THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this document, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Vanda Systems & Communications Holdings Limited, you should at once hand this document and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

VANDA GROUP

VANDA SYSTEMS & COMMUNICATIONS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

PROPOSED AMENDMENT TO THE CONVERSION PRICE AND CONVERSION OF CONVERTIBLE BONDS ISSUED BY THE COMPANY, APPLICATION FOR THE GRANTING OF WHITEWASH WAIVER AND PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

Independent financial adviser to the independent board committee of Vanda Systems & Communications Holdings Limited

Somerley Limited

A letter from the board of directors of Vanda Systems & Communications Holdings Limited is set out on pages 6 to 17 of this document. A letter from the Independent Board Committee (as defined herein) containing its advice to the Independent Shareholders (as defined herein) in connection with the Whitewash Waiver (as defined herein) is set out on page 18 of this document. A letter from Somerley Limited, the independent financial adviser to the Independent Board Committee, containing its advice to the Independent Board Committee in connection with the Whitewash Waiver is set out on pages 19 to 37 of this document.

A notice convening the SGM (as defined herein) to be held at 11:30 a.m. on 29th August, 2003 is set out on pages 104 to 105 of this document. Whether or not you are able to attend the SGM, you are strongly urged to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon, and to lodge it with the head office and principal place of business of Vanda Systems & Communications Holdings Limited at Lincoln House 408, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong, as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

13th August, 2003

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In this document, the following expressions have the following meanings unless the context requires otherwise:

"Adjustment Price"	the average closing price of one Share (rounded down to the nearest two decimal points) on the Stock Exchange for the ten (10) Stock Exchange trading days immediately after the date of the Announcement
"Amended Conversion Price"	HK$0.30 per Share or, if lower, the Adjustment Price, (subject to adjustments in accordance with the terms and conditions of the Bonds)
"Amendment Agreements"	the HIL Amendment Agreement and the DBS Amendment Agreement and "Amendment Agreement" means any of them
"Announcement"	the announcement dated 23rd July, 2003 issued by the Company containing, amongst others, details of the Amendment Agreements and the Whitewash Waiver
"Associate"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Bonds"	the HIL Bond and the DBS Bond and "Bond" means any of them
"Bondholder(s)"	the person(s) who is/are for the time being the registered holder(s) of the Bond(s)
"Business Day"	any day (excluding a Saturday) on which banks are generally open for business in Hong Kong
"Company"	Vanda Systems & Communications Holdings Limited, the shares of which are listed on the Stock Exchange
"Concert Parties"	of a person means parties acting in concert with that person as defined in the Takeovers Code
"Controlling Shareholder"	Lam Ma & Wai Limited, holder of approximately 30.8% of the existing issued share capital of the Company

"Conversion Shares"	the Shares to be issued by the Company upon exercise by either of the Bondholders of its conversion rights under the Bonds
"DBS Agreement"	the agreement in respect of the issue of the DBS Bond and the grant of the DBS Option between the Company and DBS Private Equity dated 15th February, 2002
"DBS Amendment Agreement"	the agreement dated 23rd July, 2003 between the Company and DBS Private Equity in relation to the proposed amendments to the terms of the DBS Bond
"DBS Bond"	the convertible bond in the principal sum of HK$136,465,000 issued by the Company to DBS Private Equity on 3rd April, 2002 pursuant to the DBS Agreement
"DBS Option"	the option granted to DBS Private Equity to subscribe for 42,097,719 Shares to be issued by the Company pursuant to the DBS Agreement
"DBS Private Equity"	DBS Nominees Private Limited, which holds the DBS Bond for the venture capital and private equity unit of DBS Bank Ltd., which holds the beneficial interest in the DBS Bond. Each of DBS Bank Ltd. and DBS Nominees Private Limited is a company incorporated in Singapore and a wholly-owned subsidiary of DBS Group Holdings Ltd, a company whose securities are listed on the Stock Exchange of Singapore
"DBS Whitewash Waiver"	(in the event that the shareholding of DBS Private Equity and its Concert Parties in the Company would be 30.0% or more of the issued share capital of the Company after full conversion of the DBS Bond at the Amended Conversion Price), a waiver to be granted by the Executive pursuant to Note 1 of the Notes on Dispensations from Rule 26 of the Takeovers Code in relation to the obligation to make a mandatory general offer of Shares not already held or agreed to be allotted to DBS Private Equity and its Concert Parties as a result of the issue of the new Conversion Shares upon full conversion of the DBS Bond
"Directors"	the directors of the Company

"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director
"Group"	the Company and its subsidiaries
"HIL Agreement"	the agreement in respect of the issue of the HIL Bond and the grant of the HIL Option between the Company and Hutchison dated 15th February, 2002
"HIL Amendment Agreement"	the agreement dated 23rd July, 2003 between the Company and Hutchison in relation to the proposed amendments to the terms of the HIL Bond
"HIL Bond"	the convertible bond in the principal sum of HK$197,966,637.98 issued by the Company to Hutchison on 3rd April, 2002 pursuant to the HIL Agreement
"HIL Option"	the option granted to Hutchison to subscribe for 42,097,719 Shares to be issued by the Company pursuant to the HIL Agreement
"HK$" and "cent(s)"	Hong Kong dollar(s) and cent(s) respectively, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hutchison"	Hutchison International Limited, a wholly-owned subsidiary of Hutchison Whampoa Limited, a company whose securities are listed on the Stock Exchange
"Independent Board Committee"	an independent committee of the Board comprising Mr Lee G Lam and Mr Henry Cheong Ying Chew, both being independent non-executive Directors, appointed to consider and make recommendations to the Independent Shareholders in relation to the terms of the Whitewash Waiver
"Independent Shareholders"	Shareholders who are not involved in, or interested in, the transactions contemplated under the Amendment Agreements including but not limited to conversion of the Bonds

"Investor Agreements"	the HIL Agreement and the DBS Agreement
"Latest Practicable Date"	11th August, 2003 being the latest practicable date prior to the issue of this document for ascertaining certain information contained herein
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	30th September, 2003 or such later date as may be agreed between the respective parties to the respective Amendment Agreements in writing from time to time
"MOP$"	Pataca, the lawful currency of the Macau Special Administrative Region of the PRC
"PRC"	People's Republic of China
"S$"	Singapore dollar(s), the lawful currency of Singapore
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SGM"	a special general meeting of the Company to be held at 11:30 a.m. on 29th August, 2003, for the purpose of considering and, if thought fit, approving, amongst other things, the transactions contemplated by the Amendment Agreements, the Whitewash Waiver and the proposed increase in the authorised share capital of the Company, the notice of which is set out on pages 104 to 105 of this document, or any adjournment thereof
"Share(s)"	shares of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Somerley"	Somerley Limited, the independent financial adviser to the Independent Board Committee and a licensed corporation under the SFO
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Whitewash Waiver"	a waiver to be granted by the Executive pursuant to Note 1 of the Notes on Dispensations from Rule 26 of the Takeovers Code in relation to the obligation to make a mandatory general offer of Shares not already held or agreed to be allotted to Hutchison and its Concert Parties as a result of the issue of the new Conversion Shares upon full conversion of the HIL Bond
"%"	per cent.

VANDA SYSTEMS & COMMUNICATIONS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

Executive Directors:
LAM Hon Nam *(Chairman)*
LOH Tiak Koon
CHING Wan Kwan

Non-executive Directors:
LAI Kai Ming, Dominic
(Also as Alternate to Chan Wen Mee, May)
CHAN Wen Mee, May
(Also as Alternate to Lai Kai Ming, Dominic)
Tuan LAM
Stephen INGRAM
MA Chun Kwong, Edmund
(Also as Alternate to Lam Hon Nam)
WAI Yee Jan
(Also as Alternate to Ma Chun Kwong, Edmund)
YANG Paul Chunyao
(Alternate to Stephen Ingram and Tuan Lam)

Independent Non-executive Directors:
LAM Lee G.
CHEONG Ying Chew, Henry

Registered office:
Clarendon House,
Church Street,
Hamilton HM 11,
Bermuda

Head office and principal place of business:
Lincoln House 408
Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

13th August, 2003

To the Shareholders (and, for information only, the Bondholders)

Dear Sir or Madam,

Proposed Amendment to the Conversion Price and Conversion of Convertible Bonds Issued by the Company, Application for the Granting of Whitewash Waiver and Proposed Increase in Authorised Share Capital

INTRODUCTION

The Directors refer to the Announcement in which it was announced that the Company had entered into the Amendment Agreements.

Pursuant to the Amendment Agreements, (a) the Company will, subject to and with effect from the Shareholders' approval being obtained at the SGM, agree to change the conversion price at which the Bonds are convertible into new Conversion Shares from HK$0.85 per Share to the Amended Conversion Price; and (b) subject to the fulfilment or waiver of the conditions contained therein, Hutchison and DBS Private Equity will convert the whole of the principal amount outstanding under their respective Bonds at the Amended Conversion Price; and the Company will allot and issue to Hutchison and DBS Private Equity respectively the new Conversion Shares upon conversion of the Bonds at the Amended Conversion Price.

The Amendment Agreements also provide that the HIL Option and the DBS Option shall lapse and cease to be of any further effect upon allotment of the new Conversion Shares by the Company to Hutchison and DBS Private Equity respectively at the Amended Conversion Price pursuant to the conversion of the Bonds in full.

Immediately after full conversion of the Bonds at the Amended Conversion Price of HK$0.30, the shareholdings of Hutchison, DBS Private Equity and their respective Concert Parties in the Company would be approximately 43.0% and 29.6% respectively of the issued share capital of the Company as enlarged by the issue and allotment of the new Conversion Shares. For details of changes in the shareholding of the Company, please refer to the table under the section headed "Changes in the Company's shareholding structure upon full conversion of the Bonds at the Amended Conversion Price" below.

Approvals are required from Shareholders in relation to, amongst other things, the transactions contemplated by the Amendment Agreements and the proposed increase in the authorised share capital of the Company. Approval is required from Independent Shareholders in relation to the Whitewash Waiver.

The purpose of this document is to provide further information relating to the Amendment Agreements, the proposed increase in the authorised share capital of the Company, the application for the Whitewash Waiver, the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Whitewash Waiver, the advice of Somerley to the Independent Board Committee in respect of the Whitewash Waiver, additional information as required under the Takeovers Code and the notice of the SGM to approve, amongst other things, the transactions contemplated by the Amendment Agreements, the proposed increase in the authorised share capital of the Company and the Whitewash Waiver.

Both of the independent non-executive Directors, namely, Mr Lee G Lam and Mr Henry Cheong Ying Chew, have been appointed to the Independent Board Committee to advise the Independent Shareholders in respect of the terms of the Whitewash Waiver. Their recommendation is set out in the section "Letter from the Independent Board Committee".

INVESTOR AGREEMENTS

The Directors refer to the announcement of the Company dated 15th February, 2002, in which it was announced that the Company had entered into the Investor Agreements to issue to Hutchison and DBS Private Equity the HIL Bond and the DBS Bond in the principal amounts of HK$197,966,637.98 and HK$136,465,000 respectively.

The HIL Bond and the DBS Bond were issued to Hutchison and DBS Private Equity respectively, on 3rd April, 2002.

AMENDMENT AGREEMENTS

1. Principal terms

Pursuant to the Amendment Agreements, (a) the Company will, subject to and with effect from the Shareholders' approval being obtained at the SGM, agree to change the conversion price at which the Bonds are convertible into new Conversion Shares from HK$0.85 per Share to the Amended Conversion Price; and (b) subject to the fulfilment or waiver of the conditions contained therein, Hutchison and DBS Private Equity will convert the whole of the principal amount outstanding under their respective Bonds at the Amended Conversion Price; and the Company will allot and issue to Hutchison and DBS Private Equity respectively the new Conversion Shares upon conversion of the Bonds.

The Company has made an application to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the new Conversion Shares to be issued upon exercise of the Bonds at the Amended Conversion Price.

The Amendment Agreements also provide that the HIL Option and the DBS Option shall lapse and cease to be of any further effect upon allotment of the new Conversion Shares by the Company to Hutchison and DBS Private Equity respectively at the Amended Conversion Price pursuant to the conversion of the Bonds in full.

Hutchison and DBS Private Equity and their respective ultimate holding companies are independent third parties and are not connected with the Chairman, directors, any substantial shareholder (as defined under the Listing Rules) or chief executive of the Company or any of its subsidiaries or their respective Associates.

2. Conversion Price

According to the Amendment Agreements, the Amended Conversion Price shall be HK$0.30 per Share or, if lower, the average closing price of one Share (rounded down to the nearest two decimal points) on the Stock Exchange for the ten (10) Stock Exchange trading days immediately after the date of the Announcement, (subject to adjustments in accordance with the terms and conditions of the Bonds). As such average closing price, being HK$0.56, is not lower than HK$0.30, the Amended Conversion Price is determined at HK$0.30 pursuant to the Amendment Agreements. The Amended Conversion Price was determined after arm's length negotiations between the Company, Hutchison and DBS Private Equity, and with reference to the then price performance of the Shares and the net deficit position of the Group.

The Amended Conversion Price of HK$0.30, represents:

(i) a discount of approximately 43.4% to the closing price of the Shares of HK$0.53 as stated in the Stock Exchange daily quotation sheet on the Latest Practicable Date;

(ii) a discount of approximately 41.2% to the closing price of the Shares of HK$0.51 as stated in the Stock Exchange's daily quotations sheet on 10th July, 2003, being the last trading day preceding the suspension in trading of the Shares pending the issue of the Announcement; and

(iii) a discount of approximately 29.6% to the average closing price of the Shares of HK$0.426 as stated in the Stock Exchange's daily quotations sheet for the 10 consecutive trading days ended on 10th July, 2003 (inclusive).

As set out in the section headed "Reasons for the Amendment Agreements" below, the Company's audited results as at 31st March, 2003 shows net deficits of approximately HK$199 million. Therefore no comparison of the Amended Conversion Price to the Company's net asset value can be made.

Assuming that the entire aggregate principal amount of the Bonds of HK$334,431,637.98 is converted at the Amended Conversion Price of HK$0.30, (a) under the HIL Bond, a total of 659,888,793 new Shares will be issued, representing approximately 156.5% of the existing issued share capital of the Company and approximately 43.0% of the issued share capital of the Company as enlarged by the issue of the new Conversion Shares pursuant to the full conversion of the Bonds; and (b) under the DBS Bond, a total of 454,883,333 new Shares will be issued, representing approximately 107.9% of the existing issued share capital of the Company and approximately 29.6% of the issued share capital of the Company as enlarged by the issue of the new Conversion Shares pursuant to the full conversion of the Bonds.

3. Conditions to the Amendment Agreements

Completion of each of the HIL Amendment Agreement and the DBS Amendment Agreement is conditional upon, amongst others, the following having taken place on or before the Long Stop Date:

(a) if required, the Listing Committee granting (either unconditionally or subject only to conditions to which the Company and Hutchison or DBS Private Equity (as the case may be) have no reasonable objection) listing of and permission to deal in the new Conversion Shares;

(b) if required, the Bermuda Monetary Authority having approved the issue of the new Conversion Shares;

(c) any other conditions as may be required under the Listing Rules and/or by the Stock Exchange;

(d) all the conditions under the DBS Amendment Agreement (in the case of the HIL Amendment Agreement) or the HIL Amendment Agreement (in the case of the DBS Amendment Agreement) (other than such condition(s) relating to the fulfilment of all of the conditions of the subject Amendment Agreement) having been fulfilled or waived in accordance with the provisions thereof;

(e) the passing of all necessary resolutions, on a poll where necessary, by the Shareholders (being, where required by the Stock Exchange or the Securities and Futures Commission, the Independent Shareholders) at the SGM approving:

   (i) the transactions contemplated by the Amendment Agreements;

   (ii) increasing the authorised share capital of the Company to HK$400,000,000 comprising 4,000,000,000 Shares;

   (iii) authorising the allotment and issue of the new Conversion Shares upon conversion of the relevant Bond in full at the Amended Conversion Price;

(f) the effective variation of the conversion price of the Bonds to the Amended Conversion Price by the passing of the necessary resolution of the Shareholders at the SGM;

(g) the Whitewash Waiver (in the case of the HIL Amendment Agreement) or the DBS Whitewash Waiver (if so required, in the case of the DBS Amendment Agreement) having been obtained and not having been revoked or amended and, where the Whitewash Waiver or the DBS Whitewash Waiver (as the case may be) is subject to conditions, such conditions being reasonably acceptable to Hutchison (in the case of the HIL Amendment Agreement) or DBS Private Equity (in the case of the DBS Amendment Agreement) and, to the extent that any such conditions are required to be fulfilled before the Whitewash Waiver or the DBS Whitewash Waiver (as the case may be) becomes effective, they are so fulfilled;

(h) the continued listing and trading of the Shares on the Stock Exchange, save for any temporary suspension and no notice being received from the relevant authority to the effect that the listing of the Shares on the Stock Exchange will be withdrawn (or conditions will be attached thereto except those Hutchison (in the case of the HIL Amendment Agreement) or DBS Private Equity (in the case of the DBS Amendment Agreement) shall reasonably accept) as a result of the Amendment Agreement;

(i) if so required, all the consents, licences and other approvals necessary in connection with the implementation of the HIL Amendment Agreement or the DBS Amendment Agreement (as the case may be) having been obtained from appropriate governments, courts or other third parties on terms reasonably satisfactory to the Company, Hutchison (in the case of the HIL Amendment Agreement) or DBS Private Equity (in the case of the DBS Amendment Agreement) and remaining in full force and effect;

(j) certain warranties given by the Company on, amongst others, the financial condition, business and affairs of the Group remaining true and accurate in all material respects and not misleading in any material respect;

(k) none of the undertakings given by the Company in respect of certain activities which shall not be undertaken by any member of the Group pending completion of the HIL Amendment Agreement or the DBS Amendment Agreement (as the case may be) having been breached; and

(l) there being no occurrences of circumstances which, in the reasonable opinion of Hutchison or DBS Private Equity (as the case may be), will have a material adverse effect on the financial condition, prospects, earnings, business, undertaking or assets of the Group.

If the conditions are not fulfilled or (in respect of paragraphs e(ii), (h) to (l)) waived as provided for in the respective Amendment Agreements on or before the Long Stop Date, the Amendment Agreements will be immediately terminated and none of the parties to the Amendment Agreements shall have any claim against the other in respect thereof (other than in respect of any prior breaches and without affecting the validity of any acts or steps done or taken).

4. Completion

Subject to and with effect from the Shareholders' approval being obtained at the SGM, the Company will agree to change the conversion price at which the Bonds are convertible into new Conversion Shares from HK$0.85 per Share to the Amended Conversion Price.

Immediately after full conversion of the Bonds at the Amended Conversion Price of HK$0.30, the shareholding of DBS Private Equity and its Concert Parties in the Company would be 29.6% (that is below 30.0%) of the issued share capital of the Company as enlarged by the issue and allotment of the new Conversion Shares. Therefore, DBS Private Equity would not be required to make any general offer for the issued Shares under the Takeovers Code and the condition relating to the obtaining of the DBS Whitewash Waiver is not required.

Subject to all the conditions prescribed under the respective Amendment Agreements being satisfied (or, as the case may be, waived), on the third Business Day immediately after the date on which the last of such conditions is fulfilled (or, as the case may be, waived) or such other date as the Company and Hutchison or DBS Private Equity (as the case may be) may agree, Hutchison and DBS Private Equity will convert the whole of the principal amount outstanding under their respective Bonds at the Amended Conversion Price and the Company will allot and issue to Hutchison and DBS Private Equity the new Conversion Shares upon conversion of the Bonds at the Amended Conversion Price.

CHANGES IN THE COMPANY'S SHAREHOLDING STRUCTURE UPON FULL CONVERSION OF THE BONDS AT THE AMENDED CONVERSION PRICE

The following table sets out the existing shareholding structure of the Company and the changes thereto as a result of the full conversion of the Bonds at the Amended Conversion Price of HK$0.30:

Name of Shareholders	Shareholding as at the Latest Practicable Date		Shareholding immediately after the full conversion of the Bonds	
	Number of Shares	*%*	*Number of Shares*	*%*
The Controlling Shareholder *(Note)*	130,000,000	30.8%	130,000,000	8.5%
Mr Lam Hon Nam, Mr Ma Chun Kwong, Edmund, Mr Wai Yee Jan and their respective spouses	2,300,000	0.6%	2,300,000	0.1%
Other Directors	1,020,000	0.2%	1,020,000	0.1%
Hutchison	Nil	Nil	659,888,793	43.0%
DBS Private Equity	Nil	Nil	454,883,333	29.6%
Public	288,287,199	68.4%	288,287,199	18.7%
Total	421,607,199	100%	1,536,379,325	100%

Note: The issued share capital of the Controlling Shareholder is owned as to 45.94%, 45.46% and 8.60% by Mr Lam Hon Nam, Mr Ma Chun Kwong, Edmund and Mr Wai Yee Jan respectively. Mr Lam Hon Nam is an executive Director, and each of Mr Ma Chun Kwong, Edmund and Mr Wai Yee Jan is an non-executive Director.

