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Automated Systems Holdings Limited

(incorporated in Bermuda with limited liability)

Connected Transactions

Summary

The board of directors of Automated Systems Holdings Limited ("Company") announces as follows:

- For the two financial years ended 31st December, 1998, the aggregate value of the connected transactions between ASL(HK) and ASL(PRC) amounted to approximately \$1,586,746.00 and \$9,333,987.00 respectively.
- Information relating to the connected transactions has been disclosed in the Company's 1997 and 1998 Annual Reports. The 1997 and 1998 connected transactions were for the sales and purchases of computer products and services between ASL(HK) and ASL(PRC).
- The connected transactions were entered into in the ordinary and usual course of business of the Company upon normal commercial terms and are fair and reasonable so far as the minority shareholders of the Company are concerned.
- The aggregate value of the 1997 and 1998 connected transactions should have been disclosed by way of a press announcement and the Company has breached the relevant requirements of the Listing Rules in respect of the disclosure of the 1997 connected transactions and has not complied strictly with the Listing Rules in respect of the disclosure of the 1998 connected transactions.
- The Company has applied to the Stock Exchange for waivers from strict compliance with rule 14.25(1) of the Listing Rules in respect of the 1997 and 1998 connected transactions. As the sales and purchases of computer products and services between ASL(HK) and ASL(PRC) are continuing, the Company has applied for a separate waiver of the 1999 connected transactions with ASL(PRC) on the basis that the aggregate value of such transactions for the financial year ended 31st December, 1999 will not exceed \$10 million.
- If the directors come to aware during the 1999 financial year that the aggregate value of the 1999 connected transactions exceeds or is likely to exceed \$10 million, the Company will comply with the requirements of the Listing Rules relating to such connected transactions.
- The Stock Exchange has reserved its rights to take further action against the Company in respect of the Company's breach and non-compliance with the Listing Rules.

Background

- Automated Systems (H.K.) Limited ("ASL(HK)") is a wholly-owned subsidiary of the Company. Automated Systems (PRC) Limited ("ASL(PRC)") is a wholly-owned subsidiary of CSA Holdings Ltd. ("CSA"), the controlling shareholder of the Company. The Company and ASL(PRC) are therefore fellow subsidiaries of CSA.
- Prior to the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 5th November, 1997 (the "Date of Listing"), the business territory of ASL(HK) included the People's Republic of China ("PRC"). After the listing, the business of the PRC division of ASL(HK) was transferred to and held under a separate legal entity i.e. ASL(PRC) and is wholly-owned by CSA.
- The Company and its subsidiaries (the "Group") are engaged in the business of systems integration and the supply of computers and associated products, Internet/Internet networking and the provision of engineering services and software services in Hong Kong, Macau and Taiwan. ASL(PRC) is engaged mainly in computing equipment sales business in the PRC (excluding Hong Kong, Macau and Taiwan).

1997 Connected Transactions

- As disclosed on page 48 of the 1997 Annual Report of the Company, the aggregate total amount of the transactions between ASL(HK) and ASL(PRC) for the whole of the financial year ended 31st December, 1997 was approximately \$4,564,000. Of this amount, an aggregate of \$1,586,746.00 ("1997 Connected Transactions") was for the sales of computer products and services to ASL(PRC) between the period from the date of completion of the Group's reorganisation on 16th October, 1997 ("Date of Reorganisation" or "Reorganisation") to 31st December, 1997. (If the value of the connected transactions is to be calculated from the Date of Listing on 5th November, 1997 to 31st December, 1997, the aggregate value of the connected transactions amounted to \$992,052.31). Such transactions were connected transactions within the meaning of the Listing Rules. The aggregate value of the 1997 Connected Transactions amounted to approximately 0.75% and 1.27% of the net tangible assets of the Group of approximately \$212 million and \$118 million as at 31st December, 1997 and 31st May, 1997 respectively.
- Particulars of the 1997 Connected Transactions (from 17th October, 1997 i.e. the day after the Date of Reorganisation to 31st December, 1997):

Description (HK)	Amount
Computer products sold (other than Qualix software products)	666,296.32

Sales to ASL(PRC)	Amount
Qualix computer software products	\$5,056,533.62
Non-Qualix computer products and services	\$1,241,522.27
Purchases from ASL(PRC)	
Computer products and services	\$3,035,931.11
Aggregate total:	\$9,333,987.00

