

Managing Director's Statement

FINANCIAL REVIEW 

The economy of Hong Kong was still under consolidation last year. Nevertheless, the Group adopted proactive strategies in its development to overcome this difficult market situation. It made active efforts in exploring new customer segments, new service spectrums and new geographical markets that have enabled the Group to create new business opportunities. Therefore, the Group managed to achieve a turnover of HK\$1,295 million for the year ended 31 March 2002, another record high level.

The higher margin service revenue contributed 23% of the Group's turnover for the year when compared with 20% for the previous year. Moreover, profit contribution from the service business has increased at a higher level from 46% to 80%. Accordingly, gross profit increased to HK\$342 million, a 5% rise over that of the previous year.

During the year, the Group enhanced resources and facilities to support the current growing service business as well as to prepare for future business growth. This implementation will provide full benefits to the Group in the long run though it resulted in increase of expenses for the year.

Net profit attributable to shareholders was maintained at a similar level as the previous year, amounting to HK\$77 million. It was mainly attributable to the alternative source of income derived from the partial disposal of the interest in Data Systems Consulting Company, Limited (DSC), the Group's associated company in Taiwan. DSC and ELM Computer Technologies Limited (ELM), the Group's subsidiary in Hong Kong, were the investments made by the Group in mid 1990s. The Group is pleased with the healthy growth of both of these investments. DSC was ultimately listed on the stock exchange of Taiwan in 2001. In view of the good opportunity to realize this investment after its listing, the Group disposed part of its interest in DSC and obtained a gain on this disposal.

The Group was in a much stronger financial position compared with the previous year after a series of measures taken. Inventory and debtor levels decreased, while net cash balance at the end of the year largely increased to more than HK\$231 million. The gearing ratio reduced to a low level of about 8%.



LAI Yam Ting
Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS

Business segments review

The Group is mainly engaged in the sales of computer equipment, computer software, patent and licenses and the rendering of systems integration, system development, maintenance and outsourcing services.

Sales of goods

The Group was awarded several bulk contracts to serve the government and educational institutions. These included the winning of an extendable 24-month government bulk contract in December 2001, to provide comprehensive Oracle software products and related services. Besides, the Group won the third bulk contract from the Vocational Training Council in March 2002 for the provision of PC equipment and IT services.

With regard to ELM, it won the government UNIX and SAN bulk contract in collaboration with IBM in May 2001. It also became one of the approved IT suppliers under the Education bulk contract ED5 in January 2002, to serve about 1,300 primary and secondary schools for a period of 24 months.

In addition to new contracts won, the Group continued to service the government PC and Network bulk contract which was previously obtained in January 2000 and extended in June 2001 for a further period of 12 months.

During the year, the Group signed with two leading IT vendors to assume the responsibility of Value-Added Distributors – the International Distributor for Stratus ftServers in Hong Kong, Macau and Thailand, and the Master Reseller for Brocade's fabric switches in Hong Kong, Macau, Philippines and Thailand.

The Group also secured significant projects in Macau and Thailand through its subsidiaries. The Group's implementation of a Storage Area Network (SAN) solution for the University of Macau was the first and largest heterogeneous SAN solution project in the education sector with primary and disaster recovery sites located in both Macau and Hong Kong. In Thailand, the Group offered a SAN solution using state-of-the-art Brocade fabric switches to help Hutchison CAT Wireless Multimedia Limited backup its growing data.

Rendering of services

In October 2001, the Group provided a Centralized Management Solution for Midland Realty (Holdings) Ltd., a leading property agency firm in Hong Kong, to enhance its operational efficiencies across 200 branches with over 1,500 users with significant cost savings.

Managing Director's Statement

The Group also established a Web-Based Business Management System for Café de Coral, a leading Chinese quick service restaurant group in Hong Kong, to allow seamless integration and interface between its Head Office and the 180 retail outlets throughout Hong Kong.

These two projects were significant to the Group as they enabled the Group to gain new customers in the new segments – the property and food and beverage industries.

The Group continued to benefit from the outsourcing contracts of global companies that were secured previously through its partnership with US-based Computer Sciences Corporation, the Group's ultimate holding company. It also enjoyed stable and recurring income from various local outsourcing contracts such as the data center and network management contract from the Airport Authority.



*ASL Solutions
Center*

Data Center



New Business

ELM was recently appointed as IBM's first Value-Added Distributor for WebSphere software in Hong Kong starting from March 2002. In cooperation with IBM, ELM established Hong Kong's first WebSphere Innovation Center, to help partners leverage advanced features of WebSphere platform to quickly develop, deploy and integrate next-generation e-business applications.

The Group marked a milestone in developing its outsourcing business in the local market during the year. In February 2002, the Group won its first application maintenance outsourcing contract from the Information Technology Services Department (ITSD). Under this 39-month contract, the Group provides system application maintenance, monitoring and amendment, procurement support, disaster recovery drill, help desk and training to manage the information systems of three government departments. With almost 30 years of experience in handling government projects, the Group has proven track record demonstrating to the government its strong capability and has developed a thorough understanding and knowledge of the government methodology across all departments. These mission-critical credentials have paved the way for the Group's success in winning government outsourcing contracts.

In March 2002, the Group won the Colour Imaging of Plans (CIP) contract from The Land Registry. The CIP contract required the Group to complete the processing of over 3.5 million plans and their conversion into digital images within nine months. To fulfill the needs of this project, the Group established the ASL Digital Imaging Center with a floor space of 12,000 sq.ft. and set up a dedicated team to handle this critical task.