REASONS FOR THE AMENDMENT AGREEMENTS

Reference is made to the Company's audited results as at 31st March, 2003 showing a share capital of approximately HK$42 million, total long-term debt of approximately HK$338 million including convertible bonds of approximately HK$334 million, and net deficits of approximately HK$199 million. A conversion of the Bonds in full at the Amended Conversion Price will improve the Company's capital structure and enhance its financial flexibility. After the conversion of the Bonds in full, the Company will have no convertible debt outstanding, no significant long-term debt, a stronger capital base and a net asset value position of approximately HK$135 million. With a much improved balance sheet, the Company may be able to obtain better terms for its working capital credit facilities. The management also believes that the Group, with a much strengthened capital base, would be in a better position to capitalise on growth opportunities in the technology sector across Asia.

Immediately after full conversion of the Bonds at the Amended Conversion Price of HK$0.30, Hutchison, DBS Private Equity and their respective Concert Parties will become Shareholders holding approximately 43.0% and 29.6% respectively of the Company's issued share capital as enlarged by the issue and allotment of the new Conversion Shares. The Company expects to benefit from its relationships with these two Shareholders to expand its local as well as overseas business in particular in Asia. The Company's core business of providing systems integration and software development services will be of great synergistic value to Hutchison's 3G worldwide and much diversified group business. The Company believes that the acquisition of Shares by these Shareholders through the conversion of the Bonds will enhance the Company's revenue growth potential by strategically positioning the Company to capture the vast business opportunities which such Shareholders may present.

After arm's length negotiations between the Company, Hutchison and DBS Private Equity, the Amended Conversion Price was determined at which Hutchison and DBS Private Equity have agreed to convert the whole of the principal amount outstanding under their respective Bonds subject to fulfilment or waiver of the conditions as set out above.

TAKEOVERS CODE IMPLICATIONS

Immediately after full conversion of the Bonds at the Amended Conversion Price of HK$0.30, the shareholdings of Hutchison, DBS Private Equity and their respective Concert Parties in the Company would be approximately 43.0% and 29.6% respectively of the issued share capital of the Company as enlarged by the issue and allotment of the new Conversion Shares. In the absence of the Whitewash Waiver, Hutchison and its Concert Parties would be obliged under the Takeovers Code to make a mandatory general offer as required under the Takeovers Code for all the issued Shares not already owned or agreed to be allotted to them.

An application to the Executive for the Whitewash Waiver has been made on behalf of HIL. The Executive has agreed, subject to the approval by the Independent Shareholders, to waive any obligations of HIL and its Concert Parties to make a general offer which might result from the conversion of the Bonds.

Immediately after full conversion of the Bonds at the Amended Conversion Price of HK$0.30, the shareholding of DBS Private Equity and its Concert Parties in the Company would be 29.6% (that is below 30.0%) of the issued share capital of the Company as enlarged by the issue and allotment of the new Conversion Shares. Therefore, DBS Private Equity would not be required to make any general offer for the issued Shares under the Takeovers Code.

Neither Hutchison nor DBS Private Equity regards the other party as its Concert Party.

The commitment of Hutchison to convert the HIL Bond at the Amended Conversion Price under the HIL Amendment Agreement is conditional upon, amongst other things, the granting by the Executive of the Whitewash Waiver. The commitment of DBS Private Equity to convert the DBS Bond at the Amended Conversion Price under the DBS Amendment Agreement is conditional upon, amongst other things, the HIL Amendment Agreement becoming unconditional. If the Whitewash Waiver is not granted by the Executive, the respective obligations of Hutchison and DBS Private Equity under the Amendment Agreements to convert the whole of the principal amount outstanding under their respective Bonds at the Amended Conversion Price will lapse.

If the Whitewash Waiver is approved by the Independent Shareholders and granted by the Executive, no general offer will be required to be made by Hutchison and its Concert Parties upon full conversion of the HIL Bond.

INTENTION ON THE GROUP

1. Business

Hutchison and DBS Private Equity have indicated to the Company that following full conversion of the Bonds, it is their intention that the Group will continue the existing business of systems integration of mid-range computers, software development and related services and distribution of computer products. Each of Hutchison and DBS Private Equity has further indicated to the Company that it does not have any intention to inject any of its assets into the Group or to dispose of any of the Group's assets.

2. Board of Directors

The Board currently consists of 11 Directors, comprising three executive Directors, six non-executive Directors and two independent non-executive Directors. Upon completion of the Amendment Agreements, Mr Ma Chun Kwong, Edmund, Mr Wai Yee Jan and Ms Ching

Wan Kwan, three of the existing Directors, will resign (but Ms Ching Wan Kwan will remain as a senior executive and continue to be responsible for the overall management and strategic development of the Group's business in the PRC), Hutchison will nominate Mr Fok Kin-ning, Canning and Mrs Susan Chow Woo Mo Fong as additional Directors and DBS Private Equity will not nominate any additional Director. Except the aforesaid changes, Hutchison and DBS Private Equity has no intention to make any material change to the existing management or employees of the Group.

MAINTAINING THE LISTING OF THE COMPANY

Immediately after the full conversion of the Bonds at the Amended Conversion Price of HK$0.30, the shareholdings of Hutchison, DBS Private Equity and their respective Concert Parties in the Company would be approximately 43.0% and 29.6% respectively, and the Shares being held by them will not be considered as being held by the public. As shown in the table under the section headed "Changes in the Company's shareholding structure upon full conversion of the Bonds at the Amended Conversion Price" above, the Shares being held by the public will represent approximately 18.7% of the issued share capital of the Company as enlarged by the issue and allotment of the new Conversion Shares and will be below the public float requirement of not less than 25% of the issued share capital of the Company being held by the public under Rule 8.08(1) of the Listing Rules.

Hutchison and DBS Private Equity have indicated to the Company their intention to maintain the listing of the Shares on the Stock Exchange and that actions will be taken to restore the public float of the Shares to comply with the relevant requirements under the Listing Rules as soon as practicable after full conversion of the Bonds. Each of Hutchison, DBS Private Equity, the Directors and the proposed Directors to be nominated by Hutchison has undertaken to the Stock Exchange that actions will be taken to restore the public float of the Shares to comply with the relevant requirements under the Listing Rules as soon as practicable after full conversion of the Bonds.

If the Stock Exchange believes that a false market exists or may exist in the Shares or there are insufficient Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the Shares.

The Stock Exchange has further stated that, if the Company remains listed on the Stock Exchange, any asset disposal or acquisitions by the Group will be subject to the provisions of the Listing Rules. The Stock Exchange has the discretion to require the Company to issue an announcement and/or a circular to the Shareholders irrespective of the size of the proposed transactions. The Stock Exchange also has the power to aggregate a series of transactions and any such transactions may result in the Company being treated as if it were a new applicant for listing and subject to the requirements for new listing applicants as set out in the Listing Rules.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL OF THE COMPANY

Each of the Amendment Agreements is also conditional upon, amongst other things, the increase of the authorised share capital of the Company from HK$200,000,000 to HK$400,000,000 by the creation of an additional 2,000,000,000 Shares. Such condition is waivable by Hutchison or DBS Private Equity (as the case may be) under the terms of the respective Amendment Agreements, if not fulfilled.

The Directors consider that the proposed increase in the authorised share capital is in the interests of the Company as it will provide flexibility and assist in the future development of the Group. The Directors have no intention to issue any part of its share capital other than the new Conversion Shares to be issued upon exercise of the Bonds in full pursuant to the Amendment Agreements, the Shares to be issued upon exercise of the options granted or to be granted under the Company's share option scheme and any Shares which may be issued in order to restore the public float of the Shares to comply with the relevant requirements under the Listing Rules.

SGM

Approvals are required from Shareholders in relation to, amongst other things, the transactions contemplated by the Amendment Agreements and the proposed increase in the authorised share capital of the Company. Approval is required from Independent Shareholders in relation to the Whitewash Waiver.

There is set out on pages 104 to 105 of this document a notice convening the SGM to be held at 11:30 a.m. on 29th August, 2003 at which ordinary resolutions will be proposed to the Shareholders to approve, amongst other things, the transactions contemplated by the Amendment Agreements, the proposed increase in the authorised share capital of the Company and the Whitewash Waiver. Only Independent Shareholders will be permitted to vote by poll on the resolution approving the Whitewash Waiver. The Controlling Shareholder and its Concert Parties will abstain from voting on the resolution approving the Whitewash Waiver.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM, you are strongly urged to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon, and to lodge it with the head office and principal place of business of the Company at Lincoln House 408, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong, as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

RECOMMENDATION

The Directors believe that the resolutions approving the transactions contemplated by the Amendment Agreements and the proposed increase in the authorised share capital of the Company are in the interests of the Company and recommend Shareholders to vote in favour of such resolutions to be proposed at the SGM.

The Independent Board Committee, having taken into account the advice from Somerley, considers that the terms of the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the granting of the Whitewash Waiver.

The text of a letter from the Independent Board Committee is set out on page 18 of this document and the text of a letter from Somerley containing its opinion and the principal factors and reasons it has taken into account in arriving at its opinion in respect of the Whitewash Waver is set out on pages 19 to 37 of this document.

GENERAL

Your attention is drawn to the additional information set out in the appendices to this document, the letter from the Independent Board Committee, the letter from Somerley in respect of the Whitewash Waiver and the notice of the SGM.

Yours faithfully,
By Order of the Board
Vanda Systems & Communications Holdings Limited
LAM Hon Nam
Chairman

VANDA GROUP

VANDA SYSTEMS & COMMUNICATIONS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

13th August, 2003

To the Independent Shareholders

Dear Sir or Madam,

Proposed Amendment to the Conversion Price and
Conversion of Convertible Bonds Issued by the Company,
Application for the Granting of Whitewash Waiver
and
Proposed Increase in Authorised Share Capital

We refer to the document of the Company to the Shareholders dated 13th August, 2003 ("**Document**"), of which this letter forms part. Terms defined herein shall have the same meanings as defined in the Document unless the context otherwise requires.

The Independent Board Committee has been established to give a recommendation to the Independent Shareholders in respect of the Whitewash Waiver. Somerley has been appointed as the independent financial adviser to advise us in connection with the Whitewash Waiver. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out in their letter on pages 19 to 37 of the Document.

Your attention is also drawn to the "Letter from the Board" set out on pages 6 to 17 of and the additional information set out in the appendices to the Document.

Having taken into account the terms of the Whitewash Waiver, the interests of the Independent Shareholders and the advice of Somerley, we consider that the terms of the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to approve the granting of the Whitewash Waiver.

Yours faithfully,
The Independent Board Committee

Lee G Lam	**Henry Cheong Ying Chew**
Independent non-executive Director	*Independent non-executive Director*

Somerley Limited
Suite 3108, One Exchange Square
8 Connaught Place
Central
Hong Kong

13th August, 2003

The Independent Board Committee
Vanda Systems & Communications Holdings Limited
Lincoln House 408
Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

Dear Sirs,

WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment to advise the independent board committee in connection with the Whitewash Waiver, details of which are contained in the circular to the shareholders of the Company dated 13th August, 2003, (the "Circular") of which this letter forms a part. Unless otherwise defined, terms used in this letter shall have the same meanings as defined in the Circular.

Messrs Lam Hon Nam, Ma Chun Kwong, Edmund and Wai Yee Jan are Directors involved in the negotiation on the terms of the Amendment Agreements which leads to the Whitewash Waiver. Messrs Lam Hon Nam, Loh Tiak Koon and Ching Wan Kwan are salaried Directors. Mr. Lai Kai Ming, Dominic and Ms. Chan Wen Mee, May are director and employee of Hutchison respectively. Messrs Tuan Lam and Stephen Ingram are employees of DBS Bank Ltd, which holds the beneficial interest in the DBS Bond. Accordingly, the remaining directors, namely Messrs Cheong Ying Chew, Henry and Lam Lee G, have been appointed by the Board as the Independent Board Committee to make a recommendation to the Independent Shareholders regarding the Whitewash Waiver. We have been appointed as independent financial adviser to advise the Independent Board Committee in respect of the Whitewash Waiver.

We are not connected with Hutchison, DBS Private Equity or the Company or their respective substantial shareholders or Concert Parties and, accordingly, are considered suitable to give independent advice on the Whitewash Waiver. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from Hutchison, DBS Private Equity or the Company and their respective substantial shareholders or Concert Parties.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors, which we have assumed to be true, accurate and complete. We have reviewed the published information on the Company, including its audited financial statements for the three years ended 31st March, 2003. We have also reviewed the pro forma statement of unaudited adjusted consolidated net tangible assets of the Group assuming full conversion of the HIL Bond and the DBS Bond contained in Appendix I to the Circular. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed by them. We consider that the information which we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our relying on such information and we have no reason to doubt the truth and accuracy of the information provided to us or that any material facts have been omitted or withheld. We have, however, not conducted any independent investigation into the business and affairs of the Group. We have also assumed that all representations contained or referred to in the Circular were true at the time they were made and will continue to be true up to the date of the SGM.

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our opinion on the Whitewash Waiver, we have taken the following factors and reasons into consideration:

1. Background to the issue of the Bonds and reasons for entering into the Amendment Agreements

The Group was established by Messrs Lam Hon Nam, Ma Chun Kwong, Edmund and Wai Yee Jan in 1982 to engage in trading of computers and peripherals and systems integration in PRC. The Group later diversified into development and sale of software for the finance and banking industry as well as distribution of telecommunication products in the PRC. Shares of the Company became listed on the Stock Exchange in 1995.

The Group continued to expand after flotation and diversified into cabling and intelligent building projects and e-commerce solutions. In 2000, to raise funds to facilitate its further expansion, the Group issued a 2-year convertible bond in the principal sum of HK$197,966,637.98 to Hutchison (the "2000 HIL Bond") and another 2-year convertible bond in the principal sum of HK$79,186,655.83 to an independent third party (the "I3P Bond").

The net proceeds from the issue of the 2000 HIL Bond and the I3P Bond of approximately HK$271 million were intended to assist the Group in accelerating its development and expansion, particularly in the e-commerce payment solution business. The Group and Hutchison subsequently formed a 50/50 owned joint venture (the "JV") to develop a web-based comprehensive on-line payment solution for banks and e-commerce users. However, due to changed market conditions, the project was abandoned and the JV became dormant.

Upon completion of the issue of the 2000 HIL Bond, Hutchison nominated Mr. Lai Kai Ming, Dominic to be a non-executive Director.

The 2000 HIL Bond and the I3P Bond matured in 2002. The Company agreed with Hutchison to redeem the 2000 HIL Bond by the issue of a new convertible bond in the same principal amount, though on different terms. The I3P Bond was substantially repaid out of the HK$136,465,000 raised from issue of the DBS Bond. The remaining balance of approximately HK$58 million raised from the DBS Bond was used for the Group's general working capital purposes. In consideration for the subscription of the HIL Bond and the DBS Bond, the Company granted to each of Hutchison and DBS Private Equity an option to subscribe for 42,097,719 Shares. The exercise period of the HIL Option and DBS Option expires on the maturity date of the HIL Bond and the DBS Bond respectively.

The HIL Bond and the DBS Bond are for 3 years, bearing interest at 4 per cent. per annum and are convertible into Shares at HK$0.85 per Share (subject to adjustment). The HK$0.85 conversion price was set by reference to the closing price of the Shares of HK$0.90 on 15th February, 2002, being the last trading day preceding the date of signing the relevant agreement as regards the issue of the HIL Bond and the DBS Bond.

Upon completion of issue of the HIL Bond and the DBS Bond, Hutchison and DBS Private Equity jointly nominated Mr. Loh Tiak Koon to be an executive Director and chief executive officer of the Company. Hutchison further nominated Ms. Chan Wen Mee, May to be a non-executive Director. DBS Private Equity nominated Messrs Tuan Lam and Stephen Ingram to be the non-executive Directors.

The three founders, namely Messrs Lam Hon Nam, Ma Chun Kwong, Edmund and Wai Yee Jan remained on the Board, though Messrs Ma Chun Kwong, Edmund and Wai Yee Jan became non-executive Directors effective from 1st June, 2003.

The performance of the share price has been weak and closed at HK$0.51 on 10th July, 2003 (the "Last Trading Day"), being the last trading day preceding the signing of the Amendment Agreements. It is therefore, taking the factors mentioned in the following paragraph into consideration, not realistic to assume that the HIL Bond and the DBS Bond will likely be converted into Shares at the original conversion price of HK$0.85 per Share.

The HIL Bond and the DBS Bond, with an aggregate sum of approximately HK$334.4 million outstanding, will become due and repayable in April 2005, thereby posing a threat to the liquidity of the Group. This is particularly so when the Group has been suffering from net deficits since 31st March, 2002 and has made audited losses before taxation and minority interests of approximately HK$186.5 million, HK$196.3 million and HK$167.8 million respectively for the three financial years ended 31st March, 2003. Though the Group has been able to generate positive cashflow from operating activities of approximately HK$73.8 million and HK$5.4 million respectively during the two financial years ended 31st March, 2003, the obligation to repay the HIL Bond and the DBS Bond in 19 months presents a heavy financial burden to the Group. In the circumstances, the Group agreed with Hutchison and DBS Private Equity the terms of the Amendment Agreements whereby, subject to shareholders' approval, the conversion price of the Bonds will be adjusted to HK$0.30 per Share which is the price at which Hutchison and DBS Private Equity are willing to convert their respective bonds into Shares subject to satisfaction of the prescribed conditions, including the obtaining of the Whitewash Waiver. We are informed that the Amended Conversion Price of HK$0.30 per Share was determined after arm's length negotiation between the Company and Hutchison and DBS Private Equity, and with reference to the then price performance of the Shares and the net deficit position of the Group.

Hutchison and DBS Private Equity will immediately convert their respective bonds in full into Shares subject to, among others, the obtaining of the Whitewash Waiver. The HIL Amendment Agreement and the DBS Amendment Agreement are inter-conditional and conversion of the HIL Bond and DBS Bond will take place simultaneously upon the obtaining of the Whitewash Waiver and fulfillment of other conditions as set out in the Amendment Agreements.

Upon full conversion of the HIL Bond and the DBS Bond at completion of the Amendment Agreements, the HIL Option and the DBS Option shall lapse and cease to be of any further effect.

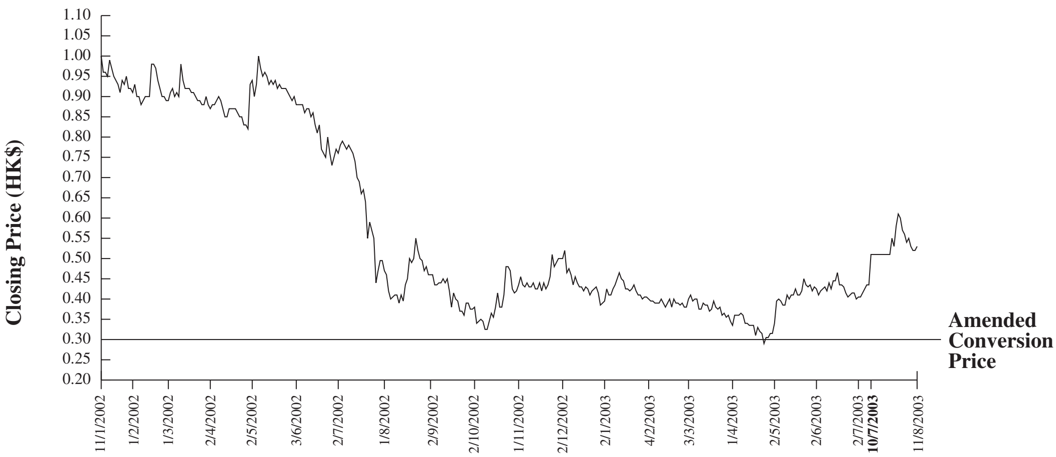
Conversion of the Bonds in full at the Amended Conversion Price will improve the Company's capital structure and enhance its financial flexibility. The Group's flexibility in managing its working capital has been limited by the requirement to deposit pledged cash or provide other securities with its bankers for obtaining banking facilities. After the conversion of the Bonds in full, the Company will have no convertible debt outstanding, no significant long-term debt, a healthier capital base and a pro-forma net asset value position of approximately HK$135 million. With a much improved balance sheet, the Company may be able to obtain better terms for its working capital credit facilities. The management also believes that the Group, with a much strengthened capital base, would be in a better position to capitalise on growth opportunities in the technology sector across Asia.

Immediately after full conversion of the Bonds at the Amended Conversion Price, Hutchison and DBS Private Equity will become Shareholders holding approximately 43.0% and 29.6% respectively of the Company's issued share capital as enlarged by the issue and allotment of the new Conversion Shares. As Hutchison's holding on full conversion would exceed 30% of the Company's enlarged share capital, the Whitewash Waiver is being sought.

