



VANDA GROUP

VANDA SYSTEMS & COMMUNICATIONS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

**ANNOUNCEMENT OF RESULTS
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2002**

INTERIM RESULTS

The Board of Directors (the "Directors") of Vanda Systems & Communications Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2002 which have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNTS

		(Unaudited)	
		Six months ended 30th September,	
		2002	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	Notes		
Continuing operations		476,993	571,503
Discontinued operations	6	168	15,304
		<u>477,161</u>	<u>586,807</u>
Cost of sales		<u>(393,242)</u>	<u>(464,234)</u>
Gross profit		83,919	122,573
Other revenue and gains		7,014	7,020
Selling and distribution costs		(16,155)	(19,963)
Administrative expenses		(72,307)	(112,777)
Other operating expenses		(7,959)	(1,338)
Profit/(loss) from operating activities	2		
Continuing operations		(5,165)	(16,406)
Discontinued operations	6	(323)	11,921
		<u>(5,488)</u>	<u>(4,485)</u>
Finance costs		(9,781)	(14,408)
Share of profits less losses of associates		312	495
Loss before tax		(14,957)	(18,398)
Tax	3	(1,965)	(772)
Loss before minority interests		(16,922)	(19,170)
Minority interests		(347)	1,879
Net loss attributable to shareholders		<u>(17,269)</u>	<u>(17,291)</u>
Dividend		<u>–</u>	<u>–</u>
Loss per share	4		
Basic		<u>(4.10 cents)</u>	<u>(4.12 cents)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2002

	<i>Notes</i>	(Unaudited) 30th September, 2002 <i>HKS'000</i>	(Audited) 31st March, 2002 <i>HKS'000</i>
NON-CURRENT ASSETS			
Fixed assets		60,405	93,656
Investment properties		38,354	11,990
Interests in associates		3,419	3,107
Long term investments		80,061	80,061
Other investments		60,823	59,038
		<u>243,062</u>	<u>247,852</u>
CURRENT ASSETS			
Accounts receivable		206,985	180,752
Inventories		43,101	71,092
Tax recoverable		3,781	155
Prepayments, deposits and other receivables		23,457	27,131
Pledged bank deposits		63,846	52,437
Cash and cash equivalents		92,514	116,821
		<u>433,684</u>	<u>448,388</u>
CURRENT LIABILITIES			
Accounts payable		128,599	152,142
Deposits received, accruals and other payables		139,990	127,916
Provisions for product maintenance costs and redundancy costs		6,885	10,555
Tax payable		-	2,100
Finance lease payables		-	69
Interest-bearing bank loans, overdrafts and supplier loans		76,859	125,077
Convertible bonds		-	79,187
		<u>352,333</u>	<u>497,046</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>81,351</u>	<u>(48,658)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>324,413</u>	<u>199,194</u>
NON-CURRENT LIABILITIES			
Provisions for product maintenance costs and loss on put option		(16,699)	(16,699)
Finance lease payables		-	(49)
Interest-bearing bank loans, overdrafts and supplier loans		(4,406)	(5,331)
Deferred tax		(190)	(87)
		<u>(21,295)</u>	<u>(22,166)</u>
		<u>303,118</u>	<u>177,028</u>
CAPITAL AND RESERVES			
Issued capital	7	42,161	42,098
Reserves		(84,207)	(72,736)
		<u>(42,046)</u>	<u>(30,638)</u>
MINORITY INTERESTS		<u>10,732</u>	<u>9,700</u>
		<u>(31,314)</u>	<u>(20,938)</u>
CONVERTIBLE BONDS		<u>334,432</u>	<u>197,966</u>
		<u>303,118</u>	<u>177,028</u>

*Notes:***1. ACCOUNTING POLICIES**

The unaudited condensed consolidated interim financial statements of the Group 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. The accounting policies and basis of preparation of these interim financial statements are the same as those adopted in the Group's annual financial statements for the year ended 31st March, 2002, except that the following new or revised SSAPs effective for accounting periods commenced on or after 1st January, 2002 are adopted for the first time in the preparation of these interim financial statements :

SSAP 1 (revised)	Presentation of Financial Statements
SSAP 11 (revised)	Foreign Currency Translation
SSAP 15 (revised)	Cash Flow Statements
SSAP 25 (revised)	Interim Financial Reporting
SSAP 34	Employee Benefits

The adoption of the above new and revised SSAPs has had no material impact on the reported financial positions or results of the Group.

