsidiary of the Company, entered into a stock transfer agreement with a director of Grid Dynamics ("GDI director") whereby GDD agreed to transfer to the GDI director, and the GDI director agreed to receive and hold from GDD, 342,500 transfer shares, representing 2.85% of the total number of issued shares of Grid Dynamics, at the consideration of US\$2,055,000. For details, please refer to the Company's announcement dated 25th January 2019.

DIVIDEND

The Directors did not recommend the payment of a final dividend for the year ended 31st December 2018 (2017: 1.0 HK cent per share).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the year ended 31st December 2018, total revenue of the Group was HK\$2,344.5 million, representing a 22.3% increase from last year, among which, product sales were increased by 10.1% to HK\$818.6 million while service revenue was increased by 30.0% to HK\$1,525.8 million. For the year ended 31st December 2018, product sales and service revenue contributed 34.9% and 65.1% to total revenue respectively. The increase in revenue was mainly because (i) the group restructured the focus on the three major information technology businesses, which leads the business in Hong Kong, Macau and Asia Pacific recorded a growth; and (ii) whole year result of Grid Dynamics International, Inc. ("Grid Dynamics"), a subsidiary of the Company in the United States ("US"), was consolidated, compared to the last year, merely result for the period from 7th April 2017 to 31st December 2017 was consolidated.

For the year ended 31st December 2018, commercial and public sector sales contributed 62.7% and 37.3% to total revenue respectively, compared to 59.1% and 40.9% last year.

Gross profit for the year ended 31st December 2018 was HK\$492.6 million, an increase of HK\$148.5 million or 43.1% compared with last year. Gross profit margin for the year also increased from 17.9% to 21.0%.

Even though there was approximately HK\$19.9 million equity-settled share-based payment expenses incurred for the grant of share options of Grid Dynamics during the year ended 31st December 2018, the Group recorded a profit attributable to the Company's equity holders of HK\$84.3 million, a rise of 60.4% compared to last year of HK\$52.6 million.

For the year ended 31st December 2018, orders newly secured by the Group amounted to approximately HK\$2,376.3 million, an increase of 20.2% from HK\$1,976.5 million of last year. As at 31st December 2018, the order book balance was approximately HK\$1,128.2 million. The Group's cash stood at approximately HK\$292.2 million with a working capital ratio of 1.32:1. The Group maintained a healthy financial position and outstanding borrowings amounted to HK\$481.7 million as at 31st December 2018.

Business Review

In 2018, the Group's local and overseas core businesses achieved satisfactory growth, and the revenue, gross profit and profit for the year ended 31st December 2018 recorded significant increases of 22.3%, 43.1% and 60.4% respectively when compared to last year. The Group's core businesses in Hong Kong, Macau and Asia Pacific grew steadily with revenue recorded an increase of 7.9% and gross profit margin was continuously improving, reflecting the fruitful results from the Group's implementation of structural optimization and upgrade on its business in 2018.

During the year, the Group focused on customer centricity, the optimization of business structure and the reduction of reliance on traditional reseller business as well as placed emphasis on enhancing the capability of the service business, and these factors led to a growth of 30.0% in the revenue of the service business when compared to last year. During the year, the Group also focused on the demands of customers from various industries, and successfully deepened its market penetration within the industries by dint of accumulated professional knowledge and experience, among which the banking and finance industry contributed enormously to the commercial sector sales during the year.

During the year, in order to meet the market needs of digital transformation, the Group reformed its business strategies and focused on three major information technology (“IT”) businesses: leading-edge Innovative Solutions, Intelligent Cybersecurity Services and next-generation one-stop IT Integrated Managed Services. These three businesses grew steadily during the year.