The Company expects to benefit from its relationships with these two Shareholders to expand its local as well as overseas business particularly in Asia. The Company's core business of providing systems integration and software development services may give rise to opportunities for co-operation with Hutchison's 3G operation worldwide and other businesses.

2. Conversion Price

The following chart sets out the closing prices of the Shares during 18 months preceding the Last Trading Day (the "Comparison Period") up to and including the Latest Practicable Date:



Source: Bloomberg

The Amended Conversion Price of HK$0.30 per Conversion Share represents:

(i) a discount of approximately 41.2 per cent. to the closing price of the Shares of HK$0.51 on the Last Trading Day;

(ii) a discount of approximately 29.6 per cent. to the average closing price of the Shares of HK$0.426 for the 10 consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 29.8 per cent. to the average closing price of the Shares of HK$0.4275 for the 30 consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 47.7 per cent. to the average closing price of the Shares of HK$0.574 for the Comparison Period; and

(v) a discount of approximately 43.4 per cent. to the closing price of the Shares of HK$0.53 on the Latest Practicable Date.

As illustrated in the above table, the closing prices of the Share during the Comparison Period are at a premium to the Amended Conversion Price, except on 24th April, 2003 on which date the share price closed at HK$0.29. However, these market prices are not, in our view, supported by fundamentals of the Group. The Group has made continuous losses from the financial year ended 31st March, 2001 and there was a net deficit per Share of HK$0.073 as at 31st March, 2002 which deteriorated further to HK$0.473 per Share as at 31st March, 2003. The Directors also anticipated a further deterioration of share price should the Company have announced its audited losses before tax and minority interests of approximately HK$167.8 million for the financial year ended 31st March, 2003 without the support of the bond restructuring proposal contained in the Amendment Agreements. The Shares have been traded in our opinion on the assumption, *inter alia*, that a rescue or restructuring would be arranged given the influential bondholder groups in place. This is in fact what has happened. Despite the substantial reduction in the conversion price, the share price strengthened from HK$0.51 to HK$0.55 on resumption of trading after the announcement of the Amendment Agreements. On the Latest Practicable Date, the share price closed at HK$0.53. As a result, we are of the view that it would not be appropriate to place too much weight on a simple comparison of the Amended Conversion Price to the prevailing market price of the Shares.

The existing conversion price of HK$0.85 per Share of the Bonds is substantially out of money. In the circumstances, it would be in the interests of the Company for the conversion price to be reduced to make conversion probable. The Amended Conversion Price, as measured against the net deficit position and losses of the Group, is favourable to the Company. Variation of the conversion price will also facilitate completion of the Amendment Agreements which will result in immediate capitalisation of the HIL Bond and the DBS Bond. It is not likely that the Group will be able to repay the Bonds when they fall due in approximately 19 months out of internally generated funds. With a substantial net deficits, raising of bank loans or other external financing would in our opinion be difficult.

3. Present businesses of the Group

The current principal businesses of the Group include:

(i) mid-range computer systems integration and software services; and

(ii) distribution of computer products

in Mainland China, Hong Kong, Macau and South Asian countries including Singapore, Malaysia and the Philippines. In Mainland China, the Group has 8 offices located in key cities including Beijing, Changchun, Chengdu, Dalian, Guangzhou, Shenzhen, Shanghai and Wuhan.

For the financial year ended 31st March, 2003, the respective contribution to turnover from the Group's principal activities and major operating areas were as follows:

Turnover by principal activity	*HK$'000*	
Systems integration and software services	670,186	65.4%
Distribution of computer products	354,284	34.6%
e-Business (Discontinued operation)	168	0.0%
	1,024,638	100.0%

Turnover by geographical location		
South Asia	439,512	42.9%
Mainland China	414,954	40.5%
Hong Kong and Macau	170,172	16.6%
	1,024,638	100.0%

(i) Mid-range computer systems integration and software services

The systems integration and software services offered by the Group include:

- business intelligence
- application software development and solutions offerings (banking solutions and other applications)
- value-added professional services (outsourcing, maintenance, technical support and training)
- business and application consultancy
- implementation services
- project management
- infrastructure support and services on multi-vendor platforms
- systems customisation, installation and test run services
- storage systems management
- systems and product management
- business process outsourcing

The Group sees increasing demand in application solutions and services from maintenance, storage and high security and has adopted a strategy to transform itself from a traditional systems integrator to a solution based IT service provider. The Group has been actively enhancing its software and applications capabilities and offering value-added services to its clients. This shift of focus to provision of IT services has helped to improve the margin of the Group.

The major customers of the Group come from China and South Asia including banking and finance, telecommunications, utilities and government. The Group is a major provider in the PRC of systems integration and software application services in the banking and finance sector. The major PRC clients of the Group include the People's Bank of China, Agricultural Bank of China, Industrial and Commercial Bank of China, China Construction Bank, Rural Credit Cooperative Union, China Foreign Exchange Trade Centre and China Government Securities Depository Trust & Clearing Co., Ltd.

Besides developing customised software solutions to clients, the Group also develops proprietary solutions. Its flagship products include VisionBanking CoreSys which is specially designed to cater for the requirements of the domestic banks in China.

(ii) Distribution of computer products

The Group commenced business in 1982 as a trader of computers and peripherals in PRC. In 1988, the Group became a business partner of IBM and started marketing mid-range computer systems for IBM. The systems distribution business of the Group is mainly conducted in Singapore, Malaysia and the Philippines through its distribution arm, Azure Technologies. Over the years, Azure Technologies in the Asean region has established a strong position as a reseller and is one of IBM's largest business partners in Asia.

4. Financial results

The financial information of the Group for the three years ended 31st March, 2003, which is set out in detail in Appendix I to the Circular, may be summarised as follows:

(a) Analysis of 2000/01 – 2002/03 results

Business segment revenue

	Year ended 31st March,		
	2000/01	**2001/02**	**2002/03**
	HK$'000	*HK$'000*	*HK$'000*
Systems integration and software services	674,842	784,186	670,186
Distribution of computer products	477,095	301,719	354,284
e-business (discontinued operation)	92	17,181	168
Cabling and intelligent building projects (discontinued operation)	7,897	–	–
Corporate and other activities	5,107	–	–
	1,165,033	1,103,086	1,024,638

(b) The Group's recent results and main transactions

2000/01

During the financial year ended 31st March, 2001, the Group made an audited loss before tax and minority interests of approximately HK$186.5 million. Net cash outflow from operating activities for the same year amounted to approximately HK$146.2 million.

The financial results for that year were mainly impacted by (i) the ripple effects of the dotcom bubble bust in the US market which affected the worldwide IT industry; (ii) many sectors in PRC have delayed their IT investments in anticipation of tax exemptions and other benefits that would be available upon China's accession to World Trade Organisation ("WTO").

In view of the changed market conditions, the Group made (i) a provision of HK$56 million for all deferred developments costs incurred for its proprietary software; (ii) a provision of approximately HK$47 million for bad debts; (iii) a provision of approximately HK$29 million for inventories; (iv) a provision of approximately HK$50 million for its long-term investments.

Systems integration and software services

Systems integration and software services recorded a segment loss of approximately HK$140.2 million for the financial year ended 31st March, 2001.

China continues to be the focus of the Group's systems integration business. In 2000, China's booming IT market has added to the momentum of the burgeoning systems integration market. This attracted many new competitors to enter into the market, leading to fierce competition and price wars.

During the year, software services made a substantial loss which arose partly from a one-off provision of approximately HK$56 million on capitalised software development cost.

Systems distribution

Distribution of computer products made a segment profit of approximately HK$23.2 million during that financial year. Strong demand came mainly from Singapore and Malaysia where expenditure on IT increased sharply following the elimination of Y2K fears.

e-Business (discontinued operation)

e-Business made a segment loss of approximately HK$5.0 million during the financial year ended 31st March, 2001. In July 2000, the Group launched DigiLogistics.com for the logistics industry, providing comprehensive e-logistics on-line services.

Cabling and intelligent building projects (discontinued operation)

In April 2000, the Group discontinued its business of trading of the telecommunication products and cabling and intelligent building projects in Hong Kong and PRC which were conducted through Comtech Engineering and Consultant Company Limited ("Comtech"). The interests of the Group in Comtech were reduced from approximately 57.69% to approximately 18.46%.

Others

During the year, the Group invested approximately HK$55 million in New Tech & Telecom Investment Ltd. as part of its strategy to diversify into the telecommunications sector.

2001/02

The Group suffered an audited loss before tax and minority interests of approximately HK$196.3 million during the financial year ended 31st March, 2002, mainly due to a number of large provisions. A sizeable provision was made for inventories and accounts receivable in China and South Asia. Provisions were also made for divestment of a number of non-core businesses within the Group to align with its new development strategy of focusing on core business. In view of the slow economy and fierce competition, the Group implemented measures to reduce operational costs, including streamliningits workforce by 20%, during the financial year. The Group managed to achieve net cash inflow from operating activities of approximately HK$73.8 million during the year.

Systems Integration

China's entry into WTO has stimulated a strong demand for various industries to speed up their technology capabilities. During the year, the Group's systems integration business in Mainland China has recorded significant growth over the corresponding period. This significant increase is attributed to the winning of several major contracts.

In Hong Kong, Macau and South Asia, many of the Group's clients trimmed their IT budgets and plans for procurement were deferred due to the global economic downturn, which was further aggravated by the US 911 incident.

Software business

During the year, the Group launched VisionBanking CoreSys, which has been customised and widely adopted by clients of the Group in China including the Construction Bank of China, Agricultural Bank of China, City Commercial Banks and Rural Credit Cooperative Unions.

To enhance its competitiveness, in March 2002, the Group's systems integration and software business in Mainland China were merged into one business unit.

Systems distribution

Business for high-end computer systems distribution in South Asia was adversely affected by weak consumer demand and slow-down of business activities. Azure Technologies recorded substantial revenue decline. The Group has accordingly made provisions for accounts receivable and inventory to reflect the difficult trading conditions.

e-Business

To realign its business, the Group has disposed part of its interest in DigiLogistics.com Ltd. shortly after that financial year end date so that the Group's shareholding in that company was reduced from 95% to 19.9%.

2002/03

During the year, the Group reported consolidated turnover of HK$1,024,638,000, a drop of 7.1% as compared to last year's turnover of HK$1,103,086,000 due mainly to:

– weak IT spending across Asia Pacific;

– disposal of non-core business; and

– a more selective approach in bidding for projects to improve the Group's profit margin and working capital management.

Audited losses before tax and minority interests for the year amounted to approximately HK$167.8 million.

The Group's strategy to focus resources towards strengthening its core businesses and bring costs in line with the business level has achieved positive results. Excluding other operating expenses, the Group achieved positive profit from operating activities of HK$12,768,000. This, compared to a loss of approximately HK$88.2 million made in the preceding financial year, was a significant improvement. Other operating expenses consist of mainly one time restructuring costs and impairment in the value of investments. The improvements in operating profit were attributable to:

– A significant improvement in gross profit by 24.1% to HK$169,974,000.

– Gross margin was improved by 4.2% to 16.6% as a result of strategic measures to shift from hardware sales to greater service provision and higher margin business.

– Selling, general and administrative cost was reduced by 33.5%.

– Productivity in both revenue per head and gross profit per head improved significantly by 27.1% and 69.8% respectively as compared to the year 2001/02.

During the year, the Group achieved cash inflow from operating activities of approximately HK$5.4 million, which was substantially lower than the HK$73.8 million achieved for the preceding year. This was mainly due to the significant increase in sales in the month of March, 2003, for which payment has not become due prior to the year end date, as compared to the figure in the same month of the preceding financial year, thus leading to a comparatively larger year end balance of accounts receivable.

(c) Prospects

With the implementation of cost-cutting measures, more stringent control on inventories and accounts receivables and generally improved working capital management, the Group has attained better financial performance in the financial year ended 31st March, 2003. The Group's past results has been impacted by impairment in value of its non-core investments. The Group's plan to divest its non-core business has been completed. In future, the Group will focus resources on its core businesses of systems integration, software development and related services and systems distribution. Upon implementation of the Amendment Agreements, the Group will save annual interest of approximately HK$13.4 million and has significant capital and asset base to tap business opportunities, including those that may be made available through Hutchison and DBS Private Equity.

4. Intention of Hutchison and DBS Private Equity

(i) Business

Hutchison and DBS Private Equity have indicated to the Company that following full conversion of the Bonds, it is their intention that the Group will continue the existing business of mid-range computer systems integration, software development and related services and distribution of computer products. Each of Hutchison and DBS Private Equity has further indicated to the Company that it does not have any intention to inject any assets into the Group or to seek the disposal of any of the Group's assets.

(ii) Board of Directors

The board of Directors consists of 11 Directors, comprising three executive Directors, six non-executive Directors and two independent non-executive Directors. Upon completion of the Amendment Agreements, Mr. Ma Chun Kwong, Edmund and Mr. Wai Yee Jan will resign as non-executive Directors. Ms. Ching Wan Kwan will resign as executive Director but will remain as a senior executive and continue to be responsible for the overall management and strategic development of the Group's business in PRC. Hutchison will nominate Mr. Fok Kin-ning, Canning and Mrs. Susan Chow Woo Mo Fong as additional Directors. DBS Private Equity will not nominate any additional Directors.

5. Effects of the Amendment Agreements

(i) Net asset value and net asset value per Share

If the HIL Bond and the DBS Bond are fully converted into Shares, the Group's net deficit position as at 31st March, 2003 of approximately HK$199 million will improve to positive net assets of approximately HK$135 million (or approximately HK$0.09 per Share calculated on the basis of enlarged issued capital of 1,536,379,325 Shares). This places the Company's capital structure in a much healthier position, putting it in a better position to take advantage of future business opportunities and negotiate improved banking facilities.

(ii) Gearing

The Amendment Agreements, on becoming unconditional, will result in immediate conversion of the HIL Bond and the DBS Bond in the aggregate sum of approximately HK$334.4 million.

Besides the Bonds outstanding, as at 30th June, 2003, the Group's total bank balances and bank deposits (including pledged bank deposits) amounted to approximately HK$170 million and the Group's interest-bearing bank and other borrowings (excluding convertible bonds) were approximately HK$64 million. If gearing is calculated by offsetting bank balances against borrowings, gearing would be nil upon completion of the Amendment Agreements.

(iii) Cash flow

Assuming full conversion of the Bonds, the Company will be able to save annual interest expenses at the rate of 4% amounting to approximately HK$13.4 million, which the Group will otherwise have to incur until the maturity of the Bonds on 3rd April, 2005.

(iv) Potential dilution of existing shareholders' holdings

Assuming completion of the HIL Amendment Agreement and the DBS Amendment Agreement (which are inter-conditional), the HIL Bond and the DBS Bond will be fully converted simultaneously at the Amended Conversion Price and the shareholding structure of the Company will become as follows:

Name of Shareholders	**Shareholding as at the Latest Practicable Date**		**Shareholding immediately after the full conversion of the Bonds**	
	Number of Shares	*%*	*Number of Shares*	*%*
The Controlling Shareholder *(Note)*	130,000,000	30.8%	130,000,000	8.5%
Mr. Lam Hon Nam, Mr. Ma Chun Kwong, Edmund, Mr. Wai Yee Jan and their respective spouses	2,300,000	0.6%	2,300,000	0.1%
Other Directors	1,020,000	0.2%	1,020,000	0.1%
Hutchison	Nil	Nil	659,888,793	43.0%
DBS Private Equity	Nil	Nil	454,883,333	29.6%
Public	288,287,199	68.4%	288,287,199	18.7%
Total	421,607,199	100%	1,536,379,325	100%

Note : The issued share capital of the Controlling Shareholder is owned as to 45.94%, 45.46% and 8.60% by Mr. Lam Hon Nam, Mr. Ma Chun Kwong, Edmund and Mr. Wai Yee Jan respectively. Mr. Lam Hon Nam is an executive Director, and each of Mr. Ma Chun Kwong, Edmund and Mr. Wai Yee Jan is a non-executive Director.

Assuming full conversion of the HIL Bond and the DBS Bond at the Amended Conversion Price, approximately 660 million Shares and 455 million Shares will be issued to Hutchison and DBS Private Equity respectively. The approximately 660 million Shares and 455 million Shares represent approximately 43.0% and 29.6% respectively of the Company's existing issued share capital as enlarged by the issue of the new Conversion Shares. The Controlling Shareholder and its Associates will be diluted to less than 10%, in the same proportion as the public shareholders whose interests will be diluted from approximately 68.4% to approximately 18.7%.

(v) Listing

Upon completion of the Amendment Agreements, the Company's public float will be reduced to approximately 18.7% which is below the public float requirement of 25% stipulated under the Listing Rules. Hutchison and DBS Private Equity have indicated to the Company their intention to maintain the listing of the Shares on the Stock Exchange. Each of Hutchison, DBS Private Equity, the Directors and the proposed Directors to be nominated by Hutchison have undertaken to the Stock Exchange that actions will be taken to restore the public float of the Shares to comply with the relevant requirements under the Listing Rules as soon as practicable after full conversion of the Bonds.

The Stock Exchange will monitor trading of the Shares and will consider exercising its discretion to suspend trading of the Shares if it believes that a false market exists or may exist in the Shares or there are insufficient Shares in public hands to maintain an orderly market.

6. Whitewash Waiver

Immediately after full conversion of the HIL Bond at the Amended Conversion Price, Hutchison and its Concert Parties will be interested in approximately 43.0% of the Company's issued share capital as enlarged by the issue and allotment of the new Conversion Shares under the HIL Bond and the DBS Bond. The acquisition of the interest in the Company's issued share capital by Hutchison to pass 30% upon completion of the HIL Amendment Agreement will (but for the Whitewash Waiver) give rise to an obligation under Rule 26 of the Takeovers Code on the part of Hutchison and its Concert Parties to make a mandatory general offer for all the Shares not owned by Hutchison or agreed to be allotted to them.

An application for the Whitewash Waiver has been made to the Executive on behalf of Hutchison and its Concert Parties. The Executive has agreed, subject to the approval by the Independent Shareholders, to waive any obligations of HIL and its Concert Parties to make a general offer which will result from the conversion of the Bonds.

Completion of the HIL Amendment Agreement will result in the introduction of Hutchison as the new controlling shareholder of the Company. However the Whitewash Waiver is a condition precedent to the completion of the HIL Amendment Agreements which in turn is a condition precedent to completion of the DBS Amendment Agreement. On completion of the Amendment Agreements, it will restore the Company to a positive pro-forma net asset position of approximately HK$135 million and result in interest savings. Hutchison and DBS Private Equity have expressed the intention to maintain the existing business of the Group and that the present management will continue to serve the Group.

As mentioned above, Shareholders should note that if the resolution (to be taken by way of poll) in respect of the Whitewash Waiver is rejected by the Independent Shareholders at the SGM or in the event that the Amendment Agreements cannot become unconditional, neither Hutchison nor DBS Private Equity will be committed to convert the HIL Bond and the DBS Bond respectively. In other words, a general offer obligation for Hutchison and its Concert Parties will not necessarily arise if the Whitewash Waiver is rejected. This is because Hutchison and its Concert Parties are only obliged to make such general offer in the event that the aggregate voting rights in the Company held by Hutchison and its Concert Parties exceed 30% (or such other percentage as stipulated under the Takeovers Code from time to time).

DISCUSSION AND CONCLUSIONS

The Company believes that there is a promising future for its core business of systems integration and related IT services in China and the Asian region, especially in the banking and finance sector. Losses before tax and minority interests in the amount of approximately HK$186.5 million, HK$196.3 million and HK$167.8 million respectively have been recorded for the three financial years ended 31st March, 2003. These losses have eroded the capital base, giving rise to a deficiency in shareholders' funds as at 31st March, 2003 of approximately HK$199 million.

The outstanding principal amount of the Bonds of HK$334 million is due for repayment on 3rd April, 2005. Although maturity is still some 19 months away, it is difficult to see how the Company will be able to repay the Bonds with internally generated cashflow or, with its recent heavy losses and net deficits, will be able to raise the necessary capital from commercial sources. This position is already apparent to the market on the basis of the recently published 2003 results. Consequently, we concur with the Directors' view that it is necessary to take action now to put the Company on a sound financial footing.

The most direct way to tackle the problem is, in our view, along the lines of the Amendment Agreements. Hutchison and DBS Private Equity have already demonstrated their interest in and support for the Company by their subscription of the respective Bonds in April 2002. The performance of the Company since then, however, has had a dampening effect on the share price and left the conversion price of the Bonds, at HK$0.85 per Share, substantially out of the money.

