

# AUTOMATED

## AUTOMATED SYSTEMS HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

### INTERIM RESULTS ANNOUNCEMENT 2004

#### RESULTS

The Board of Directors (the “directors”) of Automated Systems Holdings Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months period ended 30th September, 2003:

#### Condensed Consolidated Profit and Loss Account

		Unaudited		Unaudited	
		Three months ended		Six months ended	
		30th September,		30th September,	
		2003	2002	2003	2002
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	(3)	204,124	292,478	446,704	523,141
Cost of sales		(141,106)	(206,494)	(321,916)	(362,950)
Other operating income		10,253	26,969	11,420	27,833
Sales and technical support costs		(50,462)	(65,136)	(108,955)	(132,096)
Distribution costs		(3,640)	(3,603)	(4,661)	(7,421)
Administrative expenses		(8,546)	(10,411)	(17,050)	(21,226)
Restructuring costs		(1,150)	(5,303)	(1,349)	(5,303)
		<u>9,473</u>	<u>28,500</u>	<u>4,193</u>	<u>21,978</u>
PROFIT FROM OPERATIONS	(4)				
Finance costs		(105)	(485)	(224)	(775)
Share of results of associates		(61)	(95)	(74)	(163)
		<u>9,307</u>	<u>27,920</u>	<u>3,895</u>	<u>21,040</u>
PROFIT BEFORE TAXATION					
Taxation	(5)	(294)	(1,701)	(294)	(1,957)
		<u>9,013</u>	<u>26,219</u>	<u>3,601</u>	<u>19,083</u>
PROFIT BEFORE MINORITY INTERESTS					
Minority interests		(685)	(132)	(919)	(145)
		<u>8,328</u>	<u>26,087</u>	<u>2,682</u>	<u>18,938</u>
PROFIT FOR THE PERIOD					
Interim dividend	(6)	2,910	4,623	2,910	4,623
EARNINGS PER SHARE	(7)				
Basic		<u>2.86 cents</u>	<u>9.03 cents</u>	<u>0.92 cents</u>	<u>6.56 cents</u>
Diluted		<u>2.86 cents</u>	<u>9.01 cents</u>	<u>0.92 cents</u>	<u>6.54 cents</u>

## Condensed Consolidated Balance Sheet

	Notes	Unaudited 30th September, 2003 HK\$'000	Audited 31st March, 2003 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	(8)	161,940	162,617
Intangible assets		6,534	7,069
Interest in associates		315	389
Club memberships		900	900
		<u>169,689</u>	<u>170,975</u>
<b>CURRENT ASSETS</b>			
Inventories		102,121	101,976
Trade receivables	(9)	148,419	142,246
Other receivables, deposits and prepayments		30,079	24,669
Investments in securities		37,421	56,293
Bank balances and cash		217,786	295,831
		<u>535,826</u>	<u>621,015</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	(10)	120,034	170,422
Other payables and accruals		42,094	38,288
Receipts in advance		67,839	93,920
Taxation		3,954	4,731
Bank borrowings		18,387	29,181
		<u>252,308</u>	<u>336,542</u>
<b>NET CURRENT ASSETS</b>		<u>283,518</u>	<u>284,473</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>453,207</u>	<u>455,448</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred taxation		11,739	11,739
<b>MINORITY INTERESTS</b>		<u>5,672</u>	<u>4,753</u>
		<u>435,796</u>	<u>438,956</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		29,095	29,091
Reserves		406,701	409,865
		<u>435,796</u>	<u>438,956</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. Basis of Preparation

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

### 2. Principal Accounting Policies

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2003, except for the adoption of:

SSAP 12 (Revised) “Income Taxes” which become effective in the current period. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any

specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts have been restated accordingly. As a result of this change in policy, the accumulated profits as at 1st April, 2002 has been decreased by HK\$5,755,000 and has had no material effect on the results for each of the three months and six months ended 30th September, 2003 and 2002.

### 3. Turnover and Segmental Information

Turnover represents the net amount received and receivable for goods sold by the Group to outside customers, less returns and allowances and service rendered, and is analysed as follows:

	Unaudited Three months ended 30th September,		Unaudited Six months ended 30th September,	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Sales of goods	120,694	199,766	273,518	370,241
Revenue from service contracts	83,430	92,712	173,186	152,900
	<u>204,124</u>	<u>292,478</u>	<u>446,704</u>	<u>523,141</u>

Although the Group sells computer products and provides a wide range of services, in the opinion of the directors, all the sales of goods and provision of services are IT related and, in most of the time, are negotiated under a single contract with a single customer. Accordingly, the directors consider that the Group is engaged in one single business segment, namely IT services, and mainly serves the Hong Kong market.

