



Optimal
Business Value

MANAGING DIRECTOR'S STATEMENT



LAI Yam Ting
Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

In the midst of the weak economy in Hong Kong, the past year has been most difficult for the IT industry. Nevertheless, the Group remained profitable. Turnover decreased by 8.7% to HK\$1,183 million. However, turnover increased by 26% in the second half of the year as compared to the first half, mainly due to larger contributions from government contracts and improved performances in the services business. The public sector continued to account for the largest share of 55% in the Group's total turnover.

During the year, turnover from the sales of computer products decreased by 13.6%. However this decrease was offset by the 8% increase in income from IT services, which accounted for 27% of the Group's total turnover. This positive result reflects the Group's development strategy to provide customer-oriented IT solutions. At present, most of the Group's contracts for product delivery and services are bundled together as a single contract. The management has therefore taken the view that it is no longer appropriate to break down these contracts into different business segments. Instead the Group's business would be classified as a single industry segment.

During the year, the Group continued to invest in resources and facilities to support the growing service business. Our commitment to enhancing our ERP system, which allowed us to restructure and consolidate certain back office operations, has enabled the containment of our overall spending.

Net profit attributable to shareholders was HK\$36 million (2002: HK\$77 million). Basic earnings per share for the year were 12.5 HK cents.

With a cash balance of HK\$296 million and a gearing ratio of 6.6% at the end of the financial year, the Group continues to enjoy a healthy financial position.

In line with the market trend, the Group will be announcing operating results on a quarterly basis starting from 1st April, 2003, the new financial year. We believe that this will not only enhance corporate transparency, but also demonstrate the Group's commitment in strengthening shareholders' confidence.

Business Review

As a total solutions and services provider in the IT industry, ASL is dedicated to delivering well-developed infrastructure and tailor-made solutions to our customers with excellent services to meet their specific needs.

With the solid foundations laid by over 30 years of operational experience in Hong Kong, the Group is not only engaged in the sale of computer equipment and software products, but also in the provision of comprehensive IT services ranging from systems integration, application development, consultancy to maintenance and outsourcing services.

In today's challenging environment, businesses are seeking a wide range of comprehensive and innovative solutions to help them stay competitive

MANAGING DIRECTOR'S STATEMENT

and bring in better returns. As ASL has always been prepared to serve the needs of our customers, we will continue to focus on offering a wide spectrum of business solutions to the various industry sectors, in turn providing higher value propositions to our customers.

IT Infrastructure

The setting up of IT Infrastructure has always been the core component of our business. To provide fully reliable systems with high scalability and flexibility, the Group continues to cultivate strong relationships with the world's leading IT vendors, reaching partnerships to provide the latest technology products and solutions with both hardware and software in the various IT areas. These partners include nearly all the major global technology companies such as Sun Microsystems, Oracle, Computer Associates, EMC, Microsoft, IBM, HP, Dell, Acer and Brocade. The support of these world-leading vendors helps the Group to meet customer needs and capitalize on the growing business opportunities in the various Asian markets.

Building on our distinctive strengths as well as those of our IT partners, ASL offers diversified IT products on all the major computing platforms. This has allowed us to win and maintain a number of long-term government bulk contracts in Hong Kong. These include a UNIX Bulk contract with a total value of over HK\$171 million, a PC & Network Bulk contract amounting to over HK\$625 million, a Database Bulk contract valued at HK\$16.2 million and an Infrastructure Enhancement project from the Education Department with a contract value worth of HK\$12 million.

In addition to the local market, we have also achieved substantial business growth outside Hong Kong through our network of subsidiaries in the Asian region. These include Macau, Taiwan and

Thailand, all locations with incremental business potential. We worked with EMC on Macau's first Remote Mirrored Storage Area Network for the University of Macau, highlighting our achievements in establishing and maintaining alliances with the world's major technology corporations. Thailand also saw satisfactory business progress with the completion of the Storage Area Network Management project for Bank Thai Public Co., Ltd. Additionally, we successfully established an Interactive Voice Response System for HSBC in Thailand. These projects demonstrate our capabilities in implementing large-scale enterprise solutions as we build close business ties with our multinational customers.

IT Solutions

One of ASL's strengths is our pool of IT talent. With the strong support of our technical division, consisting of over 700 technical specialists with extensive experience and conforming to ISO international quality standards, we are able to deliver high quality services with best-of-breed total solutions at predictable costs that are unique to each client's requirements.

We continue to pursue opportunities in various customer segments through the active development of new applications for different specific requirements. Projects such as the Business Management System (BMS) for Café de Coral, which is currently in progress, have established a successful track record in the fast food sector. In addition, the Group has benefited from the increasing demand for complex solutions in the hospitality industry, particularly in the PRC.