The conversion price is proposed to be reduced by approximately 65% to HK$0.30 per Share. This is a substantial reduction; on full conversion, it would result in Hutchison and DBS Private Equity holding approximately 43.0% and 29.6% respectively of the Company's enlarged share capital. The shareholding held by the public will be diluted from 68.4% to 18.7%. In addition, immediately after conversion of the Bonds in full, there will be insufficient "public float" to comply with Listing Rule 8.08 and remedial steps will be needed.

The Amended Conversion Price of HK$0.30 represents a discount of approximately 29.6% to the average closing market price of approximately HK$0.426 for the 10 trading days prior to the announcement of the Amendment Agreements. However, the market price is not, in our view, supported by present fundamentals, given the Group has net deficits of HK$0.473 per Share and net losses of HK$0.412 per Share for 2002/03. It is also possible that the share price would have further deteriorated in the absence of an appropriate proposal to restructure the Bonds at the time when the Group announced its audited losses before tax and majority interests of approximately HK$167.8 million for the financial year ended 31st March, 2003. The share price has been trading in our opinion on the assumption, inter alia, that a rescue or restructuring would be arranged given the influential bondholder groups in place. This is in fact what has happened. Despite the substantial reduction in the conversion price, the share price strengthened from HK$0.51 to HK$0.55 on resumption of trading after the announcement of the Amendment Agreements. On the Latest Practicable Date, the share price closed at HK$0.53.

In view of the Company's weak financial position as discussed above, we consider it a realistic approach to restructure the Bonds in line with the terms of the Amendment Agreements. If the resolutions to reduce the conversion price and grant the Whitewash Waiver are approved, Hutchison and DBS Private Equity will immediately convert their Bonds and the Group's net asset position will be restored to a positive figure. In addition, borrowings of HK$334 million will be eliminated from the balance sheet and the bank and other borrowings would be smaller in sum than the total bank balances of the Group.

The Whitewash Waiver is being sought as a consequence of the proposed reduction of the conversion price. We consider it would be in the interests of the Company for the conversion price to be reduced to make conversion probable; if Shareholders do approve the reduction in conversion price, it would in our opinion be in the Company's interest for conversion to take place immediately, so as to remove uncertainty over the Company's financial position and to save the interest expense of the Bonds of 4% per annum. No dividend is currently paid on the Shares.

The terms of the Amendment Agreements were negotiated arms length by the management and representatives of the Controlling Shareholder, who should be in the best position to assess the Group's requirements. The Controlling Shareholder and its Associates will be diluted to less than 10%, in the same proportion as the Independent Shareholders. In our experience, a controlling shareholder would be unwilling to suffer such dilution unless they considered the Company's position made it a necessity.

OPINION AND ADVICE

On the above basis, we consider the terms of the Whitewash Waiver fair and reasonable so far as the Independent Shareholders are concerned. We therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to approve the granting of the Whitewash Waiver.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Mei H. Leung
Managing Director

1. SHARE CAPITAL

The authorised and issued share capitals of the Company as at the Latest Practicable Date were as follows:

		HK$'000
Authorised:		
2,000,000,000	Shares	200,000
Issued and fully paid:		
421,607,199	Shares	42,161

All the existing issued Shares rank pari passu in all respects including all rights as to dividends, voting and capital. All the Conversion Shares will rank pari passu in all respects with each other including as regards to dividends, voting and return of capital.

Under the share option scheme adopted by the Company, the Directors may at their discretion grant option to eligible participants to take up options for Shares, subject to the terms and conditions stipulated therein, which in aggregate may not exceed 30% of the Shares of the Company from time to time. There were 55,042,000 outstanding options as at the Latest Practicable Date.

Other than the HIL Option, DBS Option, HIL Bond and DBS Bond and save as disclosed above, the Company has no options, warrants and conversion rights convertible into Shares. Save as disclosed herein, no share or loan capital of the Company has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts brokerages or other special terms have been granted in connection with the issue or sales of any such capital.

The Shares are listed on the Stock Exchange. No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange.

2. SUMMARY OF CONSOLIDATED INCOME STATEMENTS

The following is a summary of the published consolidated results of the Group for the last five financial years, as extracted from the audited financial statements of the Group.

	Year ended 31st March,				
	2003	**2002**	**2001**	**2000**	**1999**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
TURNOVER	1,024,638	1,103,086	1,165,033	1,524,698	1,714,155
PROFIT/(LOSS) BEFORE TAX	(167,792)	(196,286)	(186,541)	37,000	(149,173)
Tax	(4,713)	(23)	(10,375)	(7,216)	10,132
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(172,505)	(196,309)	(196,916)	29,784	(139,041)
Minority interests	(1,310)	5,240	8,147	3,199	(3,713)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(173,815)	(191,069)	(188,769)	32,983	(142,754)
Dividends	–	–	–	–	–
Earnings/(Loss) per Share	(41.2 cents)	(45.5 cents)	(45.8 cents)	10.9 cents	(52.7 cents)
Dividend per Share	–	–	–	–	–

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the audited consolidated profit and loss account of the Group for the two years ended 31st March, 2003, the audited consolidated balance sheet of the Group as at 31st March, 2002 and 2003, the consolidated statement of changes in equity and consolidated cash flow statement for the year ended 31st March, 2002 and 2003 together with accompanying notes extracted from the audited accounts of the Company for the year ended 31st March, 2003. There were no audit qualifications in any of such financial statements. Save as disclosed in notes 3 and 4 to the financial statements below, there were no material changes to the accounting policy of the Group for the two years ended 31st March, 2003.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st March, 2003

	Notes	2003 HK$'000	2002 HK$'000
TURNOVER	8	1,024,638	1,103,086
Cost of sales		(854,664)	(966,146)
Gross profit		169,974	136,940
Other revenue and gains	8	11,368	28,247
Selling and distribution costs		(29,555)	(52,191)
Administrative expenses		(139,019)	(201,173)
Other operating expenses:			
Loss on disposal/write off of fixed assets		(987)	(14,488)
Provisions for and write off of bad and doubtful debts		(9,197)	(26,425)
Unrealised holding losses on other investments		(57,202)	(1,091)
Impairment of long term investments		(76,361)	–
Revaluation deficit of investment properties		(8,157)	(2,630)
Surrender fee paid for termination of tenancy agreement		(3,469)	–
Loss on disposal of subsidiaries		(4,690)	–
Gain on disposal of discontinued operations	6	2,747	–
Loss on disposal of an associate		(314)	–
Compensation for loss of office to directors		(2,691)	–
Redundancy costs		(1,848)	(4,815)
Provisions for impairment of deferred development costs		–	(4,330)
Amortisation of goodwill on acquisition of subsidiaries		–	(2,508)
Impairment of goodwill on acquisition of subsidiaries		–	(9,533)
Provision for loss on put option		–	(10,000)
Other expenses		(51)	(980)

	Notes	2003 HK$'000	2002 HK$'000
LOSS FROM OPERATING ACTIVITIES	9	(149,452)	(164,977)
Finance costs	12	(18,757)	(28,860)
Share of profits and losses of associates		417	(1,163)
Amortisation of goodwill on acquisition of associates		–	(107)
Impairment of goodwill on acquisition of associates		–	(1,179)
LOSS BEFORE TAX			
Continuing operations		(169,889)	(190,884)
Discontinued operations	6	2,097	(5,402)
		(167,792)	(196,286)
Tax	13	(4,713)	(23)
LOSS BEFORE MINORITY INTERESTS		(172,505)	(196,309)
Minority interests		(1,310)	5,240
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	14	(173,815)	(191,069)
LOSS PER SHARE	15		
Basic		(41.2 cents)	(45.5 cents)
Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET
31st March, 2003

	Notes	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS			
Fixed assets	16	54,858	93,656
Investment properties	17	30,300	11,990
Interests in associates	20	3,524	3,107
Long term investments	21	3,700	80,061
Other investments	22	3,511	59,038
		95,893	247,852
CURRENT ASSETS			
Accounts receivable	24	270,300	180,752
Inventories		39,847	71,092
Tax recoverable		3	155
Prepayments, deposits and other receivables		28,983	27,131
Pledged bank deposits	25	62,112	52,437
Cash and cash equivalents	25	108,160	116,821
		509,405	448,388
CURRENT LIABILITIES			
Accounts payable	26	171,736	152,142
Provisions	27	22,697	10,555
Deposits received, accruals and other payables		167,741	127,916
Tax payable		3,242	2,100
Finance lease payables	28	36	69
Interest-bearing bank loans, overdrafts and supplier loans	29	88,254	125,077
Convertible bonds	34	–	79,187
		453,706	497,046
NET CURRENT ASSETS/(LIABILITIES)		55,699	(48,658)
TOTAL ASSETS LESS CURRENT LIABILITIES		151,592	199,194

	Notes	2003 HK$'000	2002 HK$'000
NON-CURRENT LIABILITIES			
Provisions	27	(1,690)	(16,699)
Finance lease payables	28	(159)	(49)
Interest-bearing bank loans, overdrafts and supplier loans	29	(3,449)	(5,331)
Deferred tax	30	(261)	(87)
		(5,559)	(22,166)
		146,033	177,028
CAPITAL AND RESERVES			
Issued capital	31	42,161	42,098
Reserves	33	(241,534)	(72,736)
		(199,373)	(30,638)
MINORITY INTERESTS		10,974	9,700
		(188,399)	(20,938)
CONVERTIBLE BONDS	34	334,432	197,966
		146,033	177,028

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March, 2003

	Notes	Issued share capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Fixed asset revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st April, 2001		42,002	306,902	2,045	2,828	(8,884)	(181,217)	163,676
Exercise of options	*31*	159	1,097	–	–	–	–	1,256
Repurchase of shares	*31*	(63)	(413)	–	–	–	–	(476)
Release upon disposal of subsidiaries	*35(d)*	–	–	(5)	–	(209)	–	(214)
Exchange realignment		–	–	–	–	(3,811)	–	(3,811)
Net losses not recognised in the profit and loss account		–	–	–	–	(3,811)	–	(3,811)
Net loss for the year		–	–	–	–	–	(191,069)	(191,069)
At 31st March, 2002 and 1st April, 2002		42,098	307,586*	2,040*	2,828*	(12,904)*	(372,286)*	(30,638)
Exercise of options	*31*	63	351	–	–	–	–	414
Goodwill released upon disposal of subsidiaries	*35(d)*	–	–	–	–	–	4,936	4,936
Exchange realignment		–	–	–	–	(270)	–	(270)
Net losses not recognised in the profit and loss account		–	–	–	–	(270)	–	(270)
Net loss for the year		–	–	–	–	–	(173,815)	(173,815)
At 31st March, 2003		42,161	307,937*	2,040*	2,828*	(13,174)*	(541,165)*	(199,373)
Retained by:								
Company and subsidiaries		42,161	307,937	2,040	2,828	(13,174)	(535,999)	(194,207)
Associates		–	–	–	–	–	(5,166)	(5,166)
At 31st March, 2003		42,161	307,937	2,040	2,828	(13,174)	(541,165)	(199,373)
Company and subsidiaries		42,098	307,586	2,040	2,828	(12,904)	(366,703)	(25,055)
Associates		–	–	–	–	–	(5,583)	(5,583)
At 31st March, 2002		42,098	307,586	2,040	2,828	(12,904)	(372,286)	(30,638)

* *These reserve accounts comprise the consolidated reserves with a debit balance of HK$241,534,000 (2002: HK$72,736,000) in the consolidated balance sheet.*

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31st March, 2003

	Notes	2003 *HK$'000*	2002 *HK$'000* (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(167,792)	(196,286)
Adjustments for:			
Loss on disposal/write off of fixed assets		987	14,488
Provisions for and write off of bad and doubtful debts		9,197	26,425
Unrealised holding losses on other investments		57,202	1,091
Impairment of long term investments		76,361	–
Revaluation deficit of investment properties		8,157	2,630
Loss/(gain) on disposal of subsidiaries		4,690	(7,339)
Gain on disposal of discontinued operations		(2,747)	–
Loss/(gain) on disposal of associates		314	(561)
Provisions for impairment of deferred development costs		–	4,330
Amortisation of goodwill		–	2,615
Impairment of goodwill		–	10,712
Interest income	*8*	(2,944)	(7,708)
Dividend income from listed investments	*8*	–	(54)
Waiver of loan by a minority shareholder	*8*	–	(2,134)
Depreciation	*9*	12,871	20,027
Impairment of interest in an associate	*9*	–	237
Loss on deemed disposal of partial interests in subsidiaries	*9*	–	682
Loss on disposal of other investments	*9*	51	61
Provisions/(write-back of provisions) against inventories	9	(14,448)	32,935
Amortisation of deferred development costs	*9*	–	441
Finance costs	*12*	18,757	28,860
Share of profits and losses of associates		(417)	1,163
Operating profit/(loss) before working capital changes		239	(67,385)
Decrease/(increase) in accounts receivable		(99,955)	152,184
Decrease in inventories		45,496	33,753
Decrease/(increase) in prepayments, deposits and other receivables		(3,056)	10,196
Increase/(decrease) in accounts payable		22,599	(80,879)
Increase/(decrease) in provisions		(2,867)	22,254
Increase in deposits received, accruals and other payables		46,247	11,433

	Notes	2003 HK$'000	2002 HK$'000 (Restated)
Cash generated from operations		8,703	81,556
Interest element on finance lease rental payments	*12*	(37)	(50)
Hong Kong profits tax refunded		–	77
Overseas taxes refunded		161	747
Overseas taxes paid		(3,456)	(8,519)
Net cash inflow from operating activities			
Continuing operations		5,683	67,042
Discontinued operations		(312)	6,769
		5,371	73,811
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		2,125	7,684
Purchases of fixed assets		(2,889)	(27,808)
Proceeds from disposal of fixed assets		365	2,329
Purchases of investment properties		–	(714)
Acquisition of subsidiaries	*35(c)*	–	16,493
Net inflow/(outflow) from disposal of subsidiaries	*35(d)*	(1,129)	1,573
Acquisition of interests in associates		–	(1,839)
Net proceeds from disposal of an associate		(314)	561
Repayment from associates		–	1,198
Acquisition of long term investments		–	(136)
Proceeds from disposal of other investments		72	4,379
Dividend received from listed investments		–	54
Payments for deferred development costs		–	(4,771)
Increase in pledged time deposits		(9,875)	(9,512)
Net cash outflow from investing activities			
Continuing operations		(11,662)	(4,003)
Discontinued operations		17	(6,506)
		(11,645)	(10,509)

	Notes	2003 HK$'000	2002 HK$'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares on exercise of share options		414	1,256
Repurchases of shares		–	(476)
Net proceeds from issue of convertible bonds		136,465	–
Repayment of convertible bonds		(79,187)	–
New loans		50,844	93,682
Repayment of bank loans and trust receipt loans		(86,739)	(147,756)
Repayment of supplier loans		(3,786)	(24,404)
Capital element of finance lease rental payments		(118)	(757)
Advances from minority interests		–	3,240
Interest paid on bank, supplier and other loans		(5,214)	(12,447)
Interest paid on convertible bonds		(14,873)	(16,584)
Net cash outflow from financing activities			
Continuing operations		(2,194)	(104,246)
Discontinued operations		–	–
		(2,194)	(104,246)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(8,468)	(40,944)
Cash and cash equivalents at beginning of year		116,856	158,971
Effect of foreign exchange rate changes		(228)	(1,171)
CASH AND CASH EQUIVALENTS AT END OF YEAR		108,160	116,856
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*25*	102,422	66,728
Non-pledged time deposits with original maturity of less than three months when acquired	*25*	5,738	50,093
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdrafts	*25*	–	200
Bank overdrafts	*29*	–	(165)
		108,160	116,856

NOTES TO FINANCIAL STATEMENTS

31st March, 2003

1. CORPORATE INFORMATION

During the year, the principal activity of the Company was investment holding.

The principal activities of the Group during the year were:

- systems integration of mid-range computers
- software development and the provision of related services
- distribution of computer products
- e-business (discontinued during the year, see note 6 to the financial statements)

2. CORPORATE UPDATE

The Group sustained a net loss from ordinary activities attributable to shareholders of approximately HK$174 million for the year ended 31st March, 2003 (2002: HK$191 million). As at that date the Group recorded net current assets of approximately HK$56 million (2002: net current liabilities of HK$49 million) and a consolidated deficiency in net assets of approximately HK$199 million (2002: HK$31 million), which included current interest-bearing bank loans, overdrafts and supplier loans of approximately HK$88 million (2002: HK$125 million), non-current interest-bearing bank loans, overdrafts and supplier loans of approximately HK$3 million (2002: HK$5 million) and non-current convertible bonds payable of approximately HK$334 million (2002: non-current convertible bonds payable of HK$198 million and current convertible bonds payable of HK$79 million).

The net loss for the year mainly resulted from the effects of the non-recurring impairment losses in respect of the Group's long term investments and the unrealised holding losses of other investments in the aggregate amount of approximately HK$134 million. Excluding the other operating expenses and finance costs, the Group would have recorded a net profit of approximately HK$7 million for the year ended 31st March, 2003 (2002: net loss of HK$85 million).

Although the Group sustained a further loss during the year, it was successful in reducing its loss through the implementation of a number of cost-cutting measures, which significantly reduced the Group's selling and distribution costs, as well as administrative expenses. Additionally, the Group recorded an improvement in its working capital position as compared to the previous year end after the successful issue of the 2005 Convertible Bonds (as defined in note 34 to the financial statements) of approximately HK$334 million on 3rd April, 2002 (further detailed in note 34 to the financial statements).

The directors consider it appropriate to prepare these financial statements on a going concern basis after taking into consideration various factors including those set out below.

(i) During the financial year ended 31st March, 2003, the Group refocused on its core businesses, which comprise the systems integration of mid-range computers; software development and the provision of related services; and the distribution of computer products. This strategy proved to be successful in reducing the losses of the Group. The directors will continue to review the Group's operations with a view to identifying and exploring those which are the most profitable to the Group, to implement appropriate cost-cutting measures and to strengthen the credit and inventory controls in order to further improve the Group's profitability and cashflows;

(ii) The directors have reviewed the Group's banking and other facilities with its principal banks and a major supplier. Certain facilities were renewed after the balance sheet date. The directors believe that the Group's principal banks and the major supplier will continue to support the on-going operations of the Group;

(iii) As further detailed in note 38 to the financial statements, on the date of approval of these financial statements, the Company entered into two several amendment agreements (the "Amendment Agreements") with Hutchison International Limited ("Hutchison") and DBS

Nominees Private Limited ("DBS"), the holders of the 2005 Convertible Bonds, respectively. Pursuant to the Amendment Agreements, (a) the Company will, subject to and with effect from the approval of the shareholders of the Company at a special general meeting, agree to change the conversion price at which the 2005 Convertible Bonds are convertible into new shares of the Company from HK$0.85 per share to the Amended Conversion Price (as defined in note 38); and (b) subject to the fulfilment or waiver of certain conditions contained therein, Hutchison and DBS will convert the whole of the principal amount outstanding under their respective 2005 Convertible Bonds at the Amended Conversion Price; and the Company shall allot and issue to Hutchison and DBS respectively the shares in the Company upon conversion of the 2005 Convertible Bonds. The Amendment Agreements are conditional upon, amongst other things, the granting of the respective Whitewash Waiver (as defined in the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code")) by the Executive (as defined in the "Takeovers Code") to Hutchison and if required, to DBS. If such Whitewash Waiver(s) is/are not granted by the Executive, the respective obligations of Hutchison and DBS under the Amendment Agreements to convert the whole of the principal amount outstanding under their respective 2005 Convertible Bonds at the Amended Conversion Price will lapse. The 2005 Convertible Bonds, if not previously converted, are due for redemption in April 2005.

On the basis that the Amendment Agreements are completed and shares are issued by the Company upon conversion of the whole of the principal amount outstanding under the 2005 Convertible Bonds, the proforma financial positions of the Group as at 31st March, 2003 after taking into accounts the adjustment which may arise immediately upon the completion of the Amendment Agreements, would be as follows:

	Audited 31st March, 2003	**Adjustment**	**Proforma 31st March, 2003**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	95,893		95,893
Current assets	509,405		509,405
Current liabilities	(453,706)		(453,706)
Net current assets	55,699		55,699
Non-current liabilities	(5,559)		(5,559)
	146,033		146,033
Capital and reserves			
Issued capital	42,161	111,477 (1)	153,638
Reserves	(241,534)	222,955 (1)	(18,579)
	(199,373)		135,059
Minority interests	10,974		10,974
	(188,399)		146,033
Convertible bonds	334,432	(334,432) (1)	–
	146,033		146,033

(1) Assuming that the entire aggregate principal amount of the 2005 Convertible Bonds of HK$334,431,638 is converted at the conversion price of HK$0.3 per share and further assuming that a total of 1,114,772,126 ordinary shares of HK$0.10 each in the share capital of the Company were issued accordingly, the Company's share

capital and share premium would increase by HK$111,477,213 and HK$222,954,425 (before issue expenses), respectively, and the convertible bonds payable would decrease by HK$334,431,638. Should the Amended Conversion Price be adjusted to other amount in accordance with the terms of the Amendment Agreements, there would be no effect on the overall increase in the Group's shareholders' equity whilst the respective increases in the Company's share capital and share premium may be affected.