### 4. Profit from Operations

	Unaudited Three months ended 30th September,		Unaudited Six months ended 30th September,	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:				
Depreciation and amortisation:				
Intangible assets (included in sales and technical support costs)	578	1,513	1,539	3,008
Property, plant and equipment	8,728	7,524	16,923	15,353
Loss on disposal of property, plant and equipment	194	653	550	804
and after crediting:				
Interest income	394	500	966	1,104
Dividend income from listed securities	7,226	20,810	7,226	20,810
Gain on disposal of listed securities	2,815	5,181	2,815	5,181
	<u>2,815</u>	<u>5,181</u>	<u>2,815</u>	<u>5,181</u>

### 5. Taxation

	Unaudited Three months ended 30th September,		Unaudited Six months ended 30th September,	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
The charge comprises:				
Hong Kong Profits Tax	-	1,509	-	1,509
Overseas taxation	294	192	294	448
Taxation attributable to the Company and its subsidiaries	294	1,701	294	1,957
Share of taxation attributable to associates	-	-	-	-
Tax charge for the period	<u>294</u>	<u>1,701</u>	<u>294</u>	<u>1,957</u>

Hong Kong Profits Tax is calculated at 17.5% (FY03: 16%) of the estimated assessable profit for the period. Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

### 6. Interim dividend

The directors have determined that the interim dividend of HK1.0 cent (FY03: HK1.6 cents) per share for the six months ended 30th September, 2003 should be paid to the shareholders of the Company whose names appear in the register of members on 16th December, 2003.

## 7. Earnings Per Share

The calculation of the basic and diluted earnings per share is based on the following data:

	Unaudited Three months ended 30th September, 2003		Unaudited Six months ended 30th September, 2003	
	HK\$'000	2002 HK\$'000	HK\$'000	2002 HK\$'000
Earnings for the purpose of basis earnings per share and diluted earnings per share	<u>8,328</u>	<u>26,087</u>	<u>2,682</u>	<u>18,938</u>
	Number '000	of shares '000	Number '000	of shares '000
Weighted average number of ordinary shares for the purpose of basis earnings per share	<u>290,943</u>	288,890	<u>290,927</u>	288,843
Effect of dilutive share options	<u>606</u>	630	<u>514</u>	778
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>291,549</u>	<u>289,520</u>	<u>291,441</u>	<u>289,621</u>

## 8. Movements in Property, Plant and Equipment

During the period, the Group spent HK\$17,530,000 on property, plant and equipment. The Group disposed of property, plant and equipment with an aggregate carrying amount of HK\$1,494,000 for proceeds of HK\$944,000, resulting in a loss on disposal of HK\$550,000.

The Group's leasehold land and buildings were stated at valuations made in 1998, less depreciation and amortisation. The directors, after taking into account the current market condition, considered that the carrying amounts of the Group's leasehold land and buildings at 30th September, 2003 did not differ significantly from their market value at the same date.

## 9. Trade Receivables

The Group has granted credit to substantially all of its customers for 30 days. The Group seeks to maintain strict control over its outstanding receivables and has credit control procedures in place to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables at the balance sheet date, based on payment due date and net of provisions, is as follows:

	Unaudited 30th September, 2003 HK\$'000	Audited 31st March, 2003 HK\$'000
Current	69,484	85,917
Within 1 month	40,593	26,255
1-2 months	11,917	16,935
2-3 months	16,483	7,982
Over 3 months	9,942	5,157
	<u>148,419</u>	<u>142,246</u>

## 10. Trade and Bills Payables

The aged analysis of the trade and bills payables at the balance sheet date, based on payment due date, is as follows:

	Unaudited 30th September, 2003 HK\$'000	Audited 31st March, 2003 HK\$'000
Current	60,962	128,147
Within 1 month	39,290	26,981
1-2 months	15,024	6,479
2-3 months	2,061	1,794
Over 3 months	2,697	7,021
	<u>120,034</u>	<u>170,422</u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Results and Business Review**

The Group reported an unaudited profit of HK\$8.3 million for the second quarter of FY04 which offset the unaudited loss of HK\$5.6 million for the first quarter, bringing the unaudited profit for the 6 months ended 30th September, 2003 to HK\$2.7 million (FY03: HK\$18.9 million). Total revenue for the 3 months and 6 months ended 30th September, 2003 was HK\$204.1 million and HK\$446.7 million respectively, down from HK\$242.6 million for the first quarter and HK\$523.1 million for the corresponding 6-month period in FY03. The decrease was primarily attributed to lower sales in computer products as a result of reduced IT spending and the adverse impact from the SARS outbreak. In terms of revenue mix, service offering and outsourcing business accounted for 38.8% of the total revenue for the six months ended 30th September, 2003, up from 29.2% of the comparable period in FY03 and representing an increase of HK\$20.3 million. The Group won a total of HK\$150 million new contracts during the second quarter, and maintained a healthy balance sheet with net cash balance of HK\$216.9 million at the end of the interim period. The gearing ratio was 4.2%.