2. PROFIT / (LOSS) FROM OPERATING ACTIVITIES

	(Unaudited)	
	Six months ended 30th September,	
	2002	2001
	HK\$'000	HK\$'000
This is arrived at after charging / (crediting):		
Depreciation	6,879	10,415
Amortisation of deferred development costs	–	118
Amortisation of goodwill	–	248
Interest on:		
Bank and supplier loans wholly repayable within five years	3,001	6,083
Finance leases	–	8
Convertible bonds	6,780	8,317
Provisions for and write-off of bad and doubtful debts	4,277	1,338
Provisions / (write back of provisions) against inventories *	(6,777)	8,758
Cost of inventories sold	377,604	457,908
Loss on disposal of subsidiaries	1,941	–
Interest income	(2,248)	(3,780)
Gain on disposal of an associate	–	(561)
	<u> </u>	<u> </u>

* Amounts included in cost of inventories sold

3. TAX

	(Unaudited)	
	Six months ended 30th September,	
	2002	2001
	HK\$'000	HK\$'000
Profits tax charged for the period		
– Hong Kong	–	–
– Outside Hong Kong	1,862	772
	<u> </u>	<u> </u>
Deferred tax	1,862	772
	103	–
	<u> </u>	<u> </u>
	1,965	772

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the current and prior period.

Tax on the profits of the Company and its subsidiaries operating outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions of their operations based on existing legislation, interpretations and practices in respect thereof.

4. LOSS PER SHARE

The calculation of the basic loss per share for the period is based on the net loss attributable to shareholders of HK\$17,269,000 (2001: HK\$17,291,000) and the weighted average of 421,461,735 (2001: 419,805,795) ordinary shares in issue during the period.

Diluted loss per share amounts for the current and prior periods have not been shown because the potential ordinary shares of the Group outstanding during both periods had an anti-dilutive effect on the basic loss per share for the periods.

5. SEGMENT INFORMATION

An analysis of Group's turnover and operating profit/(loss) by geographical segments and business segments, respectively, is as follows:

By geographical segments:

	Hong Kong and Macau		Elsewhere in the PRC		South Asia		Unallocated		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30th September,		30th September,		30th September,		30th September,		30th September,	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)										
Segment revenue:										
Sales to external customers	65,422	94,010	203,116	262,090	208,623	230,707	–	–	477,161	586,807
Other revenue	24	163	1,412	1,587	3,109	284	1,497	1,498	6,042	3,532
Total	<u>65,446</u>	<u>94,173</u>	<u>204,528</u>	<u>263,677</u>	<u>211,732</u>	<u>230,991</u>	<u>1,497</u>	<u>1,498</u>	<u>483,203</u>	<u>590,339</u>
Segment results	<u>1,746</u>	<u>5,012</u>	<u>(6,133)</u>	<u>1,755</u>	<u>14,654</u>	<u>(540)</u>	<u>(14,786)</u>	<u>(14,200)</u>	<u>(4,519)</u>	<u>(7,973)</u>
Dividend income, unallocated interest and other gains									972	2,927
Loss on disposal of subsidiaries									(1,941)	–
Gain on disposal of an associate									–	561
Loss from operating activities									<u>(5,488)</u>	<u>(4,485)</u>

By business segments:

	Systems integration and software development		Distribution of computer products		(Discontinued operations-note 6) e-business		Unallocated		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30th September,		30th September,		30th September,		30th September,		30th September,	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)										
Segment revenue:										
Sales to external customers	306,357	414,137	170,636	155,268	168	15,304	–	2,098	477,161	586,807
Segment results	<u>(1,754)</u>	<u>(8,560)</u>	<u>12,343</u>	<u>2,269</u>	<u>(323)</u>	<u>11,921</u>	<u>(14,785)</u>	<u>(13,603)</u>	<u>(4,519)</u>	<u>(7,973)</u>

6. DISCONTINUED OPERATIONS

On 29th April, 2002, the Group disposed of its 75.1% equity interest in DigiLogistics.com Limited ("DigiLogistics") which was a 95% owned subsidiary of the Group prior to the disposal. The Group's business of sub-licensing web-based logistics software (the "e-business") in Hong Kong was conducted through DigiLogistics. The disposal was made following the Group's strategy to divest its non-core businesses. The disposal was completed on 29th April, 2002 and since then DigiLogistics ceased to be a subsidiary of the Group. The results, assets and liabilities of DigiLogistics were consolidated into the Group's financial statements up to the date of disposal.