These financial statements have been prepared on a going concern basis having regard to the proforma financial positions shown above on the basis of completion of the Amendment Agreements as mentioned in (iii) above and the anticipated future liquidity positions of the Group and after taking into consideration various factors as mentioned in (i) and (ii) above.

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 33: "Discontinuing operations"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 44 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and associates are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes and the prior year reclassifications that have resulted from them are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 4 and in note 35(a) to the financial statements.

SSAP 33 replaces the existing disclosure requirements for discontinuing operations, which were previously included in SSAP 2. The SSAP defines a discontinuing operation and prescribes when an enterprise should commence including discontinuing operations disclosures in its financial statements and the disclosures required. The principal impact of the SSAP is that more extensive disclosures concerning the Group's discontinuing operations are now included in the consolidated profit and loss account, consolidated cash flow statement and note 6 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option schemes, as detailed in note 32 to the financial statements. These share option schemes disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of this SSAP.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties and other investments, as further explained below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31st March, 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outsider shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition of subsidiaries and associates is recognised in the consolidated balance sheet as an asset and is amortised on the straight-line basis over its estimated useful life of five years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1st April, 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1st April, 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the remaining lease terms
Buildings	2%–4%
Leasehold improvements	20%
Furniture, fixtures, equipment and motor vehicles	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. When the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Deferred development costs

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined, the expenditure is separately identifiable, and there is reasonable certainty that the projects are technically feasible and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised, using the straight-line method, over five years commencing in the year when the products are put into commercial production.

Deferred development costs are stated at cost less accumulated amortisation and any impairment losses. The amount of the impairment losses are charged to the profit and loss account for the period in which they arise.

Long term investments

Long term investments are unlisted securities which are intended to be held on a continuing strategic or long term purpose. Such long term investments are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amounts of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Other investments

Other investments are investments in unlisted equity and debt securities, other than long term investments, and are stated at their fair values at the balance sheet date, on an individual investment basis. The fair values of unlisted securities are estimated by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities, or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities. The gains or losses arising from changes in the fair value of other investments are credited or charged to the profit and loss account for the period in which they arise. Other investments are initially included in non-current or current assets depending on their expected holding period at the time of their acquisition.

Inventories

Inventories, which comprise finished goods, are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling price less any estimated costs necessary to make the sale.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from the sales of goods and related systems integration services, on delivery of the goods to the customers;

(ii) from the rendering of software development services and technical services, in the period in which the services are rendered;

(iii) rental income, in the period in which the properties are let out, on the straight-line basis over the lease terms;

(iv) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rates applicable; and

(v) dividend income, when the shareholders' right to receive payment is established.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a financial year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Prior to the adoption of SSAP 34 during the year, as explained in note 3 to the financial statements, the Group did not accrue for paid annual leave carried forward at the balance sheet date. This change in accounting policy however, has had no material effect on the financial statements.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") in Hong Kong under the Mandatory Provident Fund Schemes Ordinance and defined contribution Central Provident Fund and Employee Provision Fund retirement schemes in Singapore and Malaysia, respectively under the law prevailing in those countries, for those employees who are eligible to participate in the schemes. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the retirement benefit schemes. The assets of the retirement benefit schemes are held separately from those of the Group in independently administered funds. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Share options schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 3 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year reclassification relating to trust receipt loans, further details of which are included in note 35(a) to the financial statements.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provisions for product warranty granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present value as appropriate.

The provisions for redundancy costs and the loss on the put options granted are made based on the present value of the future costs and loss expected to be incurred.

5. CONNECTED AND RELATED PARTY TRANSACTIONS

The Group had the following material connected and/or related party transactions during the year.

(a) During the year, the Company gave guarantees to certain suppliers and banks in respect of the full amount of the guarantee required for the facilities granted by these suppliers and banks to Vanda Systems (Singapore) Pte Ltd ("VSS"), Azure Technologies Pte Ltd ("AT"), Azure Technologies (Malaysia) Sdn. Bhd. ("ATM") and Azure Technologies Phils., Inc. ("ATP"). VSS, AT, ATM and ATP are 91.7% beneficially owned by the Company. A summary of the guarantees given as at 1st April, 2002 is as follows:

Borrower	**Lender**	**Facility amount** *HK$'000*	**Guarantee amount** *HK$'000*
VSS	Bank	25,380	25,380
ATM	Supplier	81,895	81,895
ATM	Supplier	7,800	7,800
ATM	Bank	18,678	18,678
AT	Supplier	71,910	71,910
AT	Bank	21,150	21,150
ATP	Supplier	36,660	36,660
ATP	Bank	7,640	7,640

As at 31st March, 2003, the above guarantees were revised as follows:

Borrower	**Lender**	**Facility amount** *HK$'000*	**Guarantee amount** *HK$'000*
VSS	Bank	26,459	26,459
ATM	Supplier	37,044	81,887
ATM	Supplier	7,800	7,800
ATM	Bank	20,523	22,780
AT	Supplier	44,850	74,967
AT	Bank	22,049	22,049
ATP	Supplier	14,550	36,660
ATP	Bank	5,820	7,275

The provision of the guarantees by the Company constituted the granting of financial assistance to non-wholly owned subsidiaries which are subject to the disclosure requirements under the Listing Rules.

(b) On 16th July, 2002, the directors resolved to approve a loan of S$1.5 million made by Vanda (B.V.I.) Limited ("Vanda BVI"), a wholly-owned subsidiary of the Company, to VSS. VSS used the amount of the loan to subscribe for shares in AT, a wholly-owned subsidiary of VSS, which used the proceeds to subscribe shares in ATM, a wholly-owned subsidiary of AT. The loan was made for the purpose of increasing the share capital of AT and ATM and to provide general working capital for ATM.

The loan was made by Vanda BVI to VSS on 19th July, 2002 and remained outstanding as at 31st March, 2003. The loan is unsecured, bears interest at Hong Kong prime rate per annum plus 0.5% and is repayable on demand.

The loan made by Vanda BVI to VSS constituted the granting of financial assistance to non-wholly owned subsidiary which is subject to the disclosure requirements under the Listing Rules.

(c) On 23rd July, 2002, BonVision Technology Limited, a 60% owned subsidiary of the Group, entered into a sale and purchase agreement to transfer its whole 63% equity interest in BonVision Technology (Hong Kong) Limited ("BVHK") to a purchaser (the "Purchaser") at a consideration of HK$1. The Purchaser is a director of and holds 21.6% interest in BVHK.

This transaction constituted a related party transaction and a connected transaction which is subject to the disclosure requirements under the Listing Rules.

6. DISCONTINUED OPERATIONS

On 29th April, 2002, Empower International Limited ("Empower"), a wholly-owned subsidiary of the Company, entered into an agreement (the "DL Agreement") with Innovative Logistics Limited (the "Purchaser"), to dispose of the 75.1% equity interest in DigiLogistics.com Ltd. ("DigiLogistics") to the Purchaser for a consideration of HK$1. Upon the completion of the DL Agreement, a call option was granted by the Purchaser to Empower under which Empower is entitled to require the Purchaser to sell a 30% equity interest in DigiLogistics to Empower at HK$1. The call option is exercisable within two years from 29th April, 2002. The DL Agreement was completed on 29th April, 2002. Upon the disposal, Empower has been holding a 19.9% equity interest in DigiLogistics as an other investment.

The Group's business of sub-licensing web-based logistics software (the "e-business") in Hong Kong was conducted through DigiLogistics. The disposal of the 75.1% equity interest in Digilogistics was made following the Group's strategy to divest from its non-core businesses.

The turnover, other revenue, expenses and results of the e-business operation that have been consolidated into the Group's financial statements for the two years ended 31st March, 2003 were detailed as follows:

	2003	**2002**
	HK$'000	*HK$'000*
TURNOVER	168	17,181
Cost of sales	(150)	(1,709)
Gross profit	18	15,472
Other revenue	–	14
Selling and distribution costs	–	(264)
Administrative expenses	(332)	(7,087)
Other operating expenses	(336)	(11,700)
Gain on disposal of discontinued operations	2,747	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	2,097	(3,565)
Share of profits and losses of an associate	–	(551)
Amortisation of goodwill on acquisition of associates	–	(107)
Impairment of goodwill on acquisition of associates	–	(1,179)
PROFIT/(LOSS) BEFORE TAX	2,097	(5,402)
Tax	–	–
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	2,097	(5,402)

The carrying amounts of the total assets and liabilities relating to the discontinued operations as at 31st March, 2003 and 2002, respectively, were as follows:

	2003	**2002**
	HK$'000	*HK$'000*
Total assets	–	1,757
Total liabilities	–	(17,975)
Net assets	–	(16,218)

7. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

The principal activities of the Group are the systems integration of mid-range computers, software development and the provision of related services, distribution of computer products and e-business, which are managed according to the geographical location of customers.

Each of the Group's geographical segments, based on the location of customers, represents a strategic business unit that offers products or services to customers located in different geographical areas, which are subject to risks and returns that are different from those of other geographical segments. The Group's geographical segments are as follows:

(a) Hong Kong and Macau;

(b) Mainland China;

(c) South Asia; and

(d) Corporate and unallocated.

In determining the Group's business segments, revenues and assets are attributed to the following business segments:

(a) the systems integration and software services segment includes the trading of mid-range computers, the provision of related systems integration services and the provision of software customisation services and related technical services;

(b) the distribution of computer products segment engages in the distribution of computer products and the provision of computer support services;

(c) the e-business (discontinued operations) segment is the sub-licensing of web-based logistics software; and

(d) the corporate and unallocated segment comprises corporate income and expenses items.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Geographical segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's geographical segments.

Group

	Hong Kong and Macau		Mainland China		South Asia		Corporate and unallocated		Consolidated	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:										
Sales to external customers	170,172	163,272	414,954	526,673	439,512	413,141	–	–	1,024,638	1,103,086
Other revenue	937	1,700	2,057	7,870	5,050	541	380	2,600	8,424	12,711
Total	171,109	164,972	417,011	534,543	444,562	413,682	380	2,600	1,033,062	1,115,797
Segment results	8,438	(42,835)	(9,308)	(29,918)	23,706	(42,589)	(39,361)	(41,060)	(16,525)	(156,402)
Dividend income, unallocated interest and other gains									2,944	8,198
Gain/(loss) on disposal of subsidiaries	246	–					(4,936)	7,339	(4,690)	7,339
Gain on disposal of discontinued operations	2,747	–							2,747	–
Loss on disposal of other investments					(51)	–	–	(61)	(51)	(61)
Impairment of long term investments							(76,361)	–	(76,361)	–
Unrealised holding losses on other investments							(57,202)	(1,091)	(57,202)	(1,091)
Impairment of interest in an associate			–	(237)					–	(237)
Amortisation of goodwill on acquisition of subsidiaries	–	(2,508)							–	(2,508)
Impairment of goodwill on acquisition of subsidiaries	–	(9,533)							–	(9,533)
Provision for loss on put option	–	(10,000)							–	(10,000)
Loss on disposal of an associate	(314)	–							(314)	–
Loss on deemed disposal of partial interests in subsidiaries							–	(682)	–	(682)

	Hong Kong and Macau		Mainland China		South Asia		Corporate and unallocated		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Loss from operating activities									(149,452)	(164,977)
Finance costs									(18,757)	(28,860)
Share of profits and losses of associates			417	(1,163)					417	(1,163)
Amortisation of goodwill on acquisition of associates	–	(107)							–	(107)
Impairment of goodwill on acquisition of associates	–	(1,179)							–	(1,179)
Loss before tax									(167,792)	(196,286)
Tax									(4,713)	(23)
Loss before minority interests									(172,505)	(196,309)
Minority interests									(1,310)	5,240
Net loss from ordinary activities attributable to shareholders									(173,815)	(191,069)
Segment assets	140,256	89,553	253,069	197,204	159,662	150,169	–	–	552,987	436,926
Interests in associates	–	–	3,524	3,107	–	–	–	–	3,524	3,107
Unallocated assets	–	–	–	–	–	–	48,787	256,207	48,787	256,207
Total assets									605,298	696,240
Segment liabilities	79,678	47,182	170,381	137,160	85,090	100,876	–	–	335,149	285,218
Unallocated liabilities	–	–	–	–	–	–	458,548	431,960	458,548	431,960
Total liabilities									793,697	717,178
Other segment information:										
Depreciation and amortisation	707	5,121	7,326	9,354	3,335	5,004	1,503	3,604	12,871	23,083
Provisions/(write-back of provisions) for bad and doubtful debts	1,334	2,347	6,386	4,514	2,242	14,707	(765)	4,857	9,197	26,425
Provisions (write-back of provisions) against inventories	(4,996)	9,261	(1,151)	142	(8,301)	23,532	–	–	(14,448)	32,935
Impairment losses recognised in the profit and loss account	–	10,949	–	4,330	–	–	–	–	–	15,279
Capital expenditure	536	3,140	1,682	20,794	218	2,999	648	875	3,084	27,808

(b) Business segments

The following table presents revenue, profit/(loss) and certain asset and capital expenditure information for the Group's business segments.

Group

	Systems integration and software services		Distribution of computer products		(Discontinued operations) e-business		Corporate and unallocated		Consolidated	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:										
Sales to external customers	670,186	784,186	354,284	301,719	168	17,181	–	–	1,024,638	1,103,086
Segment results	8,281	(76,958)	21,666	(31,280)	(336)	(2,346)	(46,136)	(45,818)	(16,525)	(156,402)
Other segment information:										
Segment assets	388,871	315,184	137,340	122,938	–	1,757	–	–	526,211	439,879
Unallocated assets							79,087	256,361	79,087	256,361
Total assets									605,298	696,240
Capital expenditure	2,218	19,902	218	2,999	–	4,682	648	225	3,084	27,808

8. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the aggregate of income arising from the sale of computer systems and the provision of related systems integration services, and income from the provision of software development and e-business services, after elimination of all significant intra-group transactions.

An analysis of Group turnover, other revenue and gains is as follows:

		Group	
		2003	**2002**
	Note	*HK$'000*	*HK$'000*
Turnover		1,024,638	1,103,086
Other revenue			
Interest income		2,944	7,708
Gross rental income		1,569	1,032
Dividend income from listed investments		–	54
Other		6,855	9,419
		11,368	18,213
Gains			
Waiver of loan by a minority shareholder		–	2,134
Gain on disposal of subsidiaries	*35(d)*	–	7,339
Gain on disposal of an associate		–	561
		–	10,034
		11,368	28,247

9. LOSS FROM OPERATING ACTIVITIES

This is arrived at after charging/(crediting):

		Group	
		2003	**2002**
	Note	*HK$'000*	*HK$'000*
Cost of inventories sold*		826,889	929,891
Cost of services provided		27,775	36,255
Depreciation	*16*	12,871	20,027
Staff costs (including directors' remuneration *(note 10)*):			
Wages and salaries		108,901	145,913
MPF scheme contributions		747	2,004
Central pension scheme contributions		3,025	5,235
		112,673	153,152
Minimum lease payments under operating lease rentals in respect of:			
Land and buildings		8,658	8,783
Plant and machinery		–	797
		8,658	9,580
Auditors' remuneration		1,917	1,780
Exchange losses, net		530	325
Loss on deemed disposal of partial interests in subsidiaries**		–	682
Loss on disposal of other investments**		51	61
Impairment of interest in an associate**		–	237
Provisions	*27*	8,580	25,751
Gross rental income		(1,569)	(1,032)
Less: Outgoings		272	20
Net rental income		(1,297)	(1,012)

* *The write-back of provisions against inventories and amortisation of deferred development costs for the year included as part of "Cost of inventories sold" amounted to HK$14,448,000 (2002: provisions of HK$32,935,000) and nil (2002: HK$441,000), respectively.*

** *Amounts included in "Other operating expenses" on the face of the consolidated profit and loss account.*

10. DIRECTORS' REMUNERATION

	Group 2003	2002
	HK$'000	*HK$'000*
Fees	–	40
Salaries, allowances and benefits in kind	12,584	10,750
MPF scheme contributions	444	446
Central pension scheme contributions	49	–
Bonuses paid and payable	2,808	–
Compensation for loss of office	2,691	–
	18,576	11,236

No directors' emoluments were paid to any independent non-executive director during the year (2002: fees of HK$40,000 were paid to an independent non-executive director, included in the above).

The number of directors whose remuneration fell within the following bands is as follows:

	Group 2003	2002
	Number of directors	*Number of directors*
Nil–HK$1,000,000	8	6
HK$1,500,001–HK$2,000,000	1	1
HK$2,500,001–HK$3,000,000	1	1
HK$3,000,001–HK$3,500,000	–	2
HK$3,500,001–HK$4,000,000	1	–
HK$4,000,001–HK$4,500,000	1	–
HK$6,000,001–HK$6,500,000	1	–
	13	10

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

During the year, a total of 23,000,000 share options were granted to the directors in respect of their services rendered to the Group, further details of which are set out in note 32 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss accounts or is otherwise included in the above directors' remuneration disclosures.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2002: four) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining one (2002: one) non-director, highest paid employee are as follows.

	Group 2003	2002
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	1,447	1,587
MPF scheme contributions	659	73
Bonuses paid and payable	68	1,468
	2,174	3,128

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Group	
	2003	**2002**
	Number of employee	*Number of employee*
HK$2,000,001 – HK$2,500,000	1	–
HK$3,000,001 – HK$3,500,000	–	1
	1	1

During the year, 3,000,000 share options were granted to the non-director, highest paid employee in respect of his service to the Group, further details of which are included in the disclosures in note 32 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss accounts or is otherwise included in the above non-director, highest paid employee's remuneration disclosures.

12. FINANCE COSTS

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Interest on:		
Bank loans and supplier loans wholly repayable within five years	5,214	12,447
Finance leases	37	50
Convertible bonds	13,506	16,363
	18,757	28,860

13. TAX

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the year. In the prior year, no provision for Hong Kong profits tax was made because the Group had no assessable profits arising in Hong Kong.

Tax on profits of the Group operating outside Hong Kong is calculated at rates prevailing in the respective jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Current year provision:		
Hong Kong	150	–
Outside Hong Kong	2,959	1,683
	3,109	1,683
Prior year under/(over) provision:		
Hong Kong	4	(4)
Outside Hong Kong	1,426	165
	1,430	161
Deferred tax – *note 30*	174	(1,821)
Tax charge for the year	4,713	23

14. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The Group's share of profits retained by the associates for the year amounted to HK$417,000 (2002: losses of HK$1,163,000).

15. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$173,815,000 (2002: HK$191,069,000) and the weighted average of 421,535,000 (2002: 420,214,000) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31st March, 2003 and 2002 have not been disclosed, as the potential ordinary shares of the Group outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

16. FIXED ASSETS

	Leasehold land and buildings Hong Kong	Leasehold land and buildings Mainland China	Leasehold improvements	Furniture, fixtures, equipment and motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Group					
At cost:					
At 1st April, 2002	17,602	61,660	13,986	64,773	158,021
Additions	–	–	213	2,871	3,084
Disposals	–	–	–	(1,638)	(1,638)
Write off	–	–	(5,430)	(383)	(5,813)
Reclassified to investment properties *(note 17)*	–	(29,964)	–	–	(29,964)
Arising from disposal of subsidiaries *(note 35(d))*	–	–	–	(1,937)	(1,937)
Exchange realignment	–	–	(74)	358	284
At 31st March, 2003	17,602	31,696	8,695	64,044	122,037
Accumulated depreciation:					
At 1st April, 2002	3,595	6,182	10,804	43,784	64,365
Provided for the year	528	1,309	2,154	8,880	12,871
Disposals	–	–	–	(1,039)	(1,039)
Write off	–	–	(4,794)	(266)	(5,060)
Reclassified to investment properties *(note 17)*	–	(3,497)	–	–	(3,497)
Arising from disposal of subsidiaries *(note 35(d))*	–	–	–	(725)	(725)
Exchange realignment	–	–	(38)	302	264
At 31st March, 2003	4,123	3,994	8,126	50,936	67,179
Net book value:					
At 31st March, 2003	13,479	27,702	569	13,108	54,858
At 31st March, 2002	14,007	55,478	3,182	20,989	93,656

Certain of the Group's leasehold land and buildings with a net book value of HK$19,386,000 (2002: HK$46,994,000) were pledged as security for banking facilities granted to the Group.

The net book value of the fixed assets held under finance leases included in the total amount of furniture, fixtures, equipment and motor vehicles at 31st March, 2003 amounted to HK$205,000 (2002: HK$79,000) for the Group.

