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AUTOMATED

AUTOMATED SYSTEMS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 771)

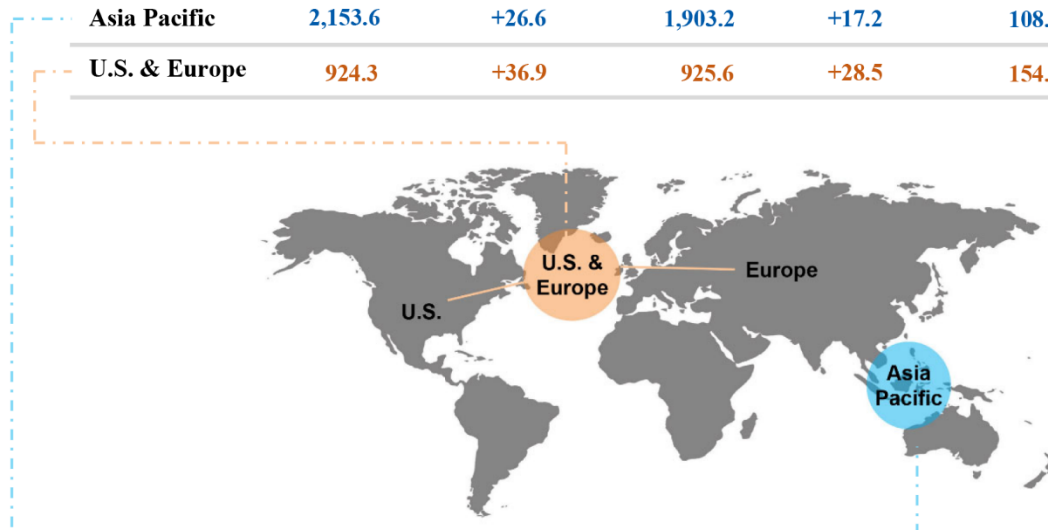
ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER 2019

FINANCIAL HIGHLIGHTS

| Group Financial Indicators | | | |
|---------------------------------|--|---------|----------|
| (In HK\$ million) | Audited Year ended 31st December | | |
| | 2019 | 2018 | % Change |
| Orders Newly Secured | 3,077.9 | 2,376.3 | +29.5 |
| Revenue | 2,828.8 | 2,344.5 | +20.7 |
| Gross Profit | 564.1 | 492.6 | +14.5 |
| Adjusted EBITDA ^{Note} | 263.0 | 221.5 | +18.7 |
| Net Profit | 100.3 | 84.3 | +18.9 |

Group Performance Overview (In HK\$ million)

| Region | Orders Newly Secured | % Change | Revenue | % Change | Adjusted EBITDA | % Change |
|---------------------------|----------------------|--------------|----------------|--------------|-----------------|--------------|
| Hong Kong | 1,986.2 | +24.3 | 1,785.3 | +17.9 | 105.5 | +12.0 |
| Asia Pacific Subsidiaries | 167.4 | +61.3 | 117.8 | +6.8 | 3.1 | +181.8 |
| Asia Pacific | 2,153.6 | +26.6 | 1,903.2 | +17.2 | 108.6 | +13.9 |
| U.S. & Europe | 924.3 | +36.9 | 925.6 | +28.5 | 154.4 | +22.3 |



Note: Adjusted Earnings Before Interest, Taxes, Depreciation, and Amortisation (Adjusted EBITDA) is calculated based on profit for the year excluding interest income and expenses, tax, depreciation, amortisation, fair value change on revaluation of investment properties, equity-settled share-based payments expense, share of results of associates, impairment loss recognised on interests in associates, fair value change on contingent consideration payable, fair value change on financial liabilities at fair value through profit or loss and equity-transaction-related expenses (mainly include professional fees). Upon adoption of HKFRS 16 “Leases” during the year, the rental expenses of the Group’s leases are recorded as depreciation of right-of-use assets and finance charges on lease liabilities, these expenses are excluded from 2019 Adjusted EBITDA, the prior year’s rental expenses were included in lease charges and included in 2018 Adjusted EBITDA.

RESULTS

The Board of Directors (the “Board”) 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 2019 together with comparative figures for the year ended 31st December 2018 as follows:

Consolidated Statement of Profit or Loss

| | | Audited | |
|--|--------------|----------------------|-----------------|
| | | Year ended | |
| | | 31st December | |
| | | 2019 | 2018 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Revenue | 3 | 2,828,773 | 2,344,457 |
| Cost of goods sold | | (917,883) | (716,939) |
| Cost of services rendered | | (1,346,740) | (1,134,891) |
| Other income | 4 | 8,488 | 7,979 |
| Other loss, net | 5 | (6,771) | (15,686) |
| Fair value gain on revaluation of investment properties | | 1,800 | 1,700 |
| Selling expenses | | (156,929) | (114,083) |
| Administrative expenses | | (239,508) | (217,307) |
| Finance income | 6 | 172 | 259 |
| Finance costs | 7 | (23,734) | (22,726) |
| Share of results of associates | | (8,287) | (5,428) |
| | | 139,381 | 127,335 |
| Profit before income tax | 8 | 139,381 | 127,335 |
| Income tax expense | 9 | (39,073) | (43,002) |
| | | 100,308 | 84,333 |
| Profit for the year | | 100,308 | 84,333 |
| Profit for the year attributable to: | | | |
| Equity holders of the Company | | 93,276 | 84,333 |
| Non-controlling interests | | 7,032 | - |
| | | 100,308 | 84,333 |
| | | <i>HK cents</i> | <i>HK cents</i> |
| Earnings per share attributable to equity holders of the Company: | | | |
| Basic | 11 | 11.55 | 10.48 |
| Diluted | | 9.22 | 8.93 |

Consolidated Statement of Comprehensive Income

| | Audited | |
|--|-----------------------|----------------------|
| | Year ended | |
| | 31st December | |
| | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit for the year | 100,308 | 84,333 |
| Other comprehensive income/(loss): | | |
| <i>Items that will not be reclassified subsequently to profit or loss:</i> | | |
| Revaluation surplus of land and buildings | 19,249 | 17,969 |
| Deferred taxation arising from revaluation surplus of land and buildings | (3,176) | (2,965) |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | |
| Exchange differences on translation of overseas operations | (4,087) | (778) |
| Share of other comprehensive income/(loss) of associates | 193 | (431) |
| Total comprehensive income for the year | <u>112,487</u> | <u>98,128</u> |
| Total comprehensive income attributable to: | | |
| Equity holders of the Company | 105,754 | 98,128 |
| Non-controlling interests | <u>6,733</u> | <u>-</u> |
| | <u>112,487</u> | <u>98,128</u> |