7. ISSUED CAPITAL

During the six months ended 30th September, 2002, 630,000 ordinary shares of HK\$0.1 each were issued pursuant to the exercise of the Company's share options by the holders at various exercise prices.

8. CAPITAL COMMITMENT

As at 30th September, 2002, there were no significant capital commitment of the Group.

9. CONTINGENT LIABILITY

As at 30th September, 2002, contingent liabilities of the Group not provided for in the financial statements were as follows:

	(Unaudited) 30th September, 2002 HK\$'000	(Audited) 31st March, 2002 HK\$'000
Guarantees given to banks in connection with bank guarantees provided by banks	<u>19,213</u>	<u>16,907</u>

10. PLEDGE OF ASSETS

As at 30th September, 2002, other than the pledged deposits which were disclosed on the balance sheet, there was no material changes in the pledged assets of the Group from the information disclosed in the Group's annual report for the year ended 31st March, 2002.

11. COMPARATIVE AMOUNTS

Certain comparative amounts of the condensed consolidated cash flow statement and the profit and loss accounts have been reclassified to conform with the current period's presentation in order to comply with the new presentation requirement under SSAP 15 (revised) and the disclosure requirement of discontinued operations arising during the current period, respectively. In addition, a consolidated statement of change in equity has been presented in the interim report to replace the consolidated statement of recognized gains and losses which is previously presented, to comply with the new requirement under SSAP 1 (revised).

12. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved and authorized for issue by the board of directors on 12th December, 2002.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30th September, 2002 (2001: Nil).

BUSINESS REVIEW

For the six months ended 30th September, 2002, the Group achieved a total turnover of HK\$477,161,000, a decrease of 18.7% as compared to the same period last year (2001: HK\$586,807,000). Net loss attributable to shareholders is HK\$17,269,000 (2001: HK\$17,291,000). Basic loss per share for this interim period is HK\$0.0410 (2001: HK\$0.0412).

The drop in turnover can be attributed to a number of factors including the disposal of three non-core companies namely DigiLogistics.com Ltd., BonVision Technology (Hong Kong) Limited and Janko Electronics (Beijing) Co., Ltd., a more selective approach in choosing projects in China, focusing only on quality business, and the continued sluggish IT spending in South Asia.

During the period under review, the Group improved its gross profit margin by 5.2% to 17.6% as compared to the year ended 31st March, 2002. Sales, general and administrative expenses (SG&A expenses) were reduced by 30.2% when compared to the average for the year ended 31st March, 2002. Productivity in terms of revenue per head and gross profit per head improved by 17% and 65% respectively, compared to the average of year ended 31st March, 2002. The Group reported positive earnings before interest, tax, depreciation and amortization (EBITDA) of approximately HK\$1.4 million.

Number of staff was reduced from an average of 972 for the year ended 31st March, 2002 to 639 as at 30th September, 2002.

Systems Integration and Software Services

During the period, fierce competition in the China IT market and continued sluggish economy in Hong Kong have led to the drop in turnover and the setback of our performance in the systems integration and software services business. Turnover for the period between 1st April, 2002 and 30th September, 2002 decreased by 26% to HK\$306.6 million (2001: HK\$414.1 million). Systems integration and software services continued to be the major source of income for the Group, contributing 64% of the total revenue.

During the reporting period, the Group has successfully completed a cost restructuring exercise which aimed at bringing cost in line with business level, the segmental loss for the period under review was significantly reduced by 80% to HK\$1,754,000 (2001: HK\$8,560,000).

The Group continued to focus its core business in systems infrastructure services, offering solutions and value added benefits to clients. During the reporting period, the Group has successfully secured a number of sizeable contracts providing related services for clients including Agricultural Bank of China Headquarters for its National Backbone Network Equipment structuring project; China Foreign Exchange Trade Centre systems integration project; Counter Business Centre Processing System for the China Government Securities Depository Trust & Clearing Co., Ltd.; Tianjin Local Taxation Bureau for its Tax Management System; Zhanjiang Rural Credit Cooperative Union automation project and Changchun Power Supply Company for its Electricity Consumption and Marketing Management System project.