17. INVESTMENT PROPERTIES

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
At beginning of year	11,990	9,280
Additions	–	5,340
Reclassified from fixed assets *(note 16)*	26,467	–
Revaluation deficits	(8,157)	(2,630)
At end of year	30,300	11,990

The investment properties are held under medium term leases and are situated in Hong Kong and Mainland China.

Certain investment properties with carrying values of HK$26,000,000 (2002: HK$7,500,000) are pledged to banks as security for banking facilities granted to the Group.

The investment properties were revalued on an open market, existing use basis by DTZ Debenham Tie Leung, an independent firm of professionally qualified valuers, as at 31st March, 2003. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 37(a) to the financial statements.

18. GOODWILL

The amount of the goodwill capitalised as an asset arising from the acquisition of subsidiaries during the year is as follows:

	Group
	HK$'000
Cost:	
At 1st April, 2002	12,041
Written off upon disposal of subsidiaries	(12,041)
At 31st March, 2003	–
Accumulated amortisation and impairment:	
At 1st April, 2002	12,041
Written off upon disposal of subsidiaries	(12,041)
At 31st March, 2003	–
Net book value:	
At 31st March, 2003	–
At 31st March, 2002	–

As detailed in note 4 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to 1st April, 2001, to remain eliminated against consolidated reserves.

As at 31st March, 2003, the amounts of the goodwill remaining in consolidated accumulated losses of the Group, arising from the acquisition of subsidiaries prior to 1st April, 2001, were HK$1,981,000 (2002: HK$6,917,000). The amounts of goodwill are stated at cost less any impairment losses. During the year, goodwill of HK$4,936,000 (2002: Nil) previously remaining in the consolidated accumulated losses of the Group were released to the consolidated profit and loss account upon the disposal of a subsidiary.

19. INTERESTS IN SUBSIDIARIES

	Company 2003	Company 2002
	HK$'000	*HK$'000*
Unlisted shares, at cost	28,277	28,277
Due from subsidiaries	556,693	531,261
	584,970	559,538
Less: Provision for impairment	(438,361)	(379,770)
	146,609	179,768

The balances with subsidiaries are unsecured, not repayable within one year and interest-free except for amounts due from certain subsidiaries of HK$130,389,000 (2002: HK$143,982,000) which bears interest at 5% to 5.125% per annum (2002: 6% per annum).

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered and paid-up capital	Percentage of equity attributable to the Company 2003	Percentage of equity attributable to the Company 2002	Principal activities
Vanda (B.V.I.) Limited	British Virgin Islands	Ordinary US$50,000	100	100	Investment holding
Polmont Property Investments Limited	British Virgin Islands	Ordinary US$1	100	100	Investment holding
Honeycroft Holdings Ltd.	British Virgin Islands	Ordinary US$2	100	100	Investment holding
Vanda Computer & Equipment Company Limited	Hong Kong	Ordinary HK$2 Deferred HK$2,000,000	100	100	Systems integration and trading of computer products
Vanda Computer Service (Hong Kong) Company Limited	Hong Kong	Ordinary HK$10,000	100	100	Systems integration and distribution of computers
WiseAsia.com Limited	Hong Kong	Ordinary HK$100,000	100	100	Systems integration and the provision of related technical services and trading of computer products
Vanda Software Engineering Company Limited	Hong Kong	Ordinary HK$1,000,000	100	100	Development of software
Janeper Development Limited	Hong Kong	Ordinary HK$2 Deferred HK$300,000	100	100	Property investment

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered and paid-up capital	Percentage of equity attributable to the Company 2003	2002	Principal activities
BonVision Technology Limited	Hong Kong	Ordinary HK$100	60	60	Investment holding
Vanda Computer Service (Macau) Company Limited	Macau	Ordinary MOP$500,000	100	100	Systems integration and distribution of computers
WiseAsia Computer Service (Macau) Company Limited	Macau	Ordinary MOP$25,000	100	–	Systems integration and distribution of computers
Vanda Computer System Integration (Shanghai) Co., Ltd. #	Mainland China	US$1,050,000	100	100	Systems integration and trading of computers
Beijing Vanda Yunda IT Services Co., Ltd. #*	Mainland China	RMB31,000,000	–	–	Systems integration and trading of computers
Beijing Vanda Suntech Software Engineering Co., Ltd. #	Mainland China	US$500,000	100	100	Manufacture and sale of computer software and the provision of related technical consultancy services
Changchun Vanda Software Engineering Co., Ltd. #	Mainland China	US$500,000	100	100	Development, design and installation of computer software systems, the provision of consultancy and training services and trading of computers
Changchun Changlian Software Engineering Co., Ltd. #	Mainland China	RMB2,750,000	60	60	Development, design and installation of computer software systems, the provision of consultancy and training services and trading of computers
Vanda Software Engineering (Shenzhen) Co., Ltd. #	Mainland China	US$300,000	100	100	Development, design and installation of computer software systems

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered and paid-up capital	Percentage of equity attributable to the Company 2003	2002	Principal activities
Vanda Computer System Integration (Shenzhen) Co., Ltd. #	Mainland China	US$2,100,000	100	100	Development, design and installation of computer software systems
Dalian Vanda Software Engineering Co., Ltd. #	Mainland China	RMB996,120	60	60	Design and installation of computer software communications networks and industrial control systems
Vanda Systems (Singapore) Pte Ltd	Singapore	Ordinary S$7,200,000	91.7	91.7	Investment holding
Vanda Solutions (Singapore) Pte Ltd	Singapore	Ordinary S$652,896	91.7	91.7	Provision of information technology consultancy services and trading of computer products
Azure Technologies Pte Ltd	Singapore	Ordinary S$2,500,000	91.7	91.7	Distribution of computer products and the provision of computer support services
Vandacom (Malaysia) Sdn. Bhd. #	Malaysia	RM$500,000	91.7	91.7	Provision of technical services and trading of computer products
Azure Technologies (Malaysia) Sdn. Bhd. #	Malaysia	RM$7,700,000	91.7	91.7	Distribution of computer products and the provision of computer support services
Azure Technologies Phils., Inc. #	Philippines	Peso27,000,000	91.7	91.7	Distribution of computer products and the provision of computer support services

Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

* *Beijing Vanda Yunda IT Services Co., Ltd. is regarded as a subsidiary of the Company because the Group has control over its financial and operating policies.*

During the year, the Group disposed of DigiLogistics.com Ltd. and BonVision Technology (Hong Kong) Limited. Further details of these disposals are included in note 35(d) to the financial statements.

All of the above companies are indirectly held by the Company through Vanda (B.V.I.) Limited except for Vanda (B.V.I.) Limited itself, which is directly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The remittance of dividends to the Group from certain subsidiaries outside Hong Kong is subject to the convertibility of the foreign currencies generated and retained by the subsidiaries.

20. INTERESTS IN ASSOCIATES

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Share of net assets	3,419	1,739
Goodwill on acquisition, net of amortisation and impairment	–	–
Provision for impairment	–	(237)
	3,419	1,502
Amounts due from associates	105	1,605
	3,524	3,107

The balances with associates are unsecured, interest-free and not repayable within one year.

Particulars of the principal associate are as follows:

Name of company	Business structure	Country of registration and operations	Percentage of equity attributable to the Group 2003	Percentage of equity attributable to the Group 2002	Principal activities
Beijing Datang-Vanda Systems & Communications Co., Ltd. #	Corporate	Mainland China	25	25	Systems integration

Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The above table lists the associate of the Group which in the opinion of the directors, principally affected the results of the Group for the year or formed a substantial portion of the net assets of the Group at the balance sheet date. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The remittance of dividends to the Group from certain associates outside Hong Kong is subject to the convertibility of the foreign currencies generated and retained by the associates.

The amount of the goodwill capitalised as an asset, arising from the acquisition of an associate, is as follows:

Group

	Goodwill
	HK$'000
Cost:	
At 1st April, 2002	1,286
Written off upon disposal of an associate	(1,286)
At 31st March, 2003	–
Accumulated amortisation and impairment:	
At 1st April, 2002	1,286
Written off upon disposal of an associate	(1,286)
At 31st March, 2003	–
Net book value:	
At 31st March, 2003	–
At 31st March, 2002	–

21. LONG TERM INVESTMENTS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Unlisted equity investments, at cost	115,330	115,330
Provisions for impairment	(111,630)	(35,269)
	3,700	80,061

Particulars of the investee company under long term investments of the Group are as follows:

Name of company	Country of of incorporation	Class of shares held	Proportion of the class of shares held
Netstar International Holdings (BVI) Limited	British Virgin Islands	Class A Common Stock	4.96%

22. OTHER INVESTMENTS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Unlisted equity investments, at fair value	3,511	28,636
Unlisted debt investments, at fair value	–	30,402
	3,511	59,038

Particulars of the principal investee company under other investments of the Company and of the Group are as follows:

Name of company	Country of incorporation	Class of securities held	Proportion of the class of securities held		Carrying value	
			2003	2002	2003	2002
					HK$'000	*HK$'000*
New Tech & Telecom Investment Limited (NT&T)	British Virgin Islands	Ordinary	9.1%	9.37%	–	25,000
		Convertible bonds *(note(i))*	N/A	N/A	–	30,000
					–	55,000

(i) on 19th September, 2000, NT&T, an independent third party, issued to the Company the convertible bonds of an aggregate principal amount of HK$30,000,000 due on 19th September, 2002 (the "Original Bonds") on the terms of a bond instrument dated 19th September, 2000 which was subsequently amended on 30th March, 2001 ("Bond Instrument").

Upon maturity of the Original Bonds on 19th September, 2002, the Company, NT&T and South China Communication Holdings Limited, the majority shareholder of NT&T, entered into an agreement (the "Agreement") pursuant to which, inter alia, NT&T executed a supplemental deed to the Bond Instrument ("Amended and Restated Bond Instrument") to extend the maturity date of the Original Bonds of HK$30,000,000 to 18th September, 2006 and to issue new convertible bonds of HK$1,800,000 in respect of interests payable thereon (collectively the "New Bonds") to the Company subject to the terms and conditions of the Amended and Restated Bond Instrument.

The New Bonds bear interest at (i) 4% per annum from 19th September, 2002 to 18th September, 2004, both days inclusive; and (ii) 4% or the best lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time less 1.125% per annum, whichever is the higher from 19th September, 2004 to 18th September, 2006, both days inclusive. There is no mandatory conversion. The Company has the right to convert, after the issue of the New Bonds, the whole or any part of the outstanding principal amount of the New Bonds held by the Company into such number of shares of NT&T or its substituted listing company (as the case may be) subject to the terms and conditions of the Amended and Restated Bond Instrument. NT&T may at any time redeem all or part of the New Bonds then outstanding in accordance with the terms of the Amended and Restated Bond Instrument. The outstanding principal amount of the New Bonds, if not previously converted or repaid, are repayable in full at par upon maturity.

23. DEFERRED DEVELOPMENT COSTS

	HK$'000
Group	
Cost:	
At beginning and end of year	86,789
Accumulated amortisation and impairment:	
At beginning and end of year	(86,789)
Net book value:	
At 31st March, 2003	–
At 31st March, 2002	–

24. ACCOUNTS RECEIVABLE

An aged analysis of the accounts receivable as at the balance sheet date is as follows:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Current to 30 days	181,221	88,971
31 to 90 days	41,174	61,275
Over 90 days	47,905	30,506
	270,300	180,752

The credit terms granted to the customers vary, and are generally based on the result of a credit evaluation of the individual customer carried out by the Group, which includes an evaluation of the credit risk and financial strengths of the customer.

25. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Cash and bank balances	102,422	66,728
Time deposits	67,850	102,530
	170,272	169,258
Less: Pledged time deposits:		
Pledged for short term bank loans	(62,112)	(52,237)
Pledged for bank overdraft facilities	–	(200)
	(62,112)	(52,437)
Cash and cash equivalents	108,160	116,821

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$30,423,000 (2002: HK$10,491,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

26. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the balance sheet date is as follows:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Current to 30 days	146,402	81,781
31 to 90 days	7,677	18,599
Over 90 days	17,657	51,762
	171,736	152,142

27. PROVISIONS

Group

	Product warranty costs *HK$'000*	Redundancy costs *HK$'000*	Loss on put option *HK$'000*	Total *HK$'000*
At 1st April, 2002	13,555	3,699	10,000	27,254
Additional provision	6,732	1,848	–	8,580
Amounts utilised during the year	(5,900)	(5,547)	–	(11,447)
At 31st March, 2003	14,387	–	10,000	24,387
Portion classified as current liabilities	(12,697)	–	(10,000)	(22,697)
Long term portion	1,690	–	–	1,690

The Group provides a two-year warranty to its customers on certain of its computer products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns, discounted to their present value as appropriate. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

The Group provides for the probable material redundancy payments expected to be made to employees under the Hong Kong Employment Ordinance or the respective local requirements of other jurisdiction. The provision is based on the best estimation of probable future payments which are entitled by the employees upon retrenchment.

On 6th April, 2001, the Company entered into an agreement (the "Agreement") with First Shanghai Investment Limited ("First Shanghai"), pursuant to which, First Shanghai agreed to sell, and the Company agreed to acquire a 60% equity interest and certain amounts of the shareholder's loan in BonVision Technology Limited ("BonVision"). The provision of HK$10 million was made for the estimated loss on a put option granted to First Shanghai pursuant to the Agreement, which enables First Shanghai to put its 40% equity interest and relevant shareholder's loan in BonVision to the Company or any of its designated subsidiaries, at the earlier of 31st December, 2003 or upon the occurrence of any events as specified by the Agreement.

28. FINANCE LEASE PAYABLES

The Group leases certain of its equipment for its systems integration business and general operation. These leases are classified as finance leases and have a remaining lease term of five years.

The future minimum lease payments under the finance leases and their present value at the balance sheet date were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable:				
Within one year	56	89	36	69
In the second to fifth years, inclusive	188	58	159	49
Total minimum finance lease payments	244	147	195	118
Future finance charges	(49)	(29)		
Total net finance lease payables	195	118		
Portion classified as current liabilities	(36)	(69)		
Long term portion	159	49		

29. INTEREST-BEARING BANK LOANS, OVERDRAFTS AND SUPPLIER LOANS

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Unsecured bank overdrafts	–	165
Trust receipt loans:		
Secured	32,837	56,880
Unsecured	27,860	14,722
Bank loans:		
Secured	20,969	15,553
Unsecured	2,104	31,195
Unsecured supplier loans	7,933	11,893
	91,703	130,408

The bank loans, overdrafts and supplier loans are repayable as follows:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Within one year:		
Overdrafts	–	165
Trust receipt loans	60,697	71,602
Bank loans	19,624	41,417
Supplier loans	7,933	11,893
	88,254	125,077
In the second year:		
Bank loans	1,573	1,880
In the third to fifth years, inclusive:		
Bank loans	1,876	3,451
	91,703	130,408
Portion classified as current liabilities	(88,254)	(125,077)
Long term portion	3,449	5,331

The secured trust receipt loans and bank loans are secured by fixed charges over certain leasehold land and buildings, investment properties and time deposits of the Group. The supplier loans are unsecured and interest-bearing with interest charged at rates ranging from 4.5% to 10.5% (2002: 6.5% to 15.8%) per annum.

30. DEFERRED TAX

	Group 2003 HK$'000	Group 2002 HK$'000
Balance at beginning of year	87	1,901
Charge/(credit) for the year – note 13		
Including the effect of the change in rate from 16% to 17.5% of HK$15,000 (2002: Nil)	174	(1,821)
Exchange realignment	–	7
Balance at end of year	261	87

The provision for deferred tax is made in respect of accelerated capital allowances to the extent that the liability is expected to crystallise in the foreseeable future.

The Group have no significant potential deferred tax liabilities for which provision has not been made.

31. SHARE CAPITAL

Ordinary shares

	Company 2003 HK$'000	Company 2002 HK$'000
Authorised:		
2,000,000,000 (2002: 1,000,000,000) ordinary shares of HK$0.10 each	200,000	100,000
Issued and fully paid:		
421,607,199 (2002: 420,977,199) ordinary shares of HK$0.10 each	42,161	42,098

During the year, 630,000 ordinary shares of HK$0.10 each were issued pursuant to the exercise of the Company's share options by the holders at various exercise prices with total proceeds received of HK$413,800.

A summary of movements in the issued share capital of the Company during the year is as follows:

	Number of ordinary shares of HK$0.10 each	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1st April, 2001	420,018,199	42,002	306,902	348,904
Exercise of options	1,591,000	159	1,097	1,256
Repurchase of shares	(632,000)	(63)	(413)	(476)
At 31st March, 2002 and 1st April, 2002	420,977,199	42,098	307,586	349,684
Exercise of options	630,000	63	351	414
At 31st March, 2003	421,607,199	42,161	307,937	350,098

Pursuant to an ordinary resolution passed on 2nd April, 2002, the authorised share capital of the Company was increased from HK$100,000,000 divided into 1,000,000,000 shares of HK$0.10 each to HK$200,000,000 by the creation of an additional 1,000,000,000 shares of HK$0.10 each.

Share options

Details of the Company's share option schemes and the share options granted under the schemes are included in note 32 to the financial statements.

32. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 3 and under the heading "Employee benefits" in note 4 to the financial statements. As a result, the following detailed disclosures relating to the Group's share option schemes are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Group operates certain option schemes, which were detailed as follows:

(i) Existing Scheme of the Company

Pursuant to an ordinary resolution passed on 22nd March, 1995, the Company adopted a share option scheme (the "Existing Scheme") for the purpose of providing incentive and rewards to eligible participants. On 2nd April, 2002, the Existing Scheme was terminated and replaced by a new option scheme, as detailed below under the heading "New Option Scheme of the Company". Upon the termination of the Existing Scheme, no further options would be offered pursuant to the Existing Scheme, however the Existing Scheme will in all other respects remain in force to the extent necessary to give effect to the exercise of the outstanding options granted pursuant thereto (the "Outstanding Options"). The Outstanding Options will continue to be valid and exercisable in accordance with the rules of the Existing Scheme.

Eligible participants of the Existing Scheme included employees or executive directors of the Company or any of its subsidiaries (the "Employees"). The directors of the Company (the "Directors") are authorised to invite, at their discretion, eligible participants to take up options to subscribe for shares in the Company (the "Shares"). The options are exercisable for a period to be notified by the board of Directors to each grantee and in any event such period of time should not exceed a period of three years commencing on the expiry of six months after the date on which the option is accepted, provided that no options can be exercised after 21st March, 2005. Unless otherwise cancelled or amended, the Existing Scheme will remain in force for a period of 10 years commencing on 22nd March, 1995.

The maximum number of Shares in respect of which options may be granted (together with Shares issued pursuant to options exercised and Shares in respect of which any options remain outstanding) under the Existing Scheme and any other share options schemes of the Company may not exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose Shares issued on exercise of options granted pursuant to the Existing Scheme. At 31st March, 2003, the number of shares issuable under share options granted under the Existing Scheme was 14,824,000, which represented approximately 4% of the Company's shares in issue as at that date. No option may be granted to any one Employee which, if exercised in full, would result in such Employee becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued and remaining issuable to him or her under the Existing Scheme, would exceed 25% of the aggregate number of Shares for the time being issued and are issuable under the Existing Scheme.

The offer of a grant of share options could be accepted upon payment of a nominal consideration of HK$1 in total by the grantee. The vesting period of the share options was determinable by the Directors.