Consolidated Statement of Financial Position

| | | Audited | |
|---|--------------|----------------------|------------------|
| | | 31st December | |
| | | 2019 | 2018 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 12 | 321,595 | 304,495 |
| Investment properties | 13 | 55,800 | 54,000 |
| Intangible assets | | 107,243 | 118,053 |
| Goodwill | | 766,816 | 771,173 |
| Interests in associates | | 19,625 | 27,662 |
| Equity investment | | 598 | 598 |
| Finance lease receivables | | 4,946 | 1,128 |
| Deferred income tax assets | | 16,341 | 5,384 |
| | | 1,292,964 | 1,282,493 |
| CURRENT ASSETS | | | |
| Inventories | | 267,938 | 178,595 |
| Trade receivables | 14 | 344,219 | 315,007 |
| Finance lease receivables | | 2,729 | 3,346 |
| Other receivables, deposits and prepayments | 15 | 70,135 | 44,596 |
| Contract assets | | 362,333 | 260,462 |
| Tax recoverable | | 1,660 | 3,588 |
| Restricted bank deposits | 16 | 556 | 762 |
| Bank balances and cash | 16 | 456,058 | 292,183 |
| | | 1,505,628 | 1,098,539 |
| TOTAL ASSETS | | 2,798,592 | 2,381,032 |
| EQUITY | | | |
| Share capital | | 82,731 | 80,522 |
| Share premium | | 395,830 | 377,146 |
| Reserves | | 926,711 | 755,209 |
| Equity attributable to equity holders of the Company | | 1,405,272 | 1,212,877 |
| Non-controlling interests | | 47,510 | - |
| TOTAL EQUITY | | 1,452,782 | 1,212,877 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 19 | - | 257,425 |
| Deferred income tax liabilities | | 78,299 | 76,420 |
| Lease liabilities | | 3,236 | - |
| | | 81,535 | 333,845 |
| CURRENT LIABILITIES | | | |
| Trade payables | 17 | 360,282 | 258,940 |
| Other payables and accruals | 18 | 184,612 | 139,415 |
| Contingent consideration payable | | - | 69,565 |
| Receipts in advance | | 176,533 | 132,017 |
| Current income tax liabilities | | 25,352 | 10,083 |
| Borrowings | 19 | 439,770 | 224,290 |
| Financial liabilities at fair value through profit or loss | 21 | 75,017 | - |
| Lease liabilities | | 2,709 | - |
| | | 1,264,275 | 834,310 |
| TOTAL LIABILITIES | | 1,345,810 | 1,168,155 |
| TOTAL EQUITY AND LIABILITIES | | 2,798,592 | 2,381,032 |
| NET CURRENT ASSETS | | 241,353 | 264,229 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,534,317 | 1,546,722 |

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, contingent consideration payable and financial liabilities at fair value through profit or loss 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 and amended HKFRSs

(a) New and amended HKFRSs that are effective for the annual periods beginning on 1st January 2019:

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 2019:

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

Other than as noted below, the adoption of these new and amended HKFRSs had no material impact on how the results and financial position of the Group for the current and prior periods have been prepared and presented.

HKFRS16 “Leases”

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

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

As a Lessee

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

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

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

The weighted average incremental borrowing rate applied to lease liabilities recognised under HKFRS 16 was 5.1%.

2. Application of new and amended HKFRSs (Continued)

- (a) New and amended HKFRSs that are effective for the annual periods beginning on 1st January 2019: (Continued)

HKFRS16 “Leases” (Continued)

As a Lessee (Continued)

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

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

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

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

The adoption of HKFRS 16 also results in changes in accounting policy of leases.

- (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 17 | <i>Insurance Contracts</i> ² |
| Amendments to HKFRS 10 and HKAS 28 | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³ |
| Amendments to HKFRS 3 | <i>Definition of a Business</i> ⁴ |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | <i>Interest Rate Benchmark Reform</i> ¹ |
| Amendments to HKAS 1 and HKAS 8 | <i>Definition of Material</i> ¹ |

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

² Effective for annual periods beginning on or after 1st January 2021

³ Effective date not yet determined

⁴ 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. The new and amended HKFRSs are not expected to have a material impact on the Group's financial statements.

3. Revenue and Segment Information

The Group's revenue is analysed as follows:

| | Audited | |
|--------------------------------|----------------------|------------------|
| | Year ended | |
| | 31st December | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Sales of goods | 1,026,082 | 818,641 |
| Revenue from service contracts | 1,802,691 | 1,525,816 |
| | <u>2,828,773</u> | <u>2,344,457</u> |

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

IT Products

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

IT Services

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

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 lease liabilities, accrued charges of the head office, borrowings, contingent consideration payable and financial liabilities at fair value through profit or loss).

(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 2019

| | <u>IT Products</u> | <u>IT Services</u> | <u>Total</u> |
|--|--------------------|--------------------|-----------------|
| | <u>HK\$'000</u> | <u>HK\$'000</u> | <u>HK\$'000</u> |
| Revenue from external customers | 1,026,082 | 1,802,691 | 2,828,773 |
| Intersegment revenue | 6,530 | 23,857 | 30,387 |
| Segment revenue | 1,032,612 | 1,826,548 | 2,859,160 |
| Reportable segment profit | 70,194 | 338,745 | 408,939 |
| Reportable segment assets | 376,863 | 1,546,696 | 1,923,559 |
| Reportable segment liabilities | 386,229 | 328,911 | 715,140 |
| Segment depreciation | 2,463 | 17,894 | 20,357 |
| Segment amortisation | - | 15,623 | 15,623 |
| Additions to property, plant and equipment * | 3 | 15,129 | 15,132 |
| Additions to intangible assets | - | 5,372 | 5,372 |

* Additions to property, plant and equipment of HK\$7,644,000 were related to unallocated asset.

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 2018

| | <u>IT Products</u> | <u>IT Services</u> | <u>Total</u> |
|--|--------------------|--------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Revenue from external customers | 818,641 | 1,525,816 | 2,344,457 |
| Intersegment revenue | <u>5,699</u> | <u>27,890</u> | <u>33,589</u> |
| Segment revenue | 824,340 | 1,553,706 | 2,378,046 |
| Reportable segment profit | 67,332 | 311,461 | 378,793 |
| Reportable segment assets | 323,664 | 1,372,065 | 1,695,729 |
| Reportable segment liabilities | 263,940 | 204,845 | 468,785 |
| 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 | <u>-</u> | <u>9,582</u> | <u>9,582</u> |

* Additions to property, plant and equipment of HK\$1,669,000 were related to unallocated asset.

(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 | |
| | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Reportable segment revenue | 2,859,160 | 2,378,046 |
| Elimination of intersegment revenue | <u>(30,387)</u> | <u>(33,589)</u> |
| Revenue per consolidated statement of profit or loss | <u>2,828,773</u> | <u>2,344,457</u> |

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

| Profit or loss | Audited | |
|---|-------------------------|------------------|
| | Year ended | |
| | 31st December | |
| | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Reportable segment profit | 408,939 | 378,793 |
| Unallocated amounts: | | |
| Unallocated other income | 6,935 | 7,349 |
| Unallocated other loss, net | (6,771) | (15,686) |
| Fair value gain on revaluation of investment properties | 1,800 | 1,700 |
| Unallocated depreciation | (10,042) | (4,422) |
| Share of results of associates | (8,287) | (5,428) |
| Finance costs | (23,734) | (22,726) |
| Unallocated corporate expenses | <u>(229,459)</u> | <u>(212,245)</u> |
| Profit before income tax per consolidated statement of profit or loss | <u>139,381</u> | <u>127,335</u> |

3. Revenue and Segment Information (Continued)

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

| Assets | Audited | |
|---|------------------|------------------|
| | 31st December | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Reportable segment assets | 1,923,559 | 1,695,729 |
| Unallocated assets: | | |
| Interests in associates | 19,625 | 27,662 |
| Deferred income tax assets | 16,341 | 5,384 |
| Tax recoverable | 1,660 | 3,588 |
| Restricted bank deposits | 556 | 762 |
| Bank balances and cash | 456,058 | 292,183 |
| Unallocated corporate assets | 380,793 | 355,724 |
| | <u>2,798,592</u> | <u>2,381,032</u> |
| Total assets per consolidated statement of financial position | | |

| Liabilities | Audited | |
|--|------------------|------------------|
| | 31st December | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Reportable segment liabilities | 715,140 | 468,785 |
| Unallocated liabilities: | | |
| Current income tax liabilities | 25,352 | 10,083 |
| Deferred income tax liabilities | 78,299 | 76,420 |
| Unallocated corporate liabilities | 527,019 | 612,867 |
| | <u>1,345,810</u> | <u>1,168,155</u> |
| Total liabilities per consolidated statement of financial position | | |