Disclosure of the 1998 Connected Transactions

- Particulars of the 1998 Connected Transactions have been disclosed in the Company's accounts on page 47 of the Company's 1998 Annual Report.
- The auditors of the Company have certified that the 1998 Connected Transactions have been entered into upon normal commercial terms and in the ordinary and usual course of business of the Company. The independent non-executive directors of the Company have also confirmed that in their opinion, the 1998 Connected Transactions are fair and reasonable so far as the minority shareholders of the Company are concerned. The Company has not complied strictly with the relevant provision of the Listing Rules relating to the disclosure of the aggregate value of the 1998 Connected Transactions.

Reasons for and the Directors' view on the 1997 and 1998 Connected Transactions

- The Directors are of the view that it is in the interests of the Company to enter into the 1997 and 1998 Connected Transactions and that CSA, the controlling shareholder of the Company, has not preferentially benefited from such transactions. The Directors are also of the view that both the 1997 and 1998 Connected Transactions were entered into in the ordinary and usual course of business of the Company upon normal commercial terms and are fair and reasonable so far as the minority shareholders of the Company are concerned.

Applications to the Stock Exchange for waivers of the 1997 and 1998 Connected Transactions from strict compliance with the Listing Rules.

- The Company has also applied to the Stock Exchange for waivers from strict compliance with the Listing Rules in respect of the 1997 and 1998 Connected Transactions on the grounds that (1) transactions between ASL(HK) and ASL(PRC) were carried out on an on-going basis; (2) the value of individual transaction varied widely and that disclosure and approval of every individual transaction in full compliance with the Listing Rules would be impracticable; (3) such transactions will continue to be entered into in the ordinary and usual course of business of the Company and upon normal commercial terms.

Qualix software products sold	746,582.30
Maintenance services	173,867.38
Total:	<u>\$1,586,746.00</u>

6. Of the 1997 Connected Transactions:

- (1) in respect of \$666,296.32 being computer products (including computers, computer accessories and software licences and services) sold to ASL(PRC), a sum of \$498,605 involved pre-Reorganization orders received by the PRC division of ASL(HK) but post-Reorganization deliveries for sale in the PRC. The balance of \$167,691 involved the post-Reorganisation purchases of computer products or services by ASL(PRC).
- (2) ASL(PRC) purchased Qualix computer software licences amounting to \$746,582.30 through ASL(HK) upon the appointment of ASL(HK) as the master distributor of Qualix Group Inc. (now known as Fulltime Enterprise Inc.) ("Qualix"), a computer software supplier, in Hong Kong.
- (3) The maintenance services of \$173,867.38 were part of the services provided by ASL(HK) to its PRC division for one of its clients prior to the Reorganisation.

Non-inclusion of the 1997 Connected Transactions in the previous connected transaction waiver

7. By a letter dated 20th March, 1998, the Stock Exchange granted a waiver to the Company in respect of the provision by the Group for the use of certain warehouse by and the sharing of administrative services with ASL(PRC). Details of this waiver application were disclosed in the Company's prospectus dated 22nd October, 1997. In its waiver application, the Company had not included the sales of computer goods and services between the Group and ASL(PRC). Reasons for the non-inclusion in the waiver application are:

- (1) the Company did not anticipate that there would be any transactions with ASL(PRC) after the listing;
- (2) the directors of the Company ("Directors") estimated that even if there were any such transactions with ASL(PRC), the aggregate value of such transactions for the period from the Date of the Listing to 31st December, 1997 would be below the minimum disclosure level of the Listing Rules.

Disclosure of the 1997 Connected Transactions

8. Particulars of the 1997 Connected Transactions have been disclosed in the Company's accounts on page 48 of the Company's 1997 Annual Report.
9. The auditors of the Company have certified that the 1997 Connected Transactions have been entered into upon normal commercial terms and in the ordinary and usual course of business of the Company. The two independent non-executive directors of the Company have also confirmed that in their opinion, the 1997 Connected Transactions are fair and reasonable so far as the minority shareholders of the Company are concerned. The aggregate value of the 1997 Connected Transactions should have been disclosed by a press announcement and the Company has breached the relevant provisions of the Listing Rules.