The subscription price for Shares under the Existing Scheme will be a price determined by the board of Directors and notified to each grantee and will be the higher of: (i) a price being not less than 80% of the average closing price of the Shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the option granted to a grantee; and (ii) the nominal value of a Share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Existing Scheme during the year:

Name or category of participant	Date of grant of share options*	Number of share options held at 1st April, 2002	Granted during the year	Exercised during the year	Expired during the year	Number of share options held at 31st March, 2003	Exercise period of share options	Exercise price of share options**	Price of Company's shares at grant date of share options***
								HK$	*HK$*
Directors									
Lam Hon Nam	15.4.1999	400,000	–	–	400,000	–	15.10.1999 to 14.10.2002	0.42	0.76
	23.11.1999	1,500,000	–	–	–	1,500,000	23.5.2000 to 22.5.2003	0.87	1.21
	12.7.2000	1,000,000	–	–	–	1,000,000	12.1.2001 to 11.1.2004	2.20	2.75
	2.5.2001	800,000	–	–	–	800,000	2.11.2001 to 1.11.2004	0.81	1.02
Ma Chun Kwong, Edmund	23.11.1999	750,000	–	–	–	750,000	23.5.2000 to 22.5.2003	0.87	1.21
	12.7.2000	1,000,000	–	–	–	1,000,000	12.1.2001 to 11.1.2004	2.20	2.75
	2.5.2001	800,000	–	–	–	800,000	2.11.2001 to 1.11.2004	0.81	1.02
Wai Yee Jan	23.11.1999	750,000	–	–	–	750,000	23.5.2000 to 22.5.2003	0.87	1.21
	12.7.2000	1,000,000	–	–	–	1,000,000	12.1.2001 to 11.1.2004	2.20	2.75
	2.5.2001	600,000	–	–	–	600,000	2.11.2001 to 1.11.2004	0.81	1.02
Ching Wan Kwan	23.11.1999	650,000	–	–	–	650,000	23.5.2000 to 22.5.2003	0.87	1.21
	12.7.2000	500,000	–	–	–	500,000	12.1.2001 to 11.1.2004	2.20	2.75
	2.5.2001	400,000	–	–	–	400,000	2.11.2001 to 1.11.2004	0.81	1.02
		10,150,000	–	–	400,000	9,750,000			
Other employees									
In aggregate	15.4.1999	150,000	–	100,000	50,000	–	15.10.1999 to 14.10.2002	0.42	0.76
	3.9.1999	250,000	–	250,000	–	–	3.3.2000 to 2.3.2003	0.58	0.74
	23.11.1999	2,150,000	–	–	800,000	1,350,000	23.5.2000 to 22.5.2003	0.87	1.21
	23.2.2000	240,000	–	–	100,000	140,000	23.8.2000 to 22.8.2003	4.05	7.95
	1.3.2000	200,000	–	–	200,000	–	1.9.2000 to 31.8.2003	5.30	7.30
	26.4.2000	10,000	–	–	10,000	–	26.10.2000 to 25.10.2003	3.20	3.73
	12.7.2000	2,720,000	–	–	1,100,000	1,620,000	12.1.2001 to 11.1.2004	2.20	2.75
	2.5.2001	5,067,000	–	280,000	2,823,000	1,964,000	2.11.2001 to 1.11.2004	0.81	1.02
		10,787,000	–	630,000	5,083,000	5,074,000			
		20,937,000	–	630,000	5,483,000	14,824,000			

Details of share options exercised during the year:

Exercise date	Exercise price of share options **	Price of Company's share at exercise date ***	Proceeds received	Number of options
	HK$	*HK$*	*HK$*	
29.4.2002	0.42	0.83	42,000	100,000
6.5.2002	0.58	0.90	145,000	250,000
29.4.2002	0.81	0.83	24,300	30,000
6.5.2002	0.81	0.90	24,300	30,000
10.5.2002	0.81	0.95	72,900	90,000
28.5.2002	0.81	0.92	40,500	50,000
1.6.2002	0.81	0.90	64,800	80,000
			226,800	280,000
			413,800	630,000

* *The vesting period of the above outstanding share options is from the date of the grant until the commencement of the exercise period and only 50% of the options can be exercised within the first year from the date on which the options are accepted.*

** *The exercise price of the share options is subject to adjustment, in accordance with the provision of the Existing Scheme, in the event of an alteration in the capital structure of the Company.*

*** *The price of the Shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Shares disclosed as at the date of exercise of the share options is the Stock Exchange closing price on the trading day immediately prior to the exercise date.*

The 630,000 shares options exercised during the year resulted in the issue of 630,000 ordinary shares of the Company and new share capital of HK$63,000 and share premium of HK$351,000, as detailed in note 31 to the financial statements.

At the balance sheet date, the Company had 14,824,000 share options outstanding under the Existing Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 14,824,000 additional ordinary shares of the Company and additional share capital of HK$1,482,400 and share premium of HK$18,395,000 (before issue expenses).

(ii) Share option schemes of subsidiaries

On 21st May, 2001, the Company approved the adoption by certain subsidiaries (the "Subsidiaries") of the respective share option schemes (collectively the "Subsidiaries' Scheme"). The purpose of the adoption of the Subsidiaries' Scheme is to provide greater incentive to the Subsidiaries' employees, thereby improving their productivity and helping to retain key staff. The board of directors of the Subsidiaries may, at their discretion, offer to grant options to subscribe for shares in the respective Subsidiaries to employees and any executive directors of the Subsidiaries. Subject to any earlier termination by the respective Subsidiaries, the Subsidiaries' Scheme shall be valid and effective for a period of 10 years from 21st May, 2001. The issue of the shares in the respective Subsidiaries pursuant to the exercise of an option by the grantee shall be conditional upon the unconditional completion of the listing of the shares of the respective Subsidiaries ("Subsidiary Shares") on any internationally recognised stock exchange. Subject to the above, an option may be exercised in accordance with the terms of the Subsidiaries' Scheme, but in any event shall not exceed 10 years commencing from the date of grant of the option.

The total number of Subsidiary Shares which can be subscribed through exercising all options granted under the Subsidiaries' Scheme and any other share option scheme of the respective Subsidiaries shall in aggregate not exceed 10% of the total number of the Subsidiary Shares in issue from time to time (excluding any Subsidiary Shares issued pursuant to the Subsidiaries' Scheme). No option may be granted to any one person which if exercised in full would result in the total number of the Subsidiary Shares already issued and issuable to the grantee under all the options previously granted to him, and the proposed option, exceeding 25% of the total number of Subsidiary Shares subject to the Subsidiaries' Scheme.

The offer of a grant of share options may be accepted upon payment of a nominal consideration by the grantee of HK$1 for the respective Subsidiaries incorporated in Hong Kong, or an appropriate amount in the currency of the jurisdiction, if not in Hong Kong, in which the respective Subsidiaries have their principal place of business.

The minimum exercise price for the options granted under the Subsidiaries' Scheme shall be the higher of (i) the par value per the respective Subsidiary Shares; or (ii) 80% of the net asset value of the respective Subsidiaries, as stated in the latest audited financial statements or, if audited financial statements are not available, the latest management accounts of the respective Subsidiaries, divided by the number of the respective Subsidiary Shares in issue at the date of the latest audited financial statements or latest management accounts (as the case may be).

Up to the date of this report, no option has been granted under the Subsidiaries' Scheme.

(iii) New Option Scheme of the Company

Following the amendments made to Chapter 17 of the Listing Rules which came into effect on 1st September, 2001, no option may be granted under the Existing Scheme unless such grant is made in compliance with the amended rules. To enable the Company to reward and provide incentives to, and to strengthen the Group's business relationship with the prescribed classes of participants who may contribute to the growth and development of the Group (who now became classes of potential grantees of the share options as expanded by the Listing Rules), a new option scheme (the "New Option Scheme") was adopted by the Company on 2nd April, 2002 and at the same time the Existing Scheme was terminated. The New Option Scheme will remain in force for 10 years commencing on 2nd April, 2002.

Under the New Option Scheme, the eligibility of the participants for the grant of any options shall be determined by the Directors from time to time on the basis of their contribution to the development and growth of the Group and the Directors may, at their discretion, invite any person belonging to any of the following classes of participants to take up options for Shares:

(a) any employee/consultant or proposed employee/consultant (including executive director but excluding any non-executive director) of the Company, any of its subsidiaries or any entity (the "Invested Entity") in which a member of the Group holds any equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;

(b) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of any member of the Group or any Invested Entity;

(e) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;

(f) any shareholder of any member of the Group or any Invested Entity, or any holder of any securities issued by any member of the Group or any Invested Entity;

(g) any other group or class of participants who has contributed or may contribute by way of a joint venture, business alliance or other business arrangement to the development and growth of the Group; and

(h) any company wholly owned by one or more persons belonging to any of the above classes of participants.

The maximum number of shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the New Option Scheme and any other share option scheme must not in aggregate exceed 30% of the relevant class of shares of the Company (or its subsidiaries) in issue from time to time.

The total number of shares which may be allotted and issued upon the exercise of all options to be granted under the New Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the relevant class of shares of the Company in issue at the date of approval of the limit by the Company in general meeting.

The total number of shares issued and which may fall to be issued upon the exercise of the options granted under the New Option Scheme and any other share option scheme of the Group, including both exercised or outstanding option, to each participant in any 12-month period, shall not exceed 1% of the issued share capital of the Company for the time being unless approved by the shareholders in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. Where any grant of option to a substantial shareholder or an independent non-executive director of the Company, or any of their associates would result in the Shares issued and to be issued upon the exercise of all options already granted and be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (a) representing in aggregate over 0.1% of the Shares in issue; and (b) having an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK$5 million, such further grant of options must be approved by the shareholders in a general meeting.

Any change in the terms of the options granted to a substantial shareholder or an independent non-executive director, or any of their associates must be approved by the shareholders in a general meeting.

An option may be accepted by a participant by the payment of a nominal value of HK$1. An option may be exercised in accordance with the terms of the New Option Scheme at any time during a period to be determined on the date of offer of grant of option and notified by the Directors to each grantee. The exercise period may commence once the offer of the grant is accepted by the grantee within the prescribed time from the date of its offer and shall end in any event not later than 10 years from the date on which the offer of the grant of the options was made, subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the New Option Scheme for the holding of an option before it can be exercised.

The exercise price of the Shares under the New Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer of the grant; (ii) the average closing price of the Shares for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the New Option Scheme during the year:

Name or category of participant	Date of grant of share options *	Number share options held at 1st April, 2002	Granted during the year	Exercised during the year	Expired during the year	Number of share options held at 31st March, 2003	Exercise price of share options **	Price of Company's shares at grant date of share options ***
							HK$	*HK$*
Directors								
Loh Tiak Koon #	2.4.2002	–	20,000,000	–	–	20,000,000	0.886	0.88
Ching Wan Kwan	2.5.2002	–	3,000,000	–	–	3,000,000	0.94	0.93
		–	23,000,000	–	–	23,000,000		
Other employees								
In aggregate	2.5.2002	–	14,100,000	–	4,500,000	9,600,000	0.94	0.93
		–	37,100,000	–	4,500,000	32,600,000		

\# *The number of share options granted during the year to Loh Tiak Koon, a director of the Company, exceeded the individual limit of 1% of the Shares then in issue, and was approved by the shareholders at the Company's special general meeting on 2nd April, 2002.*

At the balance sheet date, the Company had 32,600,000 share options outstanding under the New Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 32,600,000 additional ordinary shares of the Company and an additional share capital of HK$3,260,000 and share premium of HK$26,304,000 (before issue expenses).

33. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 44 of the financial statements.

The contributed surplus of the Group was originally derived from the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1993, over the nominal value of the Company's shares issued in exchange therefor.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against consolidated accumulated losses, as explained in note 18 to the financial statements.

34. CONVERTIBLE BONDS

	2003	**2002**
	HK$'000	*HK$'000*
2002 Convertible Bonds	–	277,153
2005 Convertible Bonds	334,432	–
	334,432	277,153
Portion classified as current liabilities	–	(79,187)
Long term portion	334,432	197,966

On 18th February, 2000, the Company entered into a conditional agreement with Hutchison, an independent third party ("I3P") and Lam Ma & Wai Limited under which (i) the Company agreed to issue convertible bonds (the "2002 Convertible Bonds") to Hutchison (the "2002 HIL Bond") and I3P (the "I3P Bond") in the respective principal sums of HK$197,966,638 and HK$79,186,656; and (ii) the Company agreed to grant options (the "Options") to Hutchison and I3P to subscribe for shares in the Company up to a total of 7.5% and 3.0%, respectively, of the total issued share capital of the Company, based on the issued share capital of the Company as at 18th February, 2000 as enlarged by (a) the shares to be issued upon the full conversion of the 2002 Convertible Bonds; and (b) the shares to be issued upon the full conversion of another convertible bond which was outstanding as at 18th February, 2000. The 2002 Convertible Bonds were issued on 7th April, 2000.

The 2002 Convertible Bonds bore interest at a rate of 6% per annum payable every six months in arrears and matured on the second anniversary of their issue date. The 2002 Convertible Bonds are convertible into shares of the Company at any time after their issue date at an initial conversion price of HK$3.175 per share, subject to adjustment. Based on the initial conversion price, a total of 87,292,376 new shares would be issued upon the full conversion of the 2002 Convertible Bonds.

The Options are exercisable by Hutchison and I3P at any time during the period commencing on the issue date of the 2002 Convertible Bonds and expiring on the second anniversary of that date and may be exercised in whole or in part. The exercise price per share under the Options is equal to the conversion price under the 2002 Convertible Bonds. Assuming that the Options are fully exercised at the initial exercise price according to the terms of the Options, a total of 52,375,425 new shares of the Company would be issued and gross proceeds of HK$166,291,974 would be received by the Company upon exercise of the Options.

The outstanding principal of the I3P Bond of HK$79,186,656 was fully repaid at its maturity on 8th April, 2002. The Options were not exercised and accordingly lapsed on 7th April, 2002. The 2002 HIL Bond were surrendered by Hutchison on 3rd April, 2002, as settlement of the consideration for the subscription of the 2005 HIL Bond (defined below), as further detailed below.

On 15th February, 2002, the Company entered into two several investor agreements (the "Investor Agreements") with Hutchison and DBS, respectively. Under the respective Investor Agreements, the Company agreed (i) to issue convertible bonds in the principal sum of HK$197,966,638 to Hutchison (the "2005 HIL Bond") and HK$136,465,000 to DBS (the "DBS Bond"), respectively, and (ii) to grant an option to subscribe for up to 42,097,719 shares in the Company to each of Hutchison (the "HIL Option") and DBS (the "DBS Option").

The 2005 HIL Bond and the DBS Bond (collectively the "2005 Convertible Bonds") each bears interest at a rate of 4% per annum payable every six months in arrears. The outstanding principal amounts of the 2005 HIL Bond and DBS Bond are repayable by the Company upon their maturity on the third anniversary of the date of issue, subject to the extension by the respective holders of the 2005 Convertible Bonds for up to two periods of one year each, if not previously converted by the holders. The 2005 Convertible Bonds are convertible into shares of the Company at any time after the date of issue but before maturity, at an initial conversion price of HK$0.85 per share, subject to adjustment.

Upon full conversion of the 2005 Convertible Bonds at the initial conversion price of HK$0.85 per share, 232,901,927 and 160,547,058 new shares will be issued to Hutchison and DBS, respectively.

Upon completion of the issue of the 2005 Convertible Bonds, the HIL Option and the DBS Option are exercisable in whole or in part by Hutchison and DBS, respectively, at any time from the date of completion of the issue of the 2005 Convertible Bonds until their respective maturity dates. The initial exercise price is HK$0.86 per share, subject to adjustment.

The issue of the 2005 Convertible Bonds was approved by the shareholders of the Company on 2nd April, 2002 and was completed on 3rd April, 2002.

Further details on the post balance sheet event relating to the 2005 Convertible Bonds, the HIL Option and the DBS Option were included in note 38 to the financial statements.

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year reclassifications

SSAP 15 (Revised) was adopted during the current year, as detailed in note 3 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid and interest element on finance lease rental payments are now included in cash flows from operating activities, interest and dividends received are now included in cash flows from investing activities, and interest paid, except for interest element on finance lease rental payments, are now included in cash flows from financing activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout.

Also, the definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 4 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31st March, 2002 has been adjusted to remove trust receipt loans and time deposits with original maturity of less than three months when acquired, pledged as security for trust receipt loans amounting to HK$34,672,000, and HK$36,723,000, respectively, previously included at that date. The year's movement in trust receipt loans is now included in cash flows from financing activities and the comparative consolidated cash flow statement has been changed accordingly.

(b) Major non-cash transactions

(i) As detailed in note 34 to the financial statements, during the year, the 2002 HIL Bond was surrendered as settlement of the consideration for the subscription of the 2005 HIL Bond.

(ii) On 4th October, 2001, VSS acquired a 12.5% interest in AT, and a 25% interest in Vanda Solutions (Singapore) Pte Ltd ("VS") from iWave Holdings Pte. Ltd. ("iWave"), the minority shareholder of AT and VS, for a total consideration of S$1,091,994 (equivalent to HK$4,902,000). The consideration was settled by way of the allotment of 597,632 ordinary shares of S$1 each in the capital of VSS to iWave.

On the same date, VSS issued 1,602,368 ordinary shares of S$1 each to Vanda (BVI), a wholly-owned subsidiary of the Company and the immediate holding company of VSS, at S$1.8272 per share. The consideration for the share allotment of S$2,927,847 (equivalent to HK$13,143,000) was satisfied by offsetting the amount due by VSS to Vanda (BVI).

(c) Acquisition of subsidiaries

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Net assets acquired:		
Fixed assets	–	6,096
Accounts receivable	–	663
Prepayments, deposits and other receivables	–	3,333
Cash and cash equivalents	–	35,993
Deposits received, accruals and other payables	–	(8,904)
Minority interests	–	(1,202)
	–	35,979
Goodwill on acquisition	–	12,041
	–	48,020
Satisfied by:		
Cash	–	19,500
Long term deposits	–	28,520
	–	48,020

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Cash consideration	–	(19,500)
Cash and cash equivalents acquired	–	35,993
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	16,493

The subsidiaries acquired in the prior year contributed HK$2,376,000 to consolidated turnover and HK$13,852,000 to the consolidated loss after tax and before minority interests for the year ended 31st March, 2002.

(d) Disposal of subsidiaries

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Net liabilities disposed of:		
Fixed assets	1,212	791
Accounts receivable	377	14,474
Inventories	–	280
Prepayments, deposits and other receivables	439	3,662
Cash and cash equivalents	1,048	107
Accounts payable	(1,285)	(8,106)
Deposits received, accruals and other payables	(4,865)	(9,764)
Due to the Group	–	(6,889)
Contributed surplus	–	(5)
Exchange realignment	–	(209)
	(3,074)	(5,659)
Goodwill released upon disposal of subsidiaries	4,936	–
Gain/(loss) on disposal of subsidiaries	(1,943)	7,339
	(81)	1,680
Satisfied by:		
Cash received from the purchaser	–	1,680
Disposal expenses paid by the Group	(81)	–
Net cash consideration	(81)	1,680

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries:

	2003	**2002**
	HK$'000	*HK$'000*
Net cash consideration received/(paid)	(81)	1,680
Cash and cash equivalents disposed of	(1,048)	(107)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	(1,129)	1,573

The subsidiaries disposed of in the year and prior year had no significant impact on the Group's consolidated turnover or loss after tax for these years.

36. CONTINGENT LIABILITIES

(a) Contingent liabilities not provided for in the financial statements at the balance sheet date were as follows:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Guarantees given to banks and suppliers in connection with:		
Facilities granted to subsidiaries	–	–
Bank guarantees issued by banks	25,842	16,907
	25,842	16,907

At the balance sheet date, the facilities of HK$25,842,000 (2002: HK$16,907,000) in respect of bank guarantees had been utilised by the Group.

At the balance sheet date, HK$191,226,000 (2002: HK$215,903,000) had been utilised of the facilities granted to subsidiaries which were guaranteed by the Company.

(b) The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with an estimated maximum possible amount of HK$3,832,000 as at 31st March 2003, as further explained under the heading "Employee benefits" in note 4 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as the directors considered it not probable that the situation will result in a material future outflow of resources from the Group.

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 17 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rental adjustments according to the then prevailing market conditions.

At 31st March, 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Within one year	1,060	835
In the second to fifth years, inclusive	1,264	–
	2,324	835

(b) As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years, and those for office equipment for terms ranging between one and two years.

At 31st March, 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Within one year	4,211	6,953
In the second to fifth years, inclusive	3,365	11,111
	7,576	18,064

38. POST BALANCE SHEET EVENT

On 23rd July, 2003, the Company entered into two several Amendment Agreements with Hutchison and DBS (the holders of the 2005 Convertible Bonds), respectively. Pursuant to the Amendment Agreements:

i. the Company will, subject to and with effect from the approval of the shareholders of the Company in a special general meeting, agree to change the conversion price at which the 2005 Convertible Bonds are convertible into new shares of the Company from HK$0.85 per share to HK$0.30 per share or, if lower, the average closing price of each share in the Company on the Stock Exchange for the ten Stock Exchange trading days immediately following 23rd July, 2003, the date of announcement the Company made for this event ("Amended Conversion Price");

ii. Subject to the fulfilment or waiver of certain conditions contained therein, Hutchison and DBS will convert the whole of the principal amount outstanding under their respective 2005 Convertible Bonds at the Amended Conversion Price; and the Company will allot and issue to Hutchison and DBS respectively the new conversion shares in the Company upon conversion of the 2005 Convertible Bonds.

It was also agreed that the HIL Option and the DBS Option shall lapse and cease to be of any further effect upon allotment of the new conversion shares by the Company to Hutchison and DBS, respectively, pursuant to the conversion of the 2005 Convertible Bonds in full.

Immediately after full conversion of the 2005 Convertible Bonds at the Amended Conversion Price (assuming determined at HK$0.30 per share), the shareholdings of Hutchison and DBS in the Company would be approximately 43.0% and 29.6%, respectively, of the issued share capital of the Company as enlarged by the new conversion shares. In the absence of the Whitewash Waiver(s) being issued to Hutchison and if required, to DBS also, Hutchison or DBS would be obliged under the Takeovers Code to make an unconditional general offer for all the issued shares in the Company not already owned or agreed to be acquired by them.