The Group continued to streamline its operation and controlled costs throughout the organization. Sales and technical support costs, and distribution and administration costs (“operating expenses”) reduced by 7.9% or HK\$5.4 million as compared to the first quarter as a result of headcount reduction and lower discretionary expenses.

We continued to derive income from Data Systems Consulting Company Limited (DSC), the Group’s listed investment in Taiwan. Included in the other income are dividend income from DSC and a gain from partial disposal of DSC shares amounting to HK\$10 million.

### **Subsequent Event**

Subsequent to 30th September, 2003, we further restructured the operations of the company and reduced our workforce by 10%. The action was across all divisions. As a result, we have incurred a one-time restructuring cost of HK\$6.9 million in the third quarter of the current financial year. This will further decrease the operating expenses for the rest of the financial year.

### **Prospects**

We foresee more challenges ahead and are re-aligning our business strategy to focus on key customers and sizeable projects that provide higher returns. We have enhanced our existing direct account sales model to provide one-stop-shop services to our customers and better management for large accounts. At the same time, it will allow us to better focus on large IT projects. We anticipate these changes will help improve our operating margin and grow our business in the longer term.

We will continue to focus on long-term government or quasi-government contracts that are relatively less affected by economic downturn. This will enable us to derive more predictable recurring revenues including services income in the future. In October 2003, we were awarded a 36-month security bulk contract from the Hospital Authority and a 24-month server bulk contract from the government. Most contracts typically come with renewal maintenance services annually. Some contracts have been renewed for more than 10 years and even exceeded the original contract value.

We will continue to monitor our operational efficiency and productivity, and align the cost structure with the revenue. We believe we are on the right track to achieve our goals.

## **FINANCIAL RESOURCES AND LIQUIDITY**

As at 30th September, 2003, the Group’s total assets of HK\$705.5 million were financed by current liabilities of HK\$252.3 million, deferred tax of HK\$11.7 million, minority interests of HK\$5.7 million and shareholders’ equity of HK\$435.8 million. The Group had a working capital ratio of approximately 2.12:1.

As at 30th September, 2003, the Group had an aggregate composite banking facilities from banks of approximately HK\$428 million of which HK\$43 million was utilized (30th September, 2002: HK\$53 million). The Group’s gearing ratio was 4.2% (30th September, 2002: 6.6%) as at 30th September, 2003.

There was no charge on the Group’s assets as at 30th September, 2003.

## **TREASURY POLICIES**

The Group generally financed 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 are fixed by reference to the respective countries’ Interbank Offer Rate. 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 six-month period ended 30th September, 2003.

## **CONTINGENT LIABILITIES**

Corporate guarantee to banks and vendors as security for banking facilities and goods supplied to the Group amounted to approximately HK\$96 million. The performance bond issued by the Group to customers as security of contract was approximately HK\$23 million.

## **EMPLOYEE AND REMUNERATION POLICIES**

As at 30th September, 2003, the Group, excluding its associates, employed 1,006 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 a share option scheme.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Wednesday, 17th December, 2003 to Friday, 19th December, 2003, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's 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 16th December, 2003. The dividend warrants will be despatched on 31st December, 2003.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the six months period ended 30th September, 2003, 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, internal control and financial reporting matters including the review of the unaudited interim results.

## **CODE OF BEST PRACTICE**

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period under review, in compliance with Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, except that non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election in accordance with the bye-laws of the Company.

## **PUBLICATION OF DETAILED INTERIM RESULTS ON THE STOCK EXCHANGE WEBSITE**

All the information of the interim results of the Group for the six-month period ended 30th September, 2003 required by paragraph 46(1) to 46(6) of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange will be published on the Stock Exchange's website in due course.

By Order of the Board  
**LAI Yam Ting**  
*Managing Director*

Hong Kong, 12th November, 2003

Please also refer to the published version of this announcement in The Standard.