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 | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Hong Kong | 1,785,350 | 1,514,300 |
| United States of America ("US") | 918,431 | 720,045 |
| Mainland China | 3,603 | 5,622 |
| Macau | 37,534 | 37,365 |
| Thailand | 58,779 | 48,831 |
| Taiwan | 17,930 | 18,294 |
| Switzerland | 7,146 | - |
| | <u>2,828,773</u> | <u>2,344,457</u> |

3. Revenue and Segment Information (Continued)

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

| Place of domicile | Specified non-current assets | |
|-------------------|------------------------------|------------------|
| | Audited | |
| | 31st December | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Hong Kong | 355,956 | 342,060 |
| US | 871,823 | 885,091 |
| Russia | 8,789 | 10,417 |
| Ukraine | 5,925 | 5,331 |
| Poland | 3,716 | 3,808 |
| Singapore | 18,881 | 26,776 |
| Mainland China | 330 | 312 |
| Macau | 2,488 | 954 |
| Thailand | 585 | 124 |
| Taiwan | 3 | 29 |
| Serbia | 2,583 | 481 |
| | 1,271,079 | 1,275,383 |

4. Other Income

| | Audited | |
|--|---------------|--------------|
| | Year ended | |
| | 31st December | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Interest on bank deposits | 1,901 | 785 |
| Rental income from investment properties | 3,911 | 3,708 |
| Rental income from sublease | - | 366 |
| Waiver of consideration payable | - | 2,355 |
| Others | 2,676 | 765 |
| | 8,488 | 7,979 |

5. Other Loss, Net

| | Audited | |
|---|----------------|-----------------|
| | Year ended | |
| | 31st December | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Loss on disposal of property, plant and equipment | (6) | (22) |
| Changes in fair value on contingent consideration payable | (921) | (3,093) |
| Changes in fair value on financial liabilities at FVTPL | (1,861) | - |
| Impairment loss recognised on interests in associates | - | (11,900) |
| Exchange loss, net | (3,983) | (671) |
| | (6,771) | (15,686) |

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 | |
|--|--|-----------------|
| | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Finance charges on lease liabilities | 347 | - |
| Interest on bank borrowings | 12,142 | 10,436 |
| Interest on liability component of convertible bonds | 11,093 | 12,243 |
| Other interest expenses | 152 | 47 |
| | <u>23,734</u> | <u>22,726</u> |

8. Profit Before Income Tax

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

| | Audited Year ended 31st December | |
|---|--|-----------------|
| | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Auditors' remuneration: | | |
| Audit services | | |
| - Current year | 3,626 | 3,280 |
| - Over-provision in respect of prior year | (122) | (120) |
| Non-audit services | 2,283 | 1,922 |
| Bad debt expenses | - | 14 |
| Depreciation and amortisation: | | |
| - Property, plant and equipment – owned assets | 25,038 | 20,906 |
| - Property, plant and equipment – right-of-use assets | 5,361 | - |
| - Intangible assets (included in cost of services rendered) | 15,623 | 11,057 |
| Directors' emoluments | 9,839 | 8,823 |
| Employee benefit expenses (excluding Directors' emoluments) | 1,096,795 | 932,726 |
| Professional fee related to equity transactions | 14,377 | - |
| Lease charges: | | |
| - Office premises and staff quarter under operating leases | - | 32,585 |
| - Computer equipment under operating leases | - | 463 |
| - Short term leases and leases with lease term shorter than 12 months as at initial application of HKFRS 16 | 16,171 | - |
| - Short term leases | 17,483 | - |
| Provision for impairment of trade receivables | 296 | 4,254 |
| Reversal of provision for impairment of trade receivables | (3,268) | (289) |
| Provision for impairment of other receivables | - | 832 |
| (Reversal of)/ Provision for obsolete inventories, net | (67) | 43 |
| Write off of inventories | 243 | 98 |
| | <u>243</u> | <u>98</u> |

9. Income Tax Expense

| | Audited Year ended 31st December | |
|--|--|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Current taxation: | | |
| Hong Kong profits tax | 13,891 | 14,123 |
| Overseas taxation | 37,752 | 32,538 |
| Overprovision in respect of prior years: | | |
| Hong Kong profits tax | (195) | (829) |
| Overseas taxation | (217) | (149) |
| | <u>51,231</u> | 45,683 |
| Deferred taxation: | | |
| Current year | (12,158) | (2,681) |
| Income tax expense | <u>39,073</u> | <u>43,002</u> |

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 years ended 31st December 2019 and 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.

10. Dividends

| | Audited Year ended 31st December | |
|--|--|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Dividend approved and paid: | | |
| Final dividend in respect of the year ended 31st December 2017 of 1.0 HK cents per share | <u>-</u> | <u>6,707</u> |
| Dividends proposed: | | |
| Final dividend in respect of the year ended 31st December 2019 of 3.0 HK cents per share (Note (i)) | 24,819 | - |
| Special dividend 7.3 HK cents per share (Note (ii)) | <u>60,394</u> | - |
| | <u>85,213</u> | <u>-</u> |

The Directors have resolved to recommend the payment of a final dividend of 3.0 HK cents per share. Subject to the approval of shareholders at the forthcoming annual general meeting, the proposed final dividend is expected to be paid on or before 24th June 2020 to shareholders whose names appear on the register of members of the Company on 5th June 2020. (2018: Nil)

The Directors have also resolved to recommend the payment of a special dividend of 7.3 HK cents per share. Subject to the approval of shareholders at a special general meeting, the proposed special dividend is expected to be paid on or before 20th May 2020 to shareholders whose names appear on the register of members of the Company on 29th April 2020. (2018: Nil)

The proposed final dividend and special dividend have not been recognized as dividend payables in the consolidated statement of financial position.

Notes:

- (i) The proposed final dividend for the year ended 31st December 2019, as referred to above, is calculated on the basis of 827,314,061 ordinary shares in issue as at 31st December 2019 and at a final dividend of 3.0 HK cent per share.
- (ii) The proposed special dividend, as referred to above, is calculated on the basis of 827,314,061 ordinary shares in issue as at 31st December 2019 and at a special dividend of 7.3 HK cent per share.

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

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

| | Audited Year ended 31st December | |
|--|--|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Profit attributable to equity holders of the Company for the purpose of basic earnings per share | 93,276 | 84,333 |
| Effect of dilutive potential ordinary shares | | |
| - Interest on convertible bonds (Note (iii)) | 11,093 | 12,243 |
| - Adjustment on the effect of dilution in the results of a subsidiary (Note (iv)) | (4,737) | - |
| Profit attributable to equity holders of the Company for the purpose of diluted earnings per share | <u>99,632</u> | <u>96,576</u> |
| | Number of shares | |
| | 2019 '000 | 2018 '000 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share (Note (i)) | 807,809 | 805,004 |
| Effect of dilutive potential ordinary shares | | |
| - Share options (Note (ii)) | 370 | 2,074 |
| - Convertible bonds (Note (iii)) | 272,196 | 274,725 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | <u>1,080,375</u> | <u>1,081,803</u> |

Notes:

- (i) The 807,809,000 ordinary shares are derived from the weighted average number of ordinary shares in issue during year ended 31st December 2019.

The 805,004,000 ordinary shares are derived from the weighted average number of ordinary shares in issue during year ended 31st December 2018 after taking into account the effects of 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 2019 assumed the exercise of the share options of the Company granted in 2012 and 2017, except for the share options granted in March 2017, which are considered as anti-dilutive as the average market price of the ordinary shares of the Company is less than the exercise price of these share options.

The calculation of the diluted earnings per share for the year ended 31st December 2018 assumed the exercise of the share options of the Company granted in 2012 and 2017.