Help Desk Center



*ASL Digital
Imaging Center*

Managing Director's Statement

Prospects

With regard to the Hong Kong market, the economic downturn last year has delayed some businesses' IT investment. This has led to the accumulation of demand which may propel the market once the economy picks up or when the enhancement of their IT environments become critical, thus benefiting the Group. In addition, service business will continue to provide the Group with recurring and stable income. To enlarge market share, the Group will also continue to make every effort to explore new customer segments.

Under the Hong Kong Digital 21 Strategy, the government plans to outsource two-third of its new IT projects as well as in-house application maintenance services annually. Under this outsourcing trend, the Group expects to benefit from the ample opportunities that exist in government departments. The government's IT strategy is believed to bring the Group's relationship with the Government to new horizons in service business, and the Group is poised to meet with this emerging demand.

To capitalize on the service business growth brought by the government's new IT strategy, the Group will continue to develop its resources and make necessary investment in related facilities. One of these facility investments is the establishment of the ASL Digital Imaging Center. Given the widespread use of imaging technologies nowadays, the opening of the ASL Digital Imaging Center aimed not only to support the CIP Project of The Land Registry, but also to prepare for the needs of other government departments as well as further potential in the business world.

The Group is also optimistic towards the growth potential in business outside Hong Kong. It has set up subsidiaries and offices in Thailand, Macau and Taiwan. Though their scale of operation is relatively small at present when compared to Hong Kong, they are growing in significance. They not only share the global clients of Computer Sciences Corporation by supporting their needs in the region, but also intensify efforts to capture the vast unexplored local markets. At the same time, the Group is also enlarging its regional opportunities beyond Hong Kong by leveraging cooperation opportunities with its parent company CSA Holdings Ltd in Singapore and other sister companies in Asia.

Potential also exists in creating ongoing business opportunities with IT vendors. Over the years, the Group has maintained close partnership with leading IT vendors such as Sun Microsystems, Oracle, IBM, Computer Associates, Microsoft, Intel, Compaq, and Hewlett Packard. The Group expects to expand the partnership with these IT partners to Asian countries outside Hong Kong, creating new business cooperation with them.

At present, contracts on hand totalled HK\$233 million. While actively expanding business, the Group has also enhanced internal efficiency by investing in an Enterprise Resources Planning System to streamline its internal operations. This further strengthens the Group's competitive advantages. In possession of strong financial resources and a large team of over 600 technical professionals with multi-platform knowledge and experience, the Group will make every effort to capture every business opportunity arising from the market.

Financial Resources and Liquidity

As at 31 March 2002, the Group's total assets of HK\$866 million were financed by shareholders' equity of HK\$488 million. The balance is represented by current liabilities of HK\$369 million, deferred tax of HK\$6 million and minority interests of HK\$3 million. The Group had a working capital ratio of approximately 1.87 : 1. The Directors believe that the Group has a healthy working capital ratio.

As at 31 March 2002, the Group had an aggregate composite banking facilities from banks of approximately HK\$520 million of which HK\$59 million was utilized (31 March 2001: HK\$111 million). The Group's gearing ratio was 7.9% (31 March 2001: 23.9%) as at 31 March 2002.

There was no charge on the Group's assets as at 31 March 2002.

Treasury policies

The Group generally finances its operations with internally generated resources and credit facilities provided by banks in Hong Kong. Bank facilities used by the Group include trust receipt loans, overdrafts and term loans. The interest rates of most of these borrowing are fixed by reference to the Hong Kong Interbank Offer Rate ("HIBOR"). Both bank deposits and borrowings are mainly in Hong Kong dollars and United States dollars ("US dollars").

Foreign Exchange Exposure

The Group mainly earns revenue and incurs costs in US dollars and Hong Kong dollars. Foreign exchange exposure of the Group will continue to be minimal as long as the policy of the Government of HKSAR to link the Hong Kong dollars to the US dollars remains in effect. No material exposure to fluctuations in exchange rates was found, and therefore no related hedging financial instrument was applied during the year ended 31 March 2002.

Managing Director's Statement

Partial Disposal of an Associate and other significant investment

The Group disposed part of the interest of the associated company – Data Systems Consulting Company, Limited (“DSC”) and obtained a gain on this disposal. The Group will continue to look for other investment opportunities.

The Group's share of profit from DSC was approximately HK\$11 million for the year ended 31 March 2002. As at 31 March 2002, the Group's interest in DSC was 17.39%. The Group's ownership in DSC dropped below the 20% level and the Group regards itself as having no significant influence on management, operations and strategic decisions of DSC. Consequently, the equity method of accounting will not be adopted for the investment in DSC. This investment was classified as a short term investment and carried at the fair value on the basis of the quoted market price at the balance sheet date.

Contingent Liabilities

Company's corporate guarantee to banks and vendors as security for banking facilities and goods supplied to the Group amounted to approximately HK\$400 million. The performance bond issued by the Group to customers as security of contract was approximately HK\$14 million.

Major Customers and Suppliers

For the year ended 31 March 2002, the turnover from the largest and five largest customers accounted for 4% and 15% respectively, of the total turnover for the year. Purchases from the largest and five largest suppliers accounted for 18% and 49%, respectively, of the total purchases for the year.

Employee and remuneration policies

As at 31 March 2002, the Group, excluding its associates, employed 991 permanent and contract staff in Hong Kong, Macau, Taiwan and Thailand. The Group remunerates its employees based on their performance, work 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.

APPRECIATION

I would like to thank all management teams and our staff for their efforts and significant contribution during the past year. I would also like to take this opportunity to extend my heartfelt appreciation to all our fellow shareholders and institutional investors for their continued support and confidence in the Group.

By order of the Board

LAI Yam Ting

Managing Director

8 May 2002

Hong Kong