In respect of the leading-edge Innovative Solutions, it achieved strong performance during the year. Overall orders newly secured from this business segment recorded a significant double-digit growth, which included orders obtained from Hong Kong, Macau, Asia Pacific as well as Grid Dynamics, and this business segment accounted for over 50% of the overall orders newly secured of the Group. The Group was committed to customer centricity, and it strived to and succeeded in offering tailor-made solutions suitable for the government and for the industries which the Group focused on as well as assisting them in the process of frontend-to-backend digital transformation during the year. One of the landmark projects included a new-type infrastructure order received from the government on providing assistance to its construction of Smart City and being responsible for the management and implementation of a data platform for the Smart Lampposts. In addition, the Group continued to leverage its strengths in areas such as DevOps, agile software development methodologies, automated testing and Offshore Delivery Excellence Centre and took advantage of its leading technologies including artificial intelligence and big data, and through which it obtained numerous orders, among which included winning the award of projects regarding big data consultancy services and application development on customer service enhancement from a private medical institution and a well-known local airline respectively. Moreover, the Group also introduced various innovative technologies (such as face recognition) and successfully extended such services into Macau market, and were well received by the local customers.

In respect of the Intelligent Cybersecurity Services, orders newly secured received remained stable, which accounted for approximately double-digit of the overall orders newly secured of the Group. Such business achieved satisfactory performance, partly due to the fact that benefiting from the more stringent or new cybersecurity regulations in the banking industry (such as the Hong Kong Monetary Authority’s “Cyber Resilience Assessment Framework” (C-RAF) and the Society for Worldwide Interbank Financial Telecommunication (SWIFT)’s Customer Security Programme (CSP)) during the year, the Group obtained numerous security projects from several financial institutions, which led to an increase of the Group’s penetration rate in the financial industry. Moreover, the Group also put its extensive systems integration knowledge acquired from various Cloud platforms and suppliers to good account, by which it successfully assisted a renowned multinational enterprise in transferring the IT infrastructure from its headquarters in Hong Kong to Cloud platform, ensuring the security of its data on different Cloud platforms. By virtue of the Group’s outstanding data security solutions and managed security services, according to the IDC Asia/ Pacific Semi Annual Services Tracker, 2H2017, the Group was ranked one of the top three security service providers in Hong Kong, with it playing a decisive role in the realm of cybersecurity.

In respect of the next-generation one-stop IT Integrated Managed Services, it achieved considerable progress during the year, which recorded an approximately double-digit growth, and accounted for nearly 40% of the overall orders newly secured of the Group. Apart from continually achieving positive results in the IT support service business, the Group also secured long-term one-stop managed service orders in various industries with its extensive experience in the industry. By further successfully strengthening the cooperation with its customer in the traditional IT support services, the Group was able to offer comprehensive daily operational support services to an existing customer from the public sector. It is noteworthy that, the Group achieved a breakthrough in its managed service business, successfully expanded into the insurance industry and wherein received long-term IT managed service orders, hence allowing more room for development in this business segment.

In view of the increasing use of Cloud and digital transformation by enterprises, ASL closely cooperated with the world’s leading digital transformation expert Alibaba Cloud, and reached a strategic cooperation agreement in the first half of 2018. Such scope of cooperation included Cloud security solutions and sales and marketing, with an aim to further develop the Cloud market in Hong Kong and Macau regions. These services were gradually recognized by customers, and the Group has successfully obtained its first order from the finance industry.

As for the overseas business, Grid Dynamics recorded robust growth during the year. Its revenue and gross profit recorded remarkable increases of 75.0% and 68.4% respectively when compared to last year from the date of acquisition. The revenue derived from existing customers grew progressively, among which the business scale reached ten million US dollars within customers from renowned multinational technology corporations. Meanwhile, during the year, the Group also adopted the new equity incentive plan of Grid Dynamics so as to encourage its employees to strive to enhance the value of Grid Dynamics and to maintain its momentum of sustainable development. In order to further cope with the business expansions, Grid Dynamics opened its 6th research and development center in Serbia and set up a new office in Texas, the US during the year, so as to further strengthen the Group's support in different regions and its global delivery capabilities to meet different customer needs in various regions.

Outlook and Prospects

In the era of Cloud Computing, our provision of safe and reliable Cloud services in the above three major businesses in order to assist customers in optimizing its existing IT resources, enhancing the efficiency and performance of its IT systems, expanding its IT capability and technological innovation, as well as devising and exploring more effective business models and business opportunities, will undoubtedly be our focus in the next phase of development.