- (iii) The calculation of the diluted earnings per share for the years ended 31st December 2019 and 2018 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 2019 and 2018 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 in the results of a subsidiary for the year ended 31st December 2019 is attributable to the share options and the convertible preferred shares granted by the Company's subsidiary (2018: Nil).

12. Property, Plant and Equipment

During the year ended 31st December 2019, the additions of property, plant and equipment was approximately HK\$22,776,000 (2018: HK\$16,390,000), mainly for computer, office equipment and furniture and fixtures and right-of-use assets - office premises.

During the year ended 31st December 2019, the Group disposed of certain property, plant and equipment at the carrying amount of approximately HK\$7,000 (2018: HK\$75,000), resulting in a loss on disposal of approximately HK\$6,000 (2018: HK\$22,000).

The Group's land and buildings were stated at valuations made at 31st December 2019 and 2018. The land and buildings were last revalued by an independent professional valuer, at 31st December 2019 and 2018, 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\$16,073,000 (2018: HK\$15,004,000) which has been credited to the property revaluation reserve.

As at 31st December 2019, 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\$35,969,000 (2018: HK\$38,034,000).

As at 31st December 2019, the Group had pledged land and buildings with carrying amount of HK\$171,200,000 (2018: HK\$165,600,000) to secure banking facilities granted to the Group as disclosed in Note 19.

13. Investment Properties

The investment properties of the Group were last revalued by an independent professional valuer at 31st December 2019 and 2018 at market value basis, which is determined by reference to market evidence of recent transactions for similar properties.

As at 31st December 2019, the Group had pledged investment properties with carrying amount of HK\$55,800,000 (2018: HK\$54,000,000) to secure banking facilities granted to the Group as disclosed in Note 19.

14. Trade Receivables

| | Audited 31st December | |
|---------------------------|--------------------------|----------------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Trade receivables - gross | 346,377 | 324,424 |
| Less: ECL allowance | (2,158) | (9,417) |
| Trade receivables - net | <u>344,219</u> | <u>315,007</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 gross trade receivables, is as follows:

| | Audited 31st December | |
|--------------|--------------------------|----------------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| 0 - 30 days | 160,655 | 149,555 |
| 31 - 60 days | 79,678 | 96,852 |
| 61 - 90 days | 69,664 | 37,137 |
| Over 90 days | 36,380 | 40,880 |
| | <u>346,377</u> | <u>324,424</u> |

15. Other Receivables, Deposits and Prepayments

| | Audited 31st December | |
|---|--------------------------|---------------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Other receivables | 9,234 | 4,258 |
| Deposits | 5,715 | 6,106 |
| Prepayments | 44,157 | 27,751 |
| Amount due from ultimate holding company | 832 | 832 |
| Amount due from an immediate holding company | 1,836 | 1,072 |
| Amount due from an associate | 9,193 | 5,409 |
| Other receivables, deposits and prepayments - gross | 70,967 | 45,428 |
| Less: ECL allowance | (832) | (832) |
| Other receivables, deposits and prepayments - net | <u>70,135</u> | <u>44,596</u> |

16. Restricted Bank Deposits and Bank Balances and Cash

As at 31st December 2019, bank balances carry interest at market rates with an average interest rate of 0.51% (2018: 0.99%) per annum. As at 31st December 2019, restricted bank deposits carried interest at market rates with an average interest rate of 1.53% (2018: 0.38%) per annum.

As at 31st December 2019, included in restricted bank deposits of approximately HK\$556,000 (2018: HK\$762,000) 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 | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Current | 228,233 | 185,967 |
| Within 30 days | 74,101 | 46,729 |
| 31 - 60 days | 21,428 | 10,688 |
| 61 - 90 days | 8,978 | 3,248 |
| Over 90 days | 27,542 | 12,308 |
| | 360,282 | 258,940 |

18. Other Payables and Accruals

| | Audited | |
|--|----------------|----------------|
| | 31st December | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Other payables | 15,765 | 17,997 |
| Accruals | 167,232 | 119,728 |
| Amount due to ultimate holding company | 1,189 | 1,208 |
| Amounts due to associates | 426 | 482 |
| | 184,612 | 139,415 |

19. Borrowings

| | Audited | |
|-------------------------------------|----------------|----------------|
| | 31st December | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Current | | |
| Bank borrowings, secured (Note (i)) | 191,113 | 224,290 |
| Convertible bonds (Note (ii)) | 248,657 | - |
| | 439,770 | 224,290 |
| Non-current | | |
| Convertible bonds (Note (ii)) | - | 257,425 |
| | 439,770 | 481,715 |

Notes:

(i) Bank borrowings, secured

The Group's bank borrowings are repayable as follows:

| | Audited | |
|------------------------------|----------------|----------------|
| | 31st December | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Within one year or on demand | 191,113 | 224,290 |

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

19. Borrowings (Continued)

(i) Bank borrowings, secured (Continued)

During the year ended 31st December 2019, the Group entered into a revised banking facilities with the bank in which the repayment terms of the outstanding balances of bank borrowings immediately before the modification was changed to repayable by 60 equal monthly instalments commencing from 29th March 2019. As a result, a modification loss of approximately HK\$2,547,000 was recognised and included in finance costs. As at 31st December 2019, the bank borrowings bears interest at floating interest rate and are denominated in HKD with an effective interest rate of 4.82% per annum.

As at 31st December 2019, the bank borrowings are secured by:

- (1) the legal charges over the Group's land and buildings with carrying amount of approximately HK\$171,200,000 (2018: HK\$165,600,000);
- (2) the legal charges over the Group's investment properties with carrying amount of HK\$55,800,000 (2018: HK\$54,000,000);
- (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 and 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, 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 31st December 2019 and 2018.

(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). 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 2019, the Convertible Bonds contain two components i.e. liability and equity.

On 20th November 2019, one of the bondholders, exercised the conversion right attaching to the Convertible Bonds in the principal amount of HK\$20,000,000 at conversion price of HK\$0.91 per share. A total of 21,978,022 ordinary shares were allotted and issued to the bondholder and the aggregate outstanding principal amount of the Convertible Bonds has been reduced to HK\$230,000,000.

Upon the conversion, the Group derecognised the liability component of approximately HK\$19,861,000 and transferred this amount with equity component (convertible bond reserve) of approximately HK\$888,000 into share capital and share premium with the amount of HK\$2,198,000 and approximately HK\$18,551,000 respectively, using the method in consistency with that used initially to allocate the net proceeds on the Convertible Bonds issuance date.

19. Borrowings (Continued)

(ii) Convertible bonds (Continued)

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

| | <i>HK\$'000</i> |
|---------------------------------|-----------------|
| At 1st January 2019 | 257,425 |
| Imputed interest expense | 11,093 |
| Conversion of Convertible Bonds | (19,861) |
| At 31st December 2019 | 248,657 |

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.

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 2019:

| Grant date | Exercise price per share | Number of Options | | | | At 31st December 2019 |
|--|--------------------------|---------------------|-------------------------|------------------------|---------------------------|-----------------------|
| | | At 1st January 2019 | Granted during the year | Lapsed during the year | Exercised during the year | |
| 19th March 2012 | HK\$0.704 | 557,100 | - | - | - | 557,100 |
| 2nd May 2012 | HK\$0.728 | 170,228 | - | - | - | 170,228 |
| | | 727,328 | - | - | - | 727,328 |
| Weighted average exercise price per share | HK\$0.710 | - | - | - | - | HK\$0.710 |
| Number of options exercisable at 31st December 2019 | | | | | | 727,328 |
| Weighted average exercise price per share of options exercisable at 31st December 2019 | | | | | | HK\$0.710 |
| Weighted average remaining contractual life | | | | | | 2.2 years |

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.