An application will be made by the Company to the Executive for the Whitewash Waiver(s) which, if granted, would be subject to the approval of the independent shareholders of the Company on a vote taken by way of a poll. The Executive may or may not grant the Whitewash Waiver(s).

The Amendment Agreements are conditional upon, amongst other things, the granting of the Whitewash Waiver(s) by the Executive to Hutchison and if required, to DBS. If the Whitewash Waiver(s) is/are not granted by the Executive, the respective obligations of Hutchison and DBS (as the case may be) under the Amendment Agreements to convert the whole of the principal amount outstanding under their respective 2005 Convertible Bonds at the Amended Conversion Price will lapse.

If the Whitewash Waiver(s) is/are approved by the independent shareholders of the Company and granted by the Executive, no general offer will be required to be made by Hutchison or DBS upon full conversion of the 2005 Convertible Bonds.

39. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

Certain items included under other operating expenses are either significant to this year's consolidated profit and loss account or of an unique one-off nature. Accordingly, the directors consider it more appropriate to separately disclosed these items on the face of the consolidated profit and loss account and consequently the comparative amounts have been reclassified to conform with the current year's presentation.

4. PROFORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSET VALUE

Set out below is a statement of the unaudited proforma adjusted consolidated net tangible asset value of the Group based on the audited consolidated net tangible asset value of the Group as at 31st March, 2003 and adjusted as follows:

	HK$'000
Audited consolidated negative net tangible assets of the Group as at 31st March, 2003	(199,373)
Add: Capitalisation of the Bonds	334,432
Unaudited proforma adjusted consolidated net tangible assets of the Group immediately upon full conversion of the Bonds	135,059
Unaudited adjusted net tangible asset value of the Group per Share after the full conversion of the Bonds (based on 1,536,379,325 Shares as enlarged by the Conversion Shares)	HK$0.09

5. MATERIAL CHANGES

Save for entering into the Amendment Agreements, the Directors are not aware of any material changes in the financial or trading position or prospects of the Group since 31st March, 2003, the date to which the latest audited financial statements of the Company were made up.

6. INDEBTEDNESS

At the close of business on 30th June, 2003, being the latest practicable date of this indebtedness statement prior to the printing of this circular, other than the Bonds outstanding of HK$334.4 million, the Group had outstanding borrowings of approximately HK$64.3 million which comprised of long term secured bank loan of approximately HK$3.0 million, short term secured bank loan of approximately HK$17.5 million, unsecured supplier loans of approximately HK$4.3 million, trust receipts of approximately HK$39.3 million and obligations under finance leases of approximately HK$0.2 million. The secured borrowings are secured by charges over certain properties of the Group with an aggregate carrying value of approximately HK$45.2 million and pledged bank deposits of approximately HK$70.0 million.

At the close of business on 30th June, 2003, the Group had contingent liabilities of approximately HK$22.4 million in respect of guarantees given to banks in connection with guarantees issued by banks and approximately HK$3.8 million in respect of possible future long service payments to employees under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).

Save as aforesaid, and apart from the intra-group liabilities and normal trade debts payable, the Group did not have any outstanding mortgages, charges, debentures, loan capital or overdrafts, or other similar indebtedness, finance leases or hire-purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 30th June, 2003.

1. RESPONSIBILITY STATEMENTS

The information in this document has been supplied by the Directors. The issue of this document has been approved by the Directors who jointly and severally accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests in the Company and associated corporations

(i) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors in the equity or debt securities of the Company and any associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

(aa) Interests in the Company's shares

Name of Director	Number of Shares held Personal	Family	Corporate	Total	% to total issued share capital
Lam Hon Nam	400,000	–	130,000,000(i)	130,400,000	30.9%
Ma Chun Kwong, Edmund	100,000	300,000	130,000,000(i)	130,400,000	30.9%
Wai Yee Jan	1,500,000	–	–	1,500,000	0.4%
Ching Wan Kwan	1,020,000	–	–	1,020,000	0.2%

(i) The above 130,000,000 Shares are held by Lam Ma & Wai Limited, a company incorporated in the British Virgin Islands, which is owned as to 45.94%, 45.46% and 8.60% by Mr Lam Hon Nam, Mr Ma Chun Kwong, Edmund and Mr Wai Yee Jan, respectively.

(ii) Each of Mr Lam Hon Nam, Mr Ma Chun Kwong, Edmund and Mr Wai Yee Jan has indicated that he will abstain from voting on the resolution approving the Whitewash Waiver. Ms Ching Wan Kwan has indicated that she will vote in favour of the resolution approving the Whitewash Waiver.

(bb) Interests in the shares of associated corporations

Name of company	Name of Director	Number of non-voting deferred shares held/ Percentage of equity interest held – Personal interest	% to total issued share capital
Vanda Computer & Equipment Company Limited	Lam Hon Nam	918,800	45.94%
	Ma Chun Kwong, Edmund	909,200	45.46%
	Wai Yee Jan	172,000	8.60%
Vanda Instrument & Equipment Company Limited	Lam Hon Nam	229,700	45.94%
	Ma Chun Kwong, Edmund	227,300	45.46%
	Wai Yee Jan	43,000	8.60%
Janeper Development Limited	Lam Hon Nam	150,000	50%
	Ma Chun Kwong, Edmund	150,000	50%
Beijing New Generation Computer Graphics Co., Ltd.	Wai Yee Jan	15%	15%

Mr Lam Hon Nam also holds one ordinary share of HK$1 in each of Vanda Computer & Equipment Company Limited, Vanda Instrument & Equipment Company Limited, Janeper Development Limited and Azure Technology Limited in trust for Vanda (B.V.I.) Limited; one ordinary share of HK$1 in Vanda Software Engineering Company Limited in trust for Vandasoft Technology Holdings Limited; one ordinary share of HK$1 in Vanda Information Technology Limited in trust for Vanda Software Engineering Company Limited; and one ordinary share of HK$1 in WiseAsia.com Limited in trust for Interactive Technology Limited.

Mr Loh Tiak Koon also holds one ordinary share of Peso100 in Azure Technologies Phils., Inc. in trust for Vanda Systems (Singapore) Pte Ltd.

Mr Wai Yee Jan holds capital of MOP$1,000 in Vanda Computer Service (Macau) Company Limited and WiseAsia Computer Service (Macau) Company Limited, respectively, in trust for Interactive Technology Limited; one ordinary share of HK$1 in BonVision Technology Limited in trust for Automatic Associates Limited; and one ordinary share of HK$1 in Vanda Computer Service (Hong Kong) Company Limited in trust for Interactive Technology Limited.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had interests or short positions in any equity or debt securities of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

(ii) Directors' rights to acquire Shares

As at the Latest Practicable Date, Directors' interests in share options of the Company outstanding are summarised in the following table:

Name of Director	Date of grant of share options	Number of share options held	Exercise period of share options	Exercise price *HK$*	% to total issued share capital
Lam Hon Nam	13.7.2000	1,000,000	13.1.2001 to 12.1.2004	2.20	0.2%
	2.5.2001	800,000	2.11.2001 to 1.11.2004	0.81	0.2%
Ma Chun Kwong, Edmund	13.7.2000	1,000,000	13.1.2001 to 12.1.2004	2.20	0.2%
	2.5.2001	800,000	2.11.2001 to 1.11.2004	0.81	0.2%
Wai Yee Jan	13.7.2000	1,000,000	13.1.2001 to 12.1.2004	2.20	0.2%
	2.5.2001	600,000	2.11.2001 to 1.11.2004	0.81	0.1%
Ching Wan Kwan	17.7.2000	500,000	17.1.2001 to 16.1.2004	2.20	0.1%
	2.5.2001	400,000	2.11.2001 to 1.11.2004	0.81	0.1%
	2.5.2002	3,000,000	2.5.2003 to 1.5.2006	0.94	0.7%
Loh Tiak Koon	2.4.2002	20,000,000	3.4.2003 to 2.4.2006	0.886	4.7%
Total:		29,100,000			

(iii) Substantial Shareholders

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors or chief executive of the Company, the following persons had an interest or short position in the equity or debts securities of the Company and any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group or had any options in respect of such capital:

Name of Shareholder	Number of Shares interested in
Lam Ma & Wai Limited	130,000,000
Hutchison Whampoa Limited ("HWL")	659,888,793 *(Note 1)*
Cheung Kong (Holdings) Limited ("CKH")	659,888,793 *(Note 2)*
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	659,888,793 *(Note 3)*
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	659,888,793 *(Note 4)*
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	659,888,793 *(Note 4)*
Li Ka-Shing ("Mr Li")	659,888,793 *(Note 5)*
DBS Bank Ltd.	454,883,333 *(Note 6)*
DBS Group Holdings Limited	454,883,333 *(Note 6)*

Notes:

(1) Such interests arose through the equity derivative interests relating to the HIL Bond held by Hutchison, a wholly owned subsidiary of HWL.

(2) Certain subsidiaries of CKH together hold one third or more of the issued share capital of HWL. By virtue of the above, CKH is therefore taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by Hutchison as a substantial shareholder of the Company under the SFO.

(3) TUT1 as trustee of The Li Ka-Shing Unity Trust ("UT1") together with certain companies which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one third or more of the voting power at their general meetings ("related companies") hold interests in the shares of CKH. By virtue of the above and the interest of TUT1 as trustee of UT1 and its related companies in the shares of CKH, TUT1 as trustee of UT1 is therefore taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by Hutchison as a substantial shareholder of the Company under the SFO.

(4) Each of TDT1 as trustee of a discretionary trust ("DT1") and TDT2 as trustee of another discretionary trust ("DT2") holds units in UT1. By virtue of the above and its interest of holding units in UT1, each of TDT1 as trustee of DT1 and TDT2 as trustee of DT2 is taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by Hutchison as a substantial shareholder of the Company under the SFO.

(5) Mr Li is the settlor of each of DT1 and DT2 and may be regarded as a founder of each of DT1 and DT2 for the purpose of the SFO. Mr Li is also interested in one third of the entire issued share capital of a company owning the entire issued share capital of TUT1, TDT1 and TDT2. By virtue of the above and as a director of CKH, Mr Li is taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by Hutchison as a substantial shareholder of the Company under the SFO.

(6) Such interests arose through the equity derivative interests relating to the DBS Bond of which DBS Bank Ltd., a wholly owned subsidiary of DBS Group Holdings Limited, is the beneficial owner.

(iv) Others

As at the Latest Practicable Date,

(aa) save as disclosed in this document, none of Hutchison or its Concert Parties was interested in any Shares;

(bb) none of the directors of Hutchison had any interests in any Shares; and

(cc) none of the subsidiaries of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor Somerley had any interests in any Shares.

(b) Dealings in Shares

(i) Directors

Disposals of Shares by Lam Ma & Wai Limited:

Date	**Number of Shares**	**Average price per Share** *HK$*
5th May, 2003	494,800	0.394
13th May, 2003	1,200,000	0.403
19th May, 2003	4,800,000	0.370

Save as disclosed above, none of the Directors had dealt for value in any Shares during the period commencing on 23rd January, 2003 (being the date six months prior to the date of the Announcement) and ended on the Latest Practicable Date (the "Relevant Period").

(ii) Hutchison and its directors and Concert Parties

During the Relevant Period, none of Hutchison, its directors and its Concert Parties had dealt for value in any Shares.

(iii) Miscellaneous

During the relevant period, none of the subsidiaries of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor Somerley had dealt for value in any Shares.

(c) Interests and dealings in the securities issued by Hutchison

None of the Directors or the Company had any interest in any securities issued by Hutchison nor had any of them dealt for value in any such securities during the Relevant Period.

(d) Miscellaneous disclosures of interests

(i) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between Hutchison and any other persons for the transfer of the beneficial interests in the Shares to be held upon the conversion of the Bonds.

(ii) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between Hutchison or its Concert Parties and any of the directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Whitewash Waiver.

(iii) There is no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Whitewash Waiver or otherwise connected therewith.

(iv) As at the Latest Practicable Date, the Company has not been informed and was not aware of any person who has committed to vote for or against the Whitewash Waiver.

3. MARKET PRICES

(a) The Shares are traded on the Stock Exchange. The table below shows the closing prices of the Shares on the Stock Exchange on (i) the last trading day of each of the six calendar months immediately preceding 23rd July, 2003, the date of the Announcement; (ii) 10th July, 2003, being the last trading day prior to the suspension of trading in the Shares from 9:30 a.m. on 11th July, 2003, pending the issue of the Announcement; and (iii) the Latest Practicable Date:

Date	**Closing Price** *HK$*
30th January, 2003	0.405
28th February, 2003	0.380
31st March, 2003	0.345
30th April, 2003	0.315
30th May, 2003	0.430
30th June, 2003	0.400
10th July, 2003	0.510
Latest Practicable Date	0.530

(b) The highest and lowest closing prices for the Shares recorded on the Stock Exchange during the period between 23rd January, 2003 (being the date six months prior to the date of the Announcement) and the Latest Practicable Date were HK$0.290 on 24th April, 2003 and HK$0.610 on 29th July, 2003 respectively.

4. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) have been entered into by the Group within the two years prior to 23rd July, 2003 and between 23rd July, 2003 and the Latest Practicable Date:

(a) an agreement dated 30th September, 2001 entered into between Vanda Systems (Singapore) Pte Ltd ("**Vanda (Singapore)**"), a non-wholly subsidiary of the Company, and Kaz Computer Services Limited relating to the sale by Vanda (Singapore) of its 50% equity interest in Kaz Computer Services (SEA) Pte Ltd for a consideration of S$125,000;

(b) an agreement dated 4th October, 2001 entered into between iWave Holdings Pte Ltd and Vanda (Singapore) relating to the purchase by Vanda (Singapore) of 12.5% equity interest in Azure Technologies Pte Ltd and 25% equity interest in Vanda Solutions (Singapore) Pte Ltd for a consideration of S$803,869 and S$288,125 respectively;

(c) an agreement dated 27th March, 2002 entered into between Vanda (B.V.I.) Limited ("**Vanda (BVI)**"), a wholly-owned subsidiary of the Company, and Zhan Gao Electric Company Limited relating to the sale by Vanda (BVI) of the entire issued share capital of Janko Technology Limited for a consideration of HK$1,880,000;

(d) an agreement dated 29th April, 2002 entered into between Empower International Limited ("**Empower**"), a wholly-owned subsidiary of the Company, and Innovative Logistics Limited relating to the sale by Empower of the 75.1% equity interest in DigiLogistics.com Ltd. for a consideration of HK$1;

(e) an agreement dated 23rd July, 2002 entered into between BonVision Technology Limited ("**BonVision**"), a 60% owned subsidiary of the Company, and Chun Hon Wai relating to the sale by BonVision of its entire 63% equity interest in BonVision (Hong Kong) Limited for a consideration of HK$1;

(f) an agreement dated 19th September, 2002 entered into between the Company, New Tech & Telecom Investment Limited ("**NT&T**") and South China Communication Holdings Limited relating to the execution by NT&T of a supplemental deed to certain bond instrument issued by NT&T to the Company on 19th September, 2000;

(g) the Investor Agreements; and

(h) the Amendment Agreements.

5. SERVICE CONTRACTS

Save as disclosed below, none of the Directors has or proposes to have a service agreement with any member of the Group in force which has more than 12 months to run:

(a) a service agreement dated 2nd April, 2002 entered into between the Company and Mr Lam Hon Nam, the Chairman of the Board, which is for a term of three years commencing from 2nd April, 2002 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Mr Lam Hon Nam is entitled to a basic salary of US$260,000 per year during the period from 2nd April, 2003 to 1st April, 2004 and US$200,000 per year during the period from 2nd April, 2004 to 1st April, 2005, and a performance bonus to be determined at the discretion of the Board if certain performance targets of the Group in respect of its financial years 2003 to 2004 and 2004 to 2005 respectively have been met; and

(b) a service agreement dated 18th February, 2002 entered into between the Company and Mr Loh Tiak Koon, an executive Director, which is for a term of three years commencing from 3rd April, 2002 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Mr Loh Tiak Koon is entitled to a basic salary of US$425,000 per year during the period from 3rd April, 2003 to 2nd April, 2004 and US$400,000 (or US$425,000 if certain performance targets of the Group in respect of its financial year 2003-2004 have been met) per year during the period from 3rd April, 2004 to 2nd April, 2005, and a performance bonus in the range of US$300,000 to US$400,000 and US$350,000 to US$500,000 if certain performance targets of the Group in respect of its financial years 2003 to 2004 and 2004 to 2005 respectively have been met. The Company may in any case determine whether Mr Loh Tiak Koon shall be eligible to receive any special bonus in respect of each contract year and the amount thereof.

There were no other services contract for Directors which have been entered into for the replacement of a prior contract or amended, within six months before the date of the Announcement.

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claims of material importance known to the Directors to be pending or threatened by or against any member of the Group.

7. QUALIFICATIONS OF EXPERT

The following is the qualification of the expert who has given opinions or advice which are contained in this document:

Name	Qualification
Somerley	A licensed corporation under the SFO

Somerley is independent of and not connected with the Chairman, directors, any substantial shareholder (as defined under the Listing Rules) or chief executive of the Company or any of its subsidiaries or their respective Associates.

8. CONSENT

Somerley has given and has not withdrawn its written consent to the issue of this document with the inclusion therein of its letter and/or references to its name, in the form and context in which it appears.

9. MISCELLANEOUS

(a) The secretary of the Company is Lee Sung Kit, FCCA, AHKSA, ACIS.

(b) The registered office of Hutchison is at 22/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong.

(c) The ultimate controlling shareholder of Hutchison is HWL. The executive directors of HWL are Mr Li Ka-shing, Mr Li Tzar Kuoi, Victor, Mr Fok Kin-ning, Canning, Mrs Chow Woo Mo Fong, Susan, Mr Frank John Sixt, Mr Lai Kai Ming, Dominic, Mr George Colin Magnus and Mr Kam Hing Lam.

(d) As at the Latest Practicable Date, the Company has not been informed and was not aware of any person who has committed to vote for or against the Whitewash Waiver.

(e) In the event of inconsistency, the English text of this document and the form of proxy shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Deacons, 5th Floor, Alexandra House, Central, Hong Kong during normal business hours on any Business Day until 29th August, 2003:

(a) The memorandum of association and bye-laws of the Company.

(b) The audited consolidated financial statements of the Group for each of the two years ended 31st March, 2003.

(c) The letter from the Independent Board Committee, the text of which is set out on page 18 of this document.

(d) The letter from Somerley, the text of which is set out on pages 19 to 37 of this document.

(e) The letter of consent as referred to in paragraph 8 of this appendix.

(f) The material contracts as referred to in paragraph 4 of this appendix.

(g) The service agreements as referred to in paragraph 5 of this appendix.

VANDA GROUP

VANDA SYSTEMS & COMMUNICATIONS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting of the shareholders of Vanda Systems & Communications Holdings Limited (the "Company") will be held at 11:30 a.m., Hong Kong on 29th August, 2003 at Harbour Plaza Hong Kong, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**

(a) the amendment agreements entered into between the Company and each of Hutchison International Limited and DBS Nominees Private Limited dated 23rd July, 2003 (the "**Amendment Agreements**"), copies of which have been produced to the meeting and marked "A" and initialled by the chairman of the meeting for identification purposes and all transactions contemplated thereunder be and are hereby ratified, confirmed and approved;

(b) the adjustment of the conversion price at which the Bonds (as defined and more particularly described in the document dated 13th August, 2003 of the Company, a copy of which has been produced to the meeting and marked "B" and initialled by the chairman of the meeting for identification purposes ("**Document**")) are convertible into shares of HK$0.10 each of the Company from HK$0.85 per share to the Amended Conversion Price (as defined in the Document) in accordance with the Amendment Agreements be and is hereby approved;

(c) the directors of the Company be and are hereby authorised to allot and issue such number of new shares of the Company as may be required to be allotted and issued upon the exercise of the conversion rights in full attaching to the respective Bonds at the Amended Conversion Price and subject to the terms and conditions thereof; and

(d) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her/them to be incidental to, ancillary to or in connection with the matters contemplated under the Amendment Agreements and to waive compliance from and agree to any amendment to any of the terms of the Amendment Agreements or the Bonds which in the opinion of such director(s) is not of a material nature and is in the interests of the Company."

2. "**THAT** the granting of the Whitewash Waiver (as defined and more particularly described in the Document) be and is hereby approved."

3. "**THAT** the authorised share capital of the Company be and is hereby increased from HK$200,000,000 divided into 2,000,000,000 shares of HK$0.10 each to HK$400,000,000 by the creation of an additional 2,000,000,000 shares of HK$0.10 each in the capital of the Company."

By Order of the Board
LAM Hon Nam
Chairman

Hong Kong, 13th August, 2003

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.

3. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.

4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the head office and principal place of business of the Company at Lincoln House 408, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof (as the case may be).

5. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.

6. Where there are joint registered holders of any Share, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting, the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.