In view of the Hong Kong Government's committed initiatives to ensure that Hong Kong is one of the most IT advanced cities in tomorrow's information world, the Group has won several contracts from

various government departments for providing cost effective solutions. These include the provision of conversion software and services for the online and dynamic conversion of traditional Chinese characters to simplified Chinese characters for the government's 200 web domains, a move being made



ASL Data Center

MANAGING DIRECTOR'S STATEMENT

to bring ease and convenience to more Chinese communities seeking official information online. Blending advanced security technologies, ASL has also conducted a feasibility study on enhancing the security levels of all existing database systems for the Customs and Excise Department and ensured the network security of all communications on the Security Bureau's bulletin board.

Within the education sector, ASL has been contracted to implement Human Resources System for a number of academic institutions in Hong Kong, demonstrating our capabilities and expertise in handling complex HR systems for public organizations. Moreover, we also provided a Wireless LAN Solution for the nine campuses of the Hong Kong Institute of Vocational Education. The solution provides both students and staff with secure and wireless access to the Internet and the Vocational Training Council's Virtual Private Network for education resources and teaching materials.

Maintenance Services

Backed by a large team of experienced and certified technical and service specialists, the Group has been able to secure a number of sizeable and long-term maintenance contracts from commercial enterprises, educational institutions and public organizations. These on-going maintenance service contracts have provided the Group with stable and recurring revenues.

These contracts include the wide range of maintenance support services to various government departments under the UNIX Bulk contract with values amounting to HK\$22 million in 2002. ASL was also appointed as the Single Vendor Maintenance Provider to the Hong Kong Police Force from 2000 to 2004 to provide on-site support services to its computer hardware in over 100 locations in Hong Kong. In the education sector, ASL obtained a 3-year maintenance contract from the City University of Hong Kong and a 4-year maintenance contract from the Hong Kong University of Science and Technology. With our commitment to quality customer service and the reputation gained in the IT service industry, ASL has also been providing maintenance services to prestigious commercial customers, such as Cathay Pacific Airways Limited, the Airport Authority and Hongkong International Terminals Ltd., since 1991.

Outsourcing Services

In view of the global trend for outsourcing services, we have been leveraging our privileged relationship with outsourcing specialist, Computer Sciences Corporation (CSC), our ultimate holding company in the US to capture this ever-growing outsourcing market. We expect this escalating trend to maintain its ongoing momentum into the future.

Building on CSC's extensive network, depth of technology and service experience, market proven methodologies and large workforce with 90,000 staff worldwide, ASL obtained a number of long-term outsourcing contracts to serve well-known multinational companies such as DuPont, Motorola, United Technologies Corporation, Basell and Bombardier during the second half of the year. Ranging from seven to fifteen years, these contracts generate substantial recurring income annually. These contracts also greatly strengthen our leadership position in the outsourcing marketplace with the transfer of assets and people from these companies. These valuable assets become an integral part of ASL to expand our service delivery capabilities.

Combining the knowledge and skills transferred from CSC, together with our own technical strengths, the Group also secured many outsourcing contracts to serve local customers in both the commercial and public sectors.

With the Hong Kong Government's strong promotions to use IT in the community, the Group has been carrying out the ED6 project, providing technical support services to over 110 schools. We also won a new 39-month Application Maintenance Outsourcing contract from the Hong Kong Government.



Maintenance Support Service

MANAGING DIRECTOR'S STATEMENT

In the commercial area, we signed a contract with the Noble Group, the largest diversified commodities trading company in Asia, to provide an e-Business Platform Storage Infrastructure and Data Centre Managed services. More importantly, we obtained a contract outside Hong Kong from HSBC in Thailand to provide Business Recovery Center services in Bangkok, marking a milestone achievement in our outsourcing developments in the region.

New Applications

In view of the increasing popularity and the widespread usage of advanced IT applications and services in every aspect of the community, many new initiatives are creating tremendous business opportunities for the Group.

Supported by our partnership with ShenZhen SEIN Ancient Enterprise Co., Ltd., a local software developer in the PRC, the Group successfully explored new customer segments with the establishment of a Club Management System for membership-based businesses such as golf clubs, health and fitness clubs, leisure clubs and yacht clubs in the greater China region. The system has greatly improved operational efficiencies while enhancing customer service standards. This in turn has driven revenue growth of hospitality business in addition to maximizing customer satisfaction.

Demand for high security solutions is growing in the developed communities. Based on our success in BMS development, particularly in the food and beverage industry, we have been actively expanding our lead in different areas. As a Master Distributor of Media Access Technologies Ltd., ASL is able to provide customers with an Automatic Video Monitoring System which is a robust, scalable and cost-effective security solution that greatly enhances security levels and access controls with cutting-edge facial recognition and real-time monitoring technologies. Equipped with this advanced technology, the Group has identified casinos, security firms and exhibition organizers as potential target customers.