Our proprietary banking software "VisionBanking Suite" was upgraded and included more state-of-the-art design architecture and flexibilities. As for non-banking software, we have developed and launched four new software solutions. They are Vision TAIS for taxation management; Vision HIS for hospitals applications; Vision PSM for power supply and Vision HFS for housing authority.

In Hong Kong, companies continued to trim their IT budget and delay their purchases. Whereas in Macau, the overall market has been relatively active since the Macau government opened up the gambling license as well as increased investment in the eGovernment projects. To capitalize on these opportunities, the Group's Hong Kong and Macau operations have already geared up their technological resources and capabilities in areas including High Availability, storage and back-up solutions, document management solution, business intelligence and knowledge management solutions. During the period under review, major deals secured in Hong Kong and Macau included the Stock Exchange of Hong Kong and the Treasury Department of Macau.

In Singapore, major contracts won included setting up and implementing the Disaster Recovery LPAR System, the first of its kind in Asia, for ABN Amro Asia Pacific Ltd.

Mid-range Computer Systems Distribution in South Asia

Despite continuous adverse economy and slow IT demand in South Asia, the Group's turnover for computer systems distribution in the region achieved approximately 10% growth to HK\$170,636,000 (2001: HK\$155,268,000) contributing 36% of the Group's total revenue as compared to the same period last year.

The Group is pleased to announce that its distribution arm, Azure Technologies in Singapore, Malaysia and the Philippines has achieved significant segmental profit of HK\$12,343,000 resulted from stringent accounts receivable and inventory policies implemented during the reporting period.

Major deals secured in the region including Ministry of Domestic Trade in Malaysia and Banko Sentral ng Philipinas in the Philippines.

LIQUIDITY AND CAPITAL RESOURCES

On 3rd April, 2002, the Company issued convertible bonds bearing interest at 4% per annum maturing on 3rd April, 2005 to Hutchison International Limited and DBS Nominees Private Limited in the principal amounts of HK\$197,966,637 ("2005 HIL Bond") and HK\$136,465,000 ("FI Bond") respectively. The consideration for the issue of the 2005 HIL Bond was settled by the surrender of the bond of the same amount maturing on 8th April, 2002. The consideration

for the issue of the FI Bond was settled by cash of which HK\$78 million was used for the repayment of the bond issued to an independent third party of HK\$79,186,656 matured on 8th April, 2002 ("I3P Bond") and the balance of HK\$58 million was used for working capital of the Group. The I3P Bond was fully settled on 8th April, 2002.

As at 30th September, 2002, the total of bank balances and bank deposits was HK\$156 million (31st March, 2002: HK\$169 million) and the total bank and other borrowings (excluding convertible bonds) of the Group was HK\$81 million (31st March, 2002: HK\$131 million). Gearing ratio has not been shown as the Group recorded a net liability position.

PROSPECTS

Looking ahead, The Group believes that there is a strong growth potential in the IT service and software market in China. The Group will continue to focus on its core strength in systems infrastructure and software capability by leveraging on its strong client base, especially in the banking sector to offer deeper value to our customers. In South Asia where IT business is stabilizing, we remain cautiously optimistic and will continue to position ourselves to seize opportunities when business returns. The Group will also drive to increase market share in China and South Asia by capitalizing on our extensive international partners network to build and deliver synergetic solutions and technologies in offering greater value and benefits for our customers.

We believe that the Group is now in a much stronger footing in terms of competency and productivity in going forward. We will strive to further lower fixed costs and optimize operating cost efficiency, focus on quality business mix and deliver results and profitability.

THE CODE OF BEST PRACTICE

The Directors are not aware of any information which would reasonably indicate that the Company is not or was not in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the six months ended 30th September, 2002, except that the independent non-executive directors of the Company were not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30th September, 2002, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

All the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

By order of the Board
Loh Tiak Koon
Chief Executive Officer

Hong Kong, 12th December, 2002

Please also refer to the published version of this announcement in China Daily dated on 13-12-2002.