20. Share Option Schemes (Continued)

(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.

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.

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 2019:

| Grant date | Exercise price per share | Number of Options | | | | At 31st December 2019 |
|--|--------------------------|---------------------|-------------------------|------------------------|---------------------------|-----------------------|
| | | At 1st January 2019 | Granted during the year | Lapsed during the year | Exercised during the year | |
| 31st March 2017 | HK\$0.970 | 23,862,300 | - | (693,825) | (111,375) | 23,057,100 |
| 28th April 2017 | HK\$0.909 | 7,260,000 | - | - | - | 7,260,000 |
| 13th December 2017 | HK\$0.867 | 1,665,600 | - | (218,400) | - | 1,447,200 |
| | | 32,787,900 | - | (912,225) | (111,375) | 31,764,300 |
| Weighted average exercise price per share | HK\$0.951 | | - | HK\$0.945 | HK\$0.970 | HK\$0.951 |
| Number of options exercisable at 31st December 2019 | | | | | | 15,169,510 |
| Weighted average exercise price per share of options exercisable at 31st December 2019 | | | | | | HK\$0.960 |
| Weighted average remaining contractual life | | | | | | 7.30 years |

During the year ended 31st December 2019, there was no share options granted under the 2017 Share Option Scheme.

During the year ended 31st December 2019, the Group recognised total expense of approximately HK\$1,731,000 (2018: HK\$3,221,000) 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 credited to the share-based payment reserve.

20. Share Option Schemes (Continued)

(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 21st December 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 total number of 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 which, unless otherwise permitted under the Listing Rules, must not in aggregate exceed 10% of the total number of Grid Dynamics’s shares in issue as at 21st December 2018, the date of approval of the adoption of the GDI Share Option Scheme. Grid Dynamics may seek approval by its shareholders and the shareholders of the Company in general meeting to refresh the 10% limit such that the total number of the Grid Dynamics’s 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 under the limit as “refreshed” shall not exceed 10% of the total number of the Grid Dynamics’s shares in issue as at the date of approval to refresh such limit. Grid Dynamics may seek separate approval by its shareholders and the shareholders of the Company in general meeting for granting options beyond the 10% limit above, provided that the options in excess of such limit are granted only to participants specifically identified by Grid Dynamics and the Company before such approval is sought.

Unless approved by the shareholders of the Company, the aggregate number of Grid Dynamics’s shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any twelve-month period shall not exceed 1% of the Grid Dynamics’s shares in issue (the “Single Participant Limit”).

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

The GDI Board shall have the full and final power and authority, in its discretion, to determine 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 an option can be exercised.

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

The exercise price for each option will be determined by the GDI Board and shall be not less than the fair market value of a Grid Dynamics’s share, as determined by an independent third party valuation company engaged by Grid Dynamics, on the effective date of grant of the option. Notwithstanding the foregoing, an option may be granted with an exercise price lower than the minimum exercise price set forth above if such option is granted pursuant to an assumption or substitution for another option in a manner qualifying under the provisions of Section 424(a) of the Internal Revenue Code of 1986. However, the exercise price of options to be granted after the Company has resolved to seek a separate listing of Grid Dynamics on any stock exchange and up to the listing date of Grid Dynamics must be not lower than the new issue price (if any).

20. Share Option Schemes (Continued)

(c) GDI Share Option Scheme (Continued)

The following table discloses details of the share options granted by Grid Dynamics under the GDI Share Option Scheme and movements in such holdings during the year ended 31st December 2019:

| Grant date | Exercise price per share | Number of Options | | | | | At 31st December 2019 |
|--|-------------------------------|---------------------|-------------------------|------------------------|---------------------------|-----------------------|-----------------------|
| | | At 1st January 2019 | Granted during the year | Lapsed during the year | Exercised during the year | At 31st December 2019 | |
| | United States dollars ("USD") | | | | | | |
| 21st December 2018 | USD7.54 | 2,250,000 | - | - | (210,000) | 2,040,000 | |
| 22nd May 2019 | USD7.54 | - | 20,000 | - | - | 20,000 | |
| 22nd May 2019 | USD7.55 | - | 582,339 | - | (15,435) | 566,904 | |
| | | 2,250,000 | 602,339 | - | (225,435) | 2,626,904 | |
| Weighted average exercise price per share | USD7.54 | | USD7.55 | - | USD7.54 | USD7.54 | |
| Number of options exercisable at 31st December 2019 | | | | | | 951,246 | |
| Weighted average exercise price per share of options exercisable at 31st December 2019 | | | | | | USD7.54 | |
| Weighted average remaining contractual life | | | | | | 8.99 years | |

In respect of the share options granted during the year ended 31st December 2019, 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 USD3.18 – USD3.38 (2018: USD2.11 – USD2.21) per share. The inputs into the model were as follows:

| | Granted on 22nd May 2019 |
|------------------------------|--------------------------|
| Share price at grant date | USD9.252 |
| Exercise price at grant date | USD7.54/ USD7.55 |
| Expected volatility | 38.70% |
| Option life | 10 years |
| Risk-free rate | 2.38% |
| 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 2019, the Group recognised total expense of approximately HK\$24,146,000 (2018: HK\$19,862,000) 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. Financial liabilities at FVTPL

| | Audited | |
|--|-----------------|-----------------|
| | 31st December | |
| | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Convertible preferred shares and related put option (Note (a)) | 61,303 | - |
| Put option liability (Note (b)) | 13,714 | - |
| | <u>75,017</u> | <u>-</u> |

Notes:

(a) Convertible preferred shares and related put option

On 6th May 2019, Grid Dynamics, a subsidiary of the Company incorporated in the US, entered into a subscription agreement with BGV Opportunity Fund LP (“BGV”), a connected person of the Company at subsidiary level, whereby Grid Dynamics agreed to allot and issued 622,027 common stock (the “Common Shares”) and 622,027 Series A preferred stock (the “Convertible Preferred Shares”) (collectively, the “Securities”) at a total consideration of USD15,000,000 (the “Subscription”). The Subscription was completed on 15th May 2019 (the “Date of Initial Completion”).

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

Voting rights

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

Dividend

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

Liquidation preference

In the event of any liquidation, dissolution or winding up of Grid Dynamics, each Convertible Preferred Shares shall be entitled to USD 24.1147 plus declared and unpaid dividends (or, if greater, the amount that the Convertible Preferred Shares would receive on an as-converted basis). The balance of any proceeds shall be distributed pro rata to holders of Common Shares.

Conversion option

Holders of Convertible Preferred Shares shall have the option to convert Convertible Preferred Shares to Grid Dynamics ordinary shares at an initial conversion price of USD 14.8647 per share, subject to adjustments for stock issuances, splits, combinations, dividends, distributions, merger and reorganisation and similar events. Also subject certain events, each of Convertible Preferred Shares shall be automatically converted into Grid Dynamics ordinary shares at applicable conversion ratio and conversion price.

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

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

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

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

21. Financial liabilities at FVTPL (Continued)

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

The Convertible Preferred Shares, the Put Option on CPS and the Put Option on CS were valued at fair value by the Company with reference to an independent valuation provided by an independent firm of professional valuers. On initial recognition, the total fair value of convertible preferred shares and related put option and Put Option on CS amounted to approximately USD9,246,000 (equivalent to approximately HK\$72,565,000) and are estimated using the option-pricing model and equity allocation model.

Key valuation assumptions used to determine the fair value of the Convertible Preferred Shares, Put Option on CPS and Put Option on CS as at 31st December 2019 are as follows:

| | As at 31st December 2019 |
|------------------------------|-------------------------------------|
| - Volatility | 38.17% |
| - Risk free rate | 1.586% |
| - Probability of liquidation | 10% |
| - Probability of redemption | 10% |
| - Probability of conversion | 80% |

During the year ended 31st December 2019, there was no conversion of the Convertible Preferred Shares and no redemption of the Securities.