The Group has always been aware of the different needs of its customers, hence it kept adding its own infrastructure to attain service improvement. Subsequent to the introduction of artificial intelligence at the Security Operation Center *Plus* (SOC+) in 2018 to enhance the capability of customer network protection, the Group is planning 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 gain potential for sustainable development and to deepen the cooperation with its customers. Moreover, in respect of overseas business, the Group decided to inject a total of more than HK\$50 million in 2018 and 2019 to facilitate Grid Dynamics in the research and development of leading-edge technology in areas of artificial intelligence and machine learning, the transformation of commercial application capabilities, as well as the cross-sector cross-border expansion of its business territory.

In terms of risks and challenges, as the Group expects that Cloud platforms and Cloud services will be more widely used by enterprises around the world, it anticipates that this will intensify the downward pressure on the Group's traditional reseller business, and especially under the impact of the general economic environment, the Group foresees that the increase of its overall business pressure and risk will be more perceptible in the second half of 2019. In view of the above, the Group has developed a risk control system as a solution.

Moreover, the Group will continue to focus its business procedures, optimize and improve its structure and enhance its talent resources, with the aim to achieve breakthroughs in new businesses areas, new technical fields and new customers from various industries.

Looking forward, the Group believes that the Belt and Road and the development of the Greater Bay Area will help facilitate the connections between Hong Kong and mainland China, and the Group expects that such development will drive the future demand for IT. The Group will also leverage on its position as an IT service provider to promote mainland China's advanced technology products to overseas market or to draw international clients into China's market. The Group will continue to closely cooperate with strategic partners to consolidate its business locations in Greater China and Southeast Asia and to seize global opportunities to accelerate its process of globalization.

“EMPOWER”, “SECURE” and “MANAGE” are the three main core values being brought to customers by the Group. By dint of the Group's seven research and development centers located worldwide, with over a thousand IT professionals and with over forty years of industry experience in providing professional IT services, we will continue to leverage our strengths to assist customers in their frontend-to-backend digital transformation as well as to strive to provide diversified, one-stop innovative IT solutions and services to customers from various industries.

Financial Resources and Liquidity

As at 31st December 2018, the Group's total assets of HK\$2,381.0 million were financed by current liabilities of HK\$834.3 million, non-current liabilities of HK\$333.8 million and shareholders' equity of HK\$1,212.9 million. The Group had a working capital ratio of approximately 1.32:1.

As at 31st December 2018, the Group had an aggregate composite banking facility from banks of approximately HK\$388.1 million (2017: HK\$371.0 million). The Group had pledged land and buildings of HK\$280.7 million (2017: HK\$272.0 million), investment properties of HK\$54.0 million (2017: HK\$52.3 million) and restricted bank deposits HK\$0.8 million (2017: HK\$0.8 million) for banking facility and performance bonds granted to the Group respectively. The performance bonds issued by the Group to customers as security of contracts were approximately HK\$68.5 million as at 31st December 2018 (2017: HK\$63.3 million). The Group's gearing ratio (total borrowings over total equity) was 39.7% as at 31st December 2018 (2017: 44.9%).

Material Acquisition

During the year ended 31st December 2018, neither the Company nor any of its subsidiaries had material acquisition or disposal.

Fund Raising Activities

Adjustment and Transfer of Convertible Bonds

Reference is made to the announcements of the Company dated 12th January 2017, 23rd February 2017, 8th March 2017, 21st March 2017, 8th June 2017, 25th August 2017, 8th June 2018 and 29th June 2018 and the circular of the Company dated 24th February 2017 respectively, in relation to, among other matters, HKD denominated zero coupon Convertible Bonds due on 21st March 2020 in an aggregate principal amount of HK\$350.0 million, with the conversion rights to convert the principal amount thereof into 291,666,666 Conversion Shares at the initial Conversion Price of HK\$1.20 per Conversion Share (subject to adjustment). The Convertible Bonds with an aggregate principal amount of HK\$350.0 million, convertible into 291,666,666 conversion shares, have been successfully placed to two placees, namely Viewforth Limited ("Viewforth") and China Fortune Rich Private Equity Fund Limited ("China Fortune") on 21st March 2017.