Other Achievements

With regard to quality assurance, the Group reached a major milestone when both ASL Hong Kong's ("ASLHK") engineering and software divisions received ISO9001: 2000 certification in August 2002 and February 2003 respectively. We have become one of the few IT companies in Hong Kong to obtain these certifications for such broad IT service scope. The ISO certification for ASLHK's engineering division applies to hardware maintenance, software installation service, customer service response center operation, technical upgrade and installation, as well as network design and technical support services for computer systems. The integrated information technology services under ASLHK's software division covered under the ISO certification include software design, development and application maintenance, project management, technical training and outsourcing of information technology personnel, together with system and network consultancy and support. On top of our 30 years of experience and our proven track record, the ISO accreditation further consolidates our position as a leading total IT services provider in the region.

Additionally, as a close and long-term business partner of some of the world's leading IT vendors, the Group has successfully outshone its peers to obtain a number of major awards from Microsoft, Cisco Systems, Sun Microsystems and IBM during the year. In particular, IBM presented four out of its six outstanding awards to ASL and ELM. It is indeed an honour for the Group to be recognized by such reputable IT vendors, further consolidating our leading position in the industry.

Being a socially responsible enterprise, ASL also received the "Enlightened Employers Award" from the Selective Placement Division of the Labour Department and the "Caring Company" Award under the Caring Company Scheme of The Hong Kong Council of Social Service, in recognition of our contributions to the community.

MANAGING DIRECTOR'S STATEMENT

Prospects

Founded in 1973, ASL has established a reputation as one of the leading IT companies in the region. Over the past 30 years, ASL has continued to innovate and build a visible long-term business by performing technology work for our customers. Our sound management team is crucial to our continuous growth. Members of the senior management all possess over 10 to 20 years of experience in the IT service industry. In addition, we have over 700 technical professionals who are proactively helping our customers to manage their operations efficiently. At the same time, we deliver solutions and services that meet real business needs in ways that are invaluable to customers. Our broad range of solutions are used by many industries, including the government, education, telecommunications, the utility sector and banking and finance industry, to solve real-world problems, perform vital functions and streamline the way their businesses operate.

We are focused on the long-term success of ASL as a business, for our 1,000 employees, our shareholders, our industry, our customers, our partners and the communities where we do business. Looking to the future, a few development strategies are noteworthy.

The IT industry experienced another tough year in 2002 as many businesses heavily reduced their IT spending. However, the Group believes there are still ample unexplored business opportunities in the community, particularly in the demand for outsourcing, which will continue to rise as enterprises aim to improve their cost containment and enhance their service quality in the race to increase competitiveness with advanced IT applications. To capture this vast business potential and explore new market segments, we will continue to develop new IT applications and services with the support of our large pool of technical specialists and experienced service professionals.

In the process of exploring new applications and expanding our customer base, we have started to repackage existing solutions as we explore different market segments in the region. We are excited to see the increasing number of golf clubs, health and fitness clubs, leisure clubs, yacht clubs, hotels and service apartments in the greater China region, where there is an escalating need for effective hospitality solutions. We therefore anticipate promising growth for our Hotel Back Office System offering. Similarly, we deliver a Workstation Management Solution for organizations across all the industries, where there is a need to monitor and manage their workstations effectively. For cost-effective office administration, we believe that CyberOffice, our web-based office automation solution, will continue to grow in popularity as organizations aim to achieve substantial savings in both operation and labour hours. With the growth of e-commerce, e-Buyer, our web-based merchandising solution, will target trading firms in the garment, toy, gift and premium industries. Tapping the growing popularity of using IT to improve operational efficiencies and customer services, we expect other solutions, such as our Human Resources System for public organizations, Property Management System for property management companies, and Business Management System for retail industries, to gain a major foothold in the IT industry.

Apart from the many business opportunities in the local market, we are also accelerating our business expansion into overseas markets through co-operations with CSC, CSA Holdings Ltd. (CSA), our parent company in Singapore, as well as our sister companies and strategic partners across the Asian region to cater for business needs outside Hong Kong. To enlarge market share, the Group will make every effort to expand the distribution network for our well-developed applications and quality services, generating additional revenues and enhancing market presence for the Group.

Armed with ample resources and a strong knowledge base, the Group achieved significant results in expanding business outside Hong Kong, establishing our presence in Thailand, Macau and

MANAGING DIRECTOR'S STATEMENT

Taiwan, though their operation scales have yet to compare with Hong Kong. However, backed by our solid foundations in the region, the Group is committed to strengthening our relationships with our sister company in the PRC to tap into the enormous business opportunities arising there and where demand for IT services is increasing exponentially as a result of the booming economy.