22. Pledge of Assets

As at 31st December 2019, land and buildings with carrying amount of HK\$171,200,000 (2018: HK\$165,600,000) and investment properties with carrying amount of HK\$55,800,000 (2018: HK\$54,000,000) were pledged to secure the Group's bank borrowings.

As at 31st December 2019, the Group's restricted bank deposits of approximately HK\$556,000 (2018: HK\$762,000) were pledged to secure the performance bonds of the Group.

23. Disposal of partial interests in a subsidiary

(a) Disposal of partial equity interest in Grid Dynamics

During the year ended 31st December 2019, GDD International Holdings Limited ("GDD"), a wholly-owned subsidiary of the Group, disposed 342,500 and 82,936 common stock of equity interest in Grid Dynamics to a director of Grid Dynamics and a company controlled by a director of Grid Dynamics at a consideration of USD2,055,000 (equivalent to approximately HK\$16,117,000) and USD1,000,000 (equivalent to approximately HK\$7,844,000), respectively.

(b) Issuance of Common Shares of Grid Dynamics

As disclosed in Note 21, during the year ended 31st December 2019, Grid Dynamics issued 622,027 Common Shares to BGV, which represents 4.93% of the enlarged issued share capital of Grid Dynamics.

(c) Exercise of share options of Grid Dynamics

During the year ended 31st December 2019, an employee and a director of Grid Dynamics exercised 64,410 and 161,025 share options of Grid Dynamics, respectively and resulted in the issuance of 225,435 common stock of Grid Dynamics, which represents 1.75% of the enlarged issued share capital of Grid Dynamics.

Upon completion of the above transactions, the Group's shareholdings in Grid Dynamics was diluted to 90.09% without losing control over Grid Dynamics, accordingly the above transactions were accounted for as transactions with owner with an increase in non-controlling interests.

24. Events After the Reporting Date

(i) Completion of the disposal and spin-off of Grid Dynamics

On 13th November 2019, the Company, Grid Dynamics, ChaSerg Technology Acquisition Corp. (“ChaSerg”), CS Merger Sub 1 Inc. and CS Merger Sub 2 LLC entered into a conditional Merger Agreement in relation to the Mergers. 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, 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.

On 5th March 2020 (pacific time), the Group has completed the disposal and spin-off of Grid Dynamics (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). 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 a result, Grid Dynamics is no longer a subsidiary of the Company, the Company’s interest in GDH is treated as interest in an associate and accounted for using equity method. Details of which are as set out in the Company’s announcement dated 13th November 2019, the circular of the Company dated 31st December 2019 and the announcement of the Company dated 8th March 2020, respectively.

(ii) Redemption of convertible bonds

On 23rd March 2020, the Group has made full redemption of outstanding principal amount of the Convertible Bonds of HK\$230,000,000 with accrued interests (Note 19(ii)) (“Full redemption”). Upon the completion of the Full Redemption, no Convertible Bonds remaining outstanding.

(iii) Proposed final dividend and special dividend

Subsequent to the reporting date, the Directors proposed to declare a final dividend of 3.0 HK cent per share for the year ended 31st December 2019 and a special dividend of 7.3 HK cents per share (Note 10).

(iv) Outbreak of the Coronavirus Disease

The outbreak of the Coronavirus Disease (“COVID-19”) since early 2020 has posed a tremendous challenge to the overall global economy. The Group has been closely monitoring the impact of the development of the coronavirus on the Group’s businesses and services to customers. As of this stage, the Group’s business and operations remain broadly normal. There may be adverse effect on the subsequent financial performance, depending on the development of COVID-19 and its impact on the economic conditions. The Group will closely monitor the situation and, to the extent applicable, taking proactive actions to minimize the impact of COVID-19.

DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of 3.0 HK cents per share. Subject to the approval of shareholders at the forthcoming annual general meeting, the proposed final dividend is expected to be paid on or before 24th June 2020 to shareholders whose names appear on the register of members of the Company on 5th June 2020. (2018: Nil)

The Directors have also resolved to recommend the payment of a special dividend of 7.3 HK cents per share. Subject to the approval of shareholders at a special general meeting, the proposed special dividend is expected to be paid on or before 20th May 2020 to shareholders whose names appear on the register of members of the Company on 29th April 2020. (2018: Nil)

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the year ended 31st December 2019, total revenue of the Group was HK\$2,828.8 million, representing a 20.7% increase from last year, among which, sales in Hong Kong, Macau and Asia Pacific were increased by 17.2% to HK\$1,903.2 million and sales in Europe and the United States were increased by 28.5% to HK\$925.6 million. The increase in revenue was mainly attributable to approximately 30% growth in newly secured orders of the Group’s regular business in Hong Kong, Macau and Asia Pacific as well as Europe and the United States, as compared to last year.

For the year ended 31st December 2019, product sales and service revenue contributed 36.3% and 63.7% to total revenue respectively, compared to 34.9% and 65.1% last year. Commercial and public sector sales contributed 64.3% and 35.7% to total revenue respectively, compared to 62.7% and 37.3% last year.

Gross profit for the year ended 31st December 2019 was HK\$564.1 million, an increase of HK\$71.5 million or 14.5% compared with last year, among which, gross profit of the Group’s regular business in Hong Kong, Macau and Asia Pacific were increased by 4.4% to HK\$209.2 million and in Europe and the United States were increased by 21.4% to HK\$354.9 million. Gross profit margin for the year was 19.9% and at similar level as last year.

The Group recorded a profit for the year of HK\$100.3 million, a rise of 18.9% compared to last year of HK\$84.3 million, of which profit attributable to the Company’s equity holders was HK\$93.3 million, representing a 10.6% increase compared to last year.

For the year ended 31st December 2019, orders newly secured by the Group amounted to approximately HK\$3,077.9 million, an increase of 29.5% from HK\$2,376.3 million of last year, among which, newly secured orders in Hong Kong, Macau and Asia Pacific were increased by 26.6% to HK\$2,153.6 million and newly secured orders in Europe and the United States were increased by 36.9% to HK\$924.3 million. As at 31st December 2019, the order book balance was approximately HK\$1,322.7 million, an increase of 17.2% compared to last year of HK\$1,128.2 million. The Group's cash stood at approximately HK\$456.1 million with a working capital ratio of 1.19:1. The Group maintained a healthy financial position and outstanding borrowings amounted to HK\$439.8 million as at 31st December 2019.

Business Review

The Group's business recorded a substantial increase in 2019. As one of the innovative service leaders in the global IT industry, remarkable results have been achieved attributable to its advantages and core competitiveness, with the performance reaching a new high in recent years.

At present, the Group's business has covered the Asia Pacific, Europe and the United States; the core business in each region is developing well. For the year ended 31st December 2019, the Group's revenue, gross profit, profit and adjusted EBITDA were in HK\$2,828.8 million, HK\$564.1 million, HK\$100.3 million and HK\$263.0 million, respectively, with a significant year-on-year increase of 20.7%, 14.5%, 18.9% and 18.7% respectively.

Revenue, gross profit and adjusted EBITDA in Asia Pacific (including its subsidiaries in and outside Hong Kong) were HK\$1,903.2 million, HK\$209.2 million, and HK\$108.6 million respectively, with a year-on-year increase of 17.2%, 4.4%, and 13.9% respectively, accounting for 67.3%, 37.1%, and 41.3% of the Group's overall business respectively.