On 25th August 2017, China Fortune has exercised the conversion rights to convert the principal amount of HK\$100.0 million at the adjusted conversion price of HK\$1.09 per share into 91,743,119 Shares. The aggregate outstanding principal amount of the Convertible Bonds was HK\$250.0 million as at 31st December 2018.

The conversion price of the Convertible Bonds and the number of conversion shares falling to be allotted and issued upon conversion of the Convertible Bonds were adjusted to HK\$0.91 and 274,725,274 conversion shares respectively with effect from 30th May 2018 as a result of bonus issue of the Company approved at the annual general meeting of the Company held on 16th May 2018.

On 29th June 2018, Viewforth transferred the Convertible Bonds in a principal amount of the HK\$250.0 million which are convertible into 274,725,274 Conversion Shares at the Adjusted Conversion Price of HK\$0.91 per Conversion Share, to Triple Wise Asset Holdings Ltd. ("Triple Wise"). Triple Wise has become the registered holder of the Convertible Bonds in the total principal amount of HK\$250.0 million, which represented approximately 25.44% of the number of issued Shares as enlarged by the allotment and issue of the Conversion Shares.

During the year ended 31st December 2018, 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 year ended 31st December 2018 (2017: same).

Contingent Liabilities

As at 31st December 2018, the Group had HK\$0.8 million restricted bank deposits held as security for performance bonds (2017: HK\$0.8 million). As at 31st December 2018, performance bonds of approximately HK\$68.5 million (2017: HK\$63.3 million) had been issued by the bank on behalf of the Group to customers as security of contracts.

Capital Commitments

As at 31st December 2018, the Group had contracted capital commitments amounting to approximately HK\$11.5 million (2017: HK\$11.6 million).

Major Customers and Suppliers

During the year ended 31st December 2018, the five largest customers and single largest customer of the Group accounted for approximately 26.9% and 7.0%, respectively, of the Group's revenue. The five largest suppliers and single largest supplier of the Group accounted for approximately 34.9% and 10.6%, respectively, of the Group's purchases.

At no time during the year ended 31st December 2018 did a Director, their close associate or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the number of the Company's issued shares) has an interest in any of the Group's five largest customers or suppliers.

Employee and Remuneration Policies

As at 31st December 2018, the Group, excluding its associates, employed 2,297 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 option scheme.

CLOSURE OF REGISTER OF MEMBERS FOR 2019 ANNUAL GENERAL MEETING

The Company will convene the forthcoming annual general meeting on Wednesday, 22nd May 2019. For determining the entitlement to attend and vote at the forthcoming annual general meeting, the register of members of the Company will be closed from Friday, 17th May 2019 to Wednesday, 22nd May 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to determine the entitlement to attend and vote at the forthcoming annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 16th May 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31st December 2018, neither the Company nor any of its subsidiaries has 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 audited annual results.

SCOPE OF WORK OF GRANT THORNTON HONG KONG LIMITED ("GRANT THORNTON HONG KONG")

The figures in respect of the preliminary announcement of the Group's results for the year ended 31st December 2018 have been agreed by the Group's auditor, Grant Thornton Hong Kong, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Grant Thornton Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by HKICPA and consequently no assurance has been expressed by Grant Thornton Hong Kong on the preliminary announcement.

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 year ended 31st December 2018, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

CORPORATE GOVERNANCE

The Company has complied with the Corporate Governance Code (the “Code”) set out in Appendix 14 to the Listing Rules throughout the accounting period for the year ended 31st December 2018 except as noted below:

- with respect to Code provision A.6.7, (i) two Non-Executive Directors did not attend the annual general meeting of the Company held on 16th May 2018 (the “2018 AGM”) due to other commitments; and (ii) two Non-Executive Directors and two Independent Non-Executive Directors did not attend a special general meeting of the Company held on 21st December 2018 due to other commitments.
- with respect to Code provision E.1.2, Mr. Li Wei, the Chairman of the Board, was unable to attend the 2018 AGM due to other commitments.

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

Hong Kong, 20th March 2019

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