1998 Connected Transactions

10. As disclosed in the Company's accounts on page 47 of the Company's 1998 Annual Report, the aggregate total amount of the transactions arising from the sales and purchases of computer products and services between ASL(HK) and ASL(PRC) for the whole of the financial year ended 31st December, 1998 was approximately \$9,334,000. Of this sum, \$6,298,055.89 was the aggregate value of the sales by ASL(HK) to ASL(PRC) and \$3,035,931.11 was the aggregate value of the purchases made by ASL(HK) from ASL(PRC). Such transactions were connected transactions within the meaning of the Listing Rules and the aggregate value of such transactions represents approximately 4.1% and 4.3% of the net tangible assets of the Group of approximately \$226 million and \$212 million as at 31st December, 1998 and 31st December, 1997 respectively. Further particulars of the 1998 Connected Transactions are as follows:

1999 Connected Transactions between the Group and ASL(PRC)

15. Transactions for the sale and purchase of computer goods and computer related services between ASL(HK) and ASL(PRC) are continuing. Based on the latest management accounts of the Group, calculated from 1st January, 1999 to 28th May, 1999 the aggregate value of the connected transactions between ASL(HK) and ASL(PRC) amounted to approximately \$2,977,419 (as to \$2,830,301 being sales by ASL(HK) to ASL(PRC) and as to \$147,118 being sales by ASL(PRC) to ASL(HK)), which were entered into on normal commercial terms and in the ordinary course of business of both the Company and ASL(PRC). With the anticipated growth in the PRC economy for the year 1999 and the possible re-accession of the PRC into the WTO, the Directors expect that the turnover between the Group and ASL(PRC) for the financial year ended 31st December, 1999 will be sustained but will not exceed \$10 million. Of this amount, sales to ASL(PRC) consisting of computer products and services including information technology services will not exceed \$8 million whereas sales from ASL(PRC) consisting mainly of computer products and accessories will not exceed \$2 million. There is no written agreement between ASL(HK) and ASL(PRC) relating to the sales and purchases of computer products and services but the business relationship between the Company and ASL(PRC) is governed by a Territorial Agreement dated 16th October, 1997 entered into between the Company and CSA.
16. The aggregate value of and other information relating to the 1999 Connected Transactions will be included in the Company's next annual report. If the aggregate value of the 1999 Connected Transactions exceeds \$10 million, the Company will comply with the requirements of the Listing Rules relating to such connected transactions.

Waiver application for the 1999 Connected Transactions

17. Transactions between the Group and ASL(PRC) for the sales and purchases of computer goods and services including information technology services are and will continue to be entered into in the ordinary course of business of the Group and on normal commercial terms. As such transactions are and will be of a continuing nature and occur on a regular basis, the Company has also applied to the Stock Exchange for a separate waiver from strict compliance with rule 14.25(1) of the Listing Rules in respect of the 1999 Connected Transactions. The Company has applied to the Stock Exchange for a waiver in respect of the 1999 Connected Transactions upon the following terms:

- (1) that such transactions be entered into by the Group in the ordinary and usual course of its business and on normal commercial terms which are no less favourable than terms available to (or from) independent third party and are fair and reasonable so far as the minority shareholders of the Company are concerned;
 - (2) the aggregate value of the 1999 Connected Transactions will not exceed \$10 million;
 - (3) details of the 1999 Connected Transactions be disclosed in the Company's next annual report as set out in rules 14.25(1)(A) to (D) of the Listing Rules;
 - (4) the 1999 Connected Transactions be reviewed by:
 - (a) the independent non-executive Directors who shall confirm that such transactions have been entered conducted in the manners set out in (1) and (2) above; and
 - (b) the auditors of the Company who shall confirm that such transactions have been approved by the board of the Company and do not exceed the limit set out in (2) above and have been entered into on normal commercial terms which are no less favourable than terms available to (or from) independent third party;
 - (5) the confirmations by the independent non-executive Directors and the auditors be included in the Group's next annual report.
18. The Stock Exchange has reserved its right to take further action against the Company in respect of the Company's breach and non-compliance with relevant provisions of the Listing Rules.

By order of the Board
Edward Lau
Director and Company Secretary

Hong Kong, 30 June, 1999