Business in Hong Kong

The Group's core business division is a major contributor to the business in the Asia-Pacific, accounting for 82.4% and 78.3% of the Asia-Pacific business revenue and adjusted EBITDA, while the revenue and adjusted EBITDA recorded HK\$1,568.6 million and HK\$85.0 million respectively.

The core business division achieved satisfactory growth, with the orders newly secured amounted to more than HK\$1,757.8 million, including many major landmark projects. The revenue of the core business division recorded a year-on-year increase of 34.3%, reflecting the favorable results made by the Group due to its continuous technological upgrades and service transformation.

During the year, the Group continued to improve its service capabilities, captured market demand, and by virtue of solid customer relations, it further cultivated advantageous industries to gradually secure competitive advantages in the industries. In addition, the Group adheres to its core value of unified technology services to effectively promote the development of its three core businesses, as follows:

- (1) Innovative Solutions business
- (2) Intelligent Cybersecurity Services business
- (3) Integrated Managed Services business

Innovative Solutions Business

The innovative solutions achieved strong performance during the year, with overall service orders newly secured enjoying a growth of reaching 60.9%. Service revenue was HK\$242.6 million, with a significant year-on-year increase of 26.4%.

Leading-edge Technology and Industry Advantages

The Group has more than 800 application development talents and a large agile development team in Hong Kong. The technical professionals possess both depth and width of expertise and know-how of current technologies and a variety of innovative technologies such as cloud, artificial intelligence, etc. The Group also offers diversified and new delivery models such as agile and DevOps, so as to empower the Group to successfully seize numerous business opportunities.

In response to the public's keen demand for electronic government services, the Group has, during the year, undertaken a number of government service projects under the Standing Offer Agreement for Quality Professional Services 4. The Group ranks No.1 in terms of the total dollar amount awarded from application development projects and also the cumulative total dollar amount of all service category contracts, and the Group outperformed far more than its competitors. In the healthcare sector, the Group has successfully received a mobile application project from a healthcare authority, which can benefit Hong Kong's 7 million citizens, thus improving experience in the overall healthcare journey of the citizens.

Intelligent Cybersecurity Business

Service orders newly secured in the business performed well with outstanding results, with a year-on-year increase of 48.1%. Service revenue recorded HK\$126.6 million, with a significant year-on-year increase of 19.7%.

Leading-edge Technology and Industry Advantages

This business consists of two major services covering implementing network related solutions and combating various kinds of cyberattacks for customers.

As the highest level partner of many leading cybersecurity vendors and being among the top three local security service providers, the Group leverages and integrates the industry advantages that it has accumulated in cybersecurity, to successfully assist customers from all walks of life with technologies to meet their increasingly complex application scenarios, such as certified in the Society for Worldwide Interbank Financial Telecommunication (SWIFT)'s Customer Security Programme (CSP) which enhances the operational security of the financial industry in the application related to SWIFT. In addition, as one of the highest sales revenue contribution partners of Huawei in Hong Kong in 2019, the Group has made use of Huawei's excellent technology to build comprehensive network infrastructure for the world's busiest airport and implement network construction in the next three years.

In addition, another important initiative of the Group is to launch its own brand. For example, the ASL Threat Intelligence Portal (A-TIP) of the Group was successfully launched in 2019. This platform combines global defense information, big data analytics and the Group's industry experience, and leverages the Security Operation Center *Plus* (SOC+) established by the Group in Hong Kong, to deliver all new security services such as threat prevention and interdiction to customers and obtain favorable feedbacks from customers.

Integrated Managed Services Business

During the year, service orders newly secured of the business performed desirably, recorded 28.8% growth, and service revenue recorded HK\$444.9 million.

The business growth is attributed to the Group's achievements in expanding its IT managed service support capability from frontend to backend, and with advantages in human resources, process (ITSM) and technology.

Leading-edge Technology and Industry Advantages

With the increasing demand for mobile experience, the Group has entered into a partnership with Apple Inc. to expand its development potential in product sales, mobile application development, maintenance and Device as a Service. In addition, in the field of multi-cloud management, the Group has become a partner of Equinix, the world's top data center provider, to provide customers with more comprehensive managed services.

During the year, the Group has continued to perform well in the government, healthcare and banking industries by virtue of its technical advantages, high-quality services and solid customer relations, and thus has secured many orders. Among other things, the landmark projects have been to provide IT managed services for a public housing management organization, covering the public housing throughout Hong Kong; and to provide IT operations to more than 20,000 users of a healthcare authority, and to provide IT operations to more than tens of thousands of users from a number of Chinese banks and multinational banks.

Business in Europe and the United States

In its business in Europe and the United States, Grid Dynamics International, Inc. ("Grid Dynamics") recorded a strong growth during the year, with its revenue and gross profit significantly increased by 28.5% and 21.4% respectively compared with last year. On the whole, the number of orders newly secured increased by more than 36.9%, driving the overall revenue growth of the Group. The Group continued to focus on the financial, retail and technology industries and expand the customer base, with encouraging results.

In 2019, Grid Dynamics was named by Forrester as a Leader among midsize agile software development service providers. The recognition is attributed to the implementation of a new share option scheme, an incentive measure thereby encouraging employee's further contribution to the Group, and also to the R&D investment amounted to USD7.0 million to continuously promote the technological change of Grid Dynamics. During the year, the Group introduced a new strategic investor in Silicon Valley, and announced that it intended to spin off Grid Dynamics with a valuation of about USD390.1 million (approximately HK\$3,042.8 million), with a structure of a reverse triangular merger followed immediately by a forward triangular merger through ChaSerg Technology Acquisition Corp. ("ChaSerg"), a NASDAQ listed company, in order to finally achieve listing on NASDAQ.

Annual Marketing Event – ASL Solution Tour

The Group successfully launched the ASL Solutions Tour in the first half of 2019, in Macau, Taiwan and Hong Kong respectively, so as to promote its diversified and innovative IT services and solutions and help the customers in Macau, Taiwan and Hong Kong to carry out digital transformation.

Outlook and Prospects

The outbreak of the Coronavirus Disease (“COVID-19”) since early 2020 has posed a tremendous challenge to the overall global economy. The Group has been closely monitoring the impact of the development of the coronavirus on the Group’s businesses and services to customers. As of this stage, the Group’s business and operations remain broadly normal. There may be adverse effect on the subsequent financial performance, depending on the development of COVID-19 and its impact on the economic conditions. The Group will closely monitor the situation and, to the extent applicable, taking proactive actions to minimize the impact of COVID-19.

In 2020, the Group will embark on a new milestone. Grid Dynamics was successfully merged with ChaSerg , a NASDAQ listed company, with a structure of a reverse triangular merger followed immediately by a forward triangular merger through ChaSerg, in order to finally achieve listing on NASDAQ and traded under the name of Grid Dynamics Holdings, Inc (ticker symbol: GDYN). (“Grid Dynamics Holdings”). The completion took place on 5th March, 2020 (Pacific Time), the closing price upon the completion of the trade day was USD12.0, with a market value of approximately USD650.0 million (approximately HK\$5,093 million), with an increase of 17.8% compared with its issue price, marking a successful end to the Grid Dynamics listing plan with a planning period of up to one year.

The Group has reaped considerable return on investment through Grid Dynamics listing. Pre-investment valuation of Grid Dynamics has more than tripled compared to that in 2017. Upon completion, the Group received cash consideration of approximately USD93.8 million (equivalent to approximately HK\$731.6 million) and was interested in approximately 38.3% of the issued share capital of Grid Dynamics Holdings as at the date of Completion. This will greatly improve the Group's asset-liability structure and support the development of operating business with sufficient cash flow, so as to cope with the pressure of the current macroeconomic downturn, and further promote and improve the business layout and development in Asia Pacific.