We are also well positioned to explore the high potential business resulting from the global explosion in outsourcing services with the support of CSC and CSA. Holding an enviable reputation for providing outsourcing services to large multi-national corporations, CSC is working with the Group to develop and deliver outsourcing services to global customers in the region. Currently, the outsourcing service business accounts for slightly less than 3% of our total revenue as compared to more than half of CSC's total revenues. We therefore expect to grow substantially with the expansion of our outsourcing business in the long run.

Since the Group began implementing the new ERP system in 2001, together with other cost control measures, we have been seeing a number of improvements in operational efficiencies and cost reductions. We realize that it is vital for us to stay competitive in the current difficult economic environment and will continue to focus on cost controls through both restructuring and consolidation of operations.

We believe these proactive strategies, when combined with our dedicated employees, who place customer satisfaction as our highest priority, will enable ASL to continue to outpace our industry peers. The business environment may still be difficult, but this will not deter us from providing advanced solutions and quality services to meet our



ASL Digital Imaging Center

customers' needs. We believe that tough times never last, but tough companies do – and we are determined to bring value to both our customers and our shareholders in the years ahead.

The outbreak of the Severe Acute Respiratory Syndrome (SARS) in the region has adversely impacted the operations of most industries since early 2003 and depressed corporate spending in various areas, including the IT arena. This will inevitably lead to widespread lowering of growth projections in the affected countries and will present some challenges on the Group's business in the fiscal year 2004.

Liquidity and Capital Resources

As at 31st March, 2003, the Group had total assets of HK\$792 million which were financed by current liabilities of HK\$336 million, deferred tax of HK\$6 million, minority interests of HK\$5 million and shareholder's equity of HK\$445 million. The Group has a working capital ratio of approximately 1.85: 1. The directors believe that the Group has a healthy working capital ratio.

In addition, the Group had aggregate composite banking facilities from banks of approximately HK\$526 million, of which approximately HK\$53 million had been utilized, and bank balances and cash of HK\$296 million.

There was no charge on the Group's assets as at 31st March, 2003.

Treasury Policies

The Group financed its operations with internally generated resources. Credit facilities provided by banks include trust receipt loans, overdrafts and term loans. The interest rates of these borrowings are fixed by reference to the respective countries' Interbank Offer Rate. 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 is minimal as long as the policy of the Government of HKSAR to link the Hong Kong dollars to the US dollars remains in effect. There was no material exposure to fluctuations in exchange rate and therefore no related financial hedging instrument was applied during the year ended 31st March, 2003.

MANAGING DIRECTOR'S STATEMENT

Contingent Liabilities

Corporate guarantees to banks and vendors as security for banking facilities that utilised and goods supplied to the Group amounted to approximately HK\$105 million. The performance bond issued by the Group to customers as contract security amounted to approximately HK\$22 million.

Major Customers and Suppliers

During the year, the five largest customers and single largest customer of the Group accounted for approximately 14% and 4%, respectively, of the Group's revenue. The five largest suppliers and single largest supplier of the Group accounted for approximately 49% and 20%, respectively, of the Group's purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 10% of the Company's issued share capital) have an interest in any of the Group's five largest customers or suppliers.

Employee and Remuneration Policies

The Group, excluding our associates, employs approximately 1,082 permanent and contract staff in Hong Kong, Macau, Taiwan and Thailand.

The Group employs, promotes and remunerates staff based on their performance, experience and potential, providing opportunities to existing staff whenever possible. Employee benefits provided by the Group include a provident fund scheme and a medical scheme.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 30th July, 2003 to 1st August, 2003, both days inclusive during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 29th July, 2003. The dividend warrants will be despatched on 15th August, 2003.

PROPOSED SPIN-OFF OF ELM HOLDINGS LIMITED

Reference is made to the announcements of the Company dated 13th September, 2001 and 6th

February, 2003 regarding the proposed spin-off and separate listing on the Growth Enterprise Market operated by The Stock Exchange of Hong Kong Limited of ELM Holdings Limited, which is a wholly-owned subsidiary of the Company. The Directors wish to inform the shareholders of the Company that the Company will not proceed with the aforesaid proposed spin-off due to unfavourable market situation.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st March, 2003 with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, except that non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election in accordance with the provisions of the Company's bye-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the chairman and the two independent non-executive directors of the Company.

APPRECIATION

I would like to thank all our shareholders, customers, business partners and employees for their unrelenting support during the past year. Our goal is to continuously deliver value and quality to our customers, while also creating value for our shareholders. Our steady performance with substantial profits recorded in the six consecutive years since our listing demonstrates our ability to achieve these ambitions, despite the difficult market conditions. We will continue to make every effort to build additional success on our solid foundations in the year 2003 and beyond.

By order of the Board
LAI Yam Ting
Managing Director

Hong Kong, 20th May, 2003