As the single largest shareholder of Grid Dynamics Holdings, the Group will continue to carry out in-depth collaboration with Grid Dynamics holdings in three aspects: technical capability improvement, delivery capability complementarity, and customer resources sharing.

In its business in the Asia Pacific, the Group expects to officially and comprehensively launch a service platform based on omni-channel and cloud services in a greater length in the first half of 2020, so as to achieve the potential of sustainable development and strengthen the depth of cooperation with customers. Many customers express their welcome to this new generation of managed services.

Meanwhile, the Group will continue with the annual marketing activity "ASL Solution Tour" to promote the Group's Unified Technology Services to customers, while a brand-new in-house branded services will be exhibited.

Finally, going forward, the Group's strategy will integrate application development, cybersecurity, and omni-channel managed services into three-in-one professional technical service capabilities in the form of an "as-a- Service" business model. In the fields of cloud computing, big data and more, combined with rich industry experience, the Group will help customers realize the integration of technology into application scenarios, and assist customers in carrying out business transformation with technological innovation to create value for customers, while bringing satisfactory returns for the investors.

Note:

Note: Adjusted Earnings Before Interest, Taxes, Depreciation, and Amortisation (Adjusted EBITDA) is calculated based on profit for the year excluding interest income and expenses, tax, depreciation, amortisation, fair value change on revaluation of investment properties, equity-settled share-based payments expense, share of results of associates, impairment loss recognised on interests in associates, fair value change on contingent consideration payable, fair value change on financial liabilities at fair value through profit or loss and equity-transaction-related expenses (mainly include professional fees). Upon adoption of HKFRS 16 “Leases” during the year, the rental expenses of the Group’s leases are recorded as depreciation of right-of-use assets and finance charges on lease liabilities, these expenses are excluded from 2019 Adjusted EBITDA, the prior year’s rental expenses were included in lease charges and included in 2018 Adjusted EBITDA.

Financial Resources and Liquidity

As at 31st December 2019, the Group's total assets of HK\$2,798.6 million were financed by current liabilities of HK\$1,264.3 million, non-current liabilities of HK\$81.5 million and total equity of HK\$1,452.8 million. The Group had a working capital ratio of approximately 1.19:1.

As at 31st December 2019, the Group had an aggregate composite banking facility from banks of approximately HK\$363.4 million (2018: HK\$388.1 million). The Group had pledged land and buildings of HK\$171.2 million (2018: HK\$165.6 million), investment properties of HK\$55.8 million (2018: HK\$54.0 million) and restricted bank deposits HK\$0.6 million (2018: HK\$0.8 million) for bank borrowings and performance bonds granted to the Group respectively. The performance bonds issued by the Group to customers as security of contracts were approximately HK\$85.9 million as at 31st December 2019 (2018: HK\$68.5 million). The Group's gearing ratio (total borrowings over equity attributable to equity holders of the Company) was 31.3% as at 31st December 2019 (2018: 39.7%).

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 (the "Completion"). 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\$731.6 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 year ended 31st December 2019, neither the Company nor any of its subsidiaries had material acquisition or disposal.

Fund Raising Activities

Conversion of Convertible Bonds

Reference is made to the circular of the Company dated 24th February 2017, the announcement of the Company dated 21st March 2017 in relation to, among other things, the Placing of convertible bonds (the "Convertible Bonds") under the Specific Mandate, the announcements of the Company dated 8th June 2017 and 8th June 2018, respectively, in relation to, among other things, the adjustment to the conversion price of the Convertible Bonds (the "Adjusted Conversion Price"), and the announcement of the Company dated 29th June 2018 in relation to a transfer of Convertible Bonds.

On 20th November 2019, Triple Wise Asset Holdings Ltd. ("Triple Wise") exercised the conversion rights attaching to the Convertible Bonds in the principal amount of HK\$20,000,000 at the Adjusted Conversion Price of HK\$0.91 per share (the "Conversion"). As a result of the Conversion, on 20th November 2019, the Company allotted and issued 21,978,022 Conversion Shares (the "Conversion Shares") to Triple Wise, representing approximately 2.66% of the number of issued Shares as enlarged by the allotment and issue of Conversion Shares. The Conversion Shares ranks pari passu with all the existing Shares at the date of allotment and among themselves in all respects. The

aggregate outstanding principal amount of the Convertible Bonds reduced to HK\$230,000,000 immediately after the Conversion.

Save as disclosed above, during the year ended 31st December 2019, 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 2019 (2018: same).

Contingent Liabilities

As at 31st December 2019, the Group had HK\$0.6 million (2018: HK\$0.8 million) restricted bank deposits held as security for performance bonds. As at 31st December 2019, performance bonds of approximately HK\$85.9 million (2018: HK\$68.5 million) had been issued by the bank on behalf of the Group to customers as security of contracts.

Capital Commitments

As at 31st December 2019, the Group had contracted capital commitments amounting to approximately HK\$10.8 million (2018: HK\$11.5 million).

Major Customers and Suppliers

During the year ended 31st December 2019, the five largest customers and single largest customer of the Group accounted for approximately 27.8% and 7.6%, respectively, of the Group's revenue. The five largest suppliers and single largest supplier of the Group accounted for approximately 35.4% and 11.2%, respectively, of the Group's purchases.

At no time during the year ended 31st December 2019 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 2019, the Group, excluding its associates, employed 2,493 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 2020 ANNUAL GENERAL MEETING

The Company will convene the forthcoming annual general meeting on Wednesday, 27th May 2020. 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, 22nd May 2020 to Wednesday, 27th May 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 21st May 2020.

CLOSURE OF REGISTER OF MEMBERS FOR PROPOSED FINAL DIVIDEND

The proposed final dividend is subject to the approval of the Shareholders at the forthcoming annual general meeting. The record date for entitlement to the proposed final dividend is Friday, 5th June 2020. For determining the entitlement of the final dividend, the register of members of the Company will be closed from Wednesday, 3rd June 2020 to Friday, 5th June 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the final dividend, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 2nd June 2020. The final dividend warrants are expected to be despatched to the qualifying shareholders of the Company on or before Wednesday, 24th June 2020.

CLOSURE OF REGISTER OF MEMBERS FOR SPECIAL GENERAL MEETING

The Company will convene the special general meeting on Thursday, 23rd April 2020 to approve the proposed special dividend. For determining the entitlement to attend and vote at the special general meeting, the register of members of the Company will be closed from Monday, 20th April 2020 to Thursday, 23rd April 2020, 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 special 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 17th April 2020.

CLOSURE OF REGISTER OF MEMBERS FOR THE PROPOSED SPECIAL DIVIDEND

The proposed special dividend is subject to the approval of the Shareholders at a general meeting. The record date for entitlement to the proposed special dividend is Wednesday, 29th April 2020. For determining the entitlement to attend and vote at the special general meeting, the register of members of the Company will be closed on Tuesday, 28th April 2020, on which no transfer of shares of the Company will be registered. In order to qualify for the special dividend, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 28th April 2020. The special dividend warrants are expected to be despatched to the qualifying shareholders of the Company on or before Wednesday, 20th May 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31st December 2019, 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 2019 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 2019, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

CORPORATE GOVERNANCE

The Company has complied with the Corporate Governance Code (the “Code”) set out in Appendix 14 to the Listing Rules throughout the accounting period for the year ended 31st December 2019 except as noted below:

- with respect to Code provision A.6.7, two Non-Executive Directors were unable to attend the annual general meeting of the Company held on 22nd May 2019 (the “2019 AGM”) due to other commitments; and
- with respect to Code provision E.1.2, Mr. Li Wei, the former chairman of the Board, was unable to attend the 2019 AGM due to other commitments.

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

Hong Kong, 25th March 2020

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.