



VANDA GROUP

# VANDA SYSTEMS & COMMUNICATIONS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

## ANNOUNCEMENT OF RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2003

### INTERIM RESULTS

The Board of Directors (the “Directors”) of Vanda Systems & Communications Holdings Limited (the “Company”) announced the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September, 2003 which have been reviewed by the Company’s audit committee.

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		(Unaudited)	
		Six months ended	
		30th September,	
		2003	2002
	Notes	HK\$'000	HK\$'000
Turnover:			
Continuing operations		420,990	476,993
Discontinued operations	6	—	168
		<hr/>	<hr/>
		420,990	477,161
Cost of sales		<hr/> (353,563)	<hr/> (393,242)
Gross profit		67,427	83,919
Other revenue and gains		3,417	7,014
Selling and distribution costs		(10,701)	(16,155)
Administrative expenses		(69,129)	(72,307)
Other operating expenses:			
Provisions for and write-off of bad and doubtful debts		(4,027)	(4,277)
Loss on disposal of subsidiaries		—	(1,941)
Impairment of a long term investment		(3,700)	—
Unrealised holding losses on other investments		(3,266)	—
Impairment on leasehold land and buildings		(12,161)	—
Provision for loss on put option		(1,500)	—
Other expenses		<hr/> (2,110)	<hr/> (1,741)

Loss from operating activities:			
Continuing operations	2	(35,750)	(5,165)
Discontinued operations	6	–	(323)
		<u>(35,750)</u>	<u>(5,488)</u>
Finance costs		(7,744)	(9,781)
Share of profits and losses of associates		67	312
		<u>(7,677)</u>	<u>(9,469)</u>
Loss before tax		(43,427)	(14,957)
Tax	3	(12,013)	(1,965)
		<u>(55,440)</u>	<u>(16,922)</u>
Loss before minority interests		(55,440)	(16,922)
Minority interests		(145)	(347)
		<u>(55,585)</u>	<u>(17,269)</u>
Net loss from ordinary activities attributable to shareholders		<u>(55,585)</u>	<u>(17,269)</u>
Loss per share	4		
Basic		<u>(9.39 cents)</u>	<u>(4.10 cents)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) 30th September, 2003 HK\$'000	(Audited) 31st March, 2003 HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Fixed assets		40,487	54,858
Investment properties		30,300	30,300
Interests in associates		3,591	3,524
Long term investments		–	3,700
Other investments		–	3,511
		<u>74,378</u>	<u>95,893</u>
<b>CURRENT ASSETS</b>			
Accounts receivable		187,636	270,300
Inventories		42,027	39,847
Tax recoverable		3,142	3
Prepayments, deposits and other receivables		30,931	28,983
Pledged bank deposits		58,172	62,112
Cash and cash equivalents		88,231	108,160
		<u>410,139</u>	<u>509,405</u>

<b>CURRENT LIABILITIES</b>			
Accounts payable		124,223	171,736
Deposits received, accruals and other payables		171,293	167,741
Provisions for product maintenance costs and loss on put option		24,197	22,697
Tax payable		13,324	3,242
Finance lease payable		38	36
Interest-bearing bank loans, overdrafts and supplier loans		57,536	88,254
		<u>390,611</u>	<u>453,706</u>
<b>NET CURRENT ASSETS</b>		<u>19,528</u>	<u>55,699</u>
		<b>(Unaudited)</b>	<b>(Audited)</b>
		<b>30th September,</b>	<b>31st March,</b>
		<b>2003</b>	<b>2003</b>
		<i>Notes</i>	
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		93,906	151,592
<b>NON-CURRENT LIABILITIES</b>			
Provisions for product maintenance costs		1,881	1,690
Finance lease payable		141	159
Interest-bearing bank loans, overdrafts and supplier loans		2,458	3,449
Deferred tax		261	261
		<u>4,741</u>	<u>5,559</u>
		<u>89,165</u>	<u>146,033</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	7	153,638	42,161
Reserves		(75,592)	(241,534)
		78,046	(199,373)
<b>MINORITY INTERESTS</b>		<u>11,119</u>	<u>10,974</u>
		89,165	(188,399)
<b>CONVERTIBLE BONDS</b>		<u>–</u>	<u>334,432</u>
		<u>89,165</u>	<u>146,033</u>

Notes:

## 1. ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants. The accounting policies and basis used in the preparation of these interim financial statements are the same as those adopted in the Group’s annual financial statements for the year ended 31st March, 2003, except that the Group has adopted the revised SSAP No. 12 “Income taxes”, which was effective for accounting periods commencing on or after 1st January, 2003.

Revised SSAP No. 12 prescribes the accounting for income taxes payable or receivable arising from the taxable profit or loss for the current period, and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses. The adoption of this revised SSAP has had no material impact on the reported financial positions or results of the Group for the period under review and the prior period.

## 2. LOSS FROM OPERATING ACTIVITIES

	(Unaudited)	
	Six months ended	
	30th September,	
	2003	2002
	HK\$’000	HK\$’000
This is arrived at after charging/(crediting):		
Depreciation	4,741	6,879
Interest on:		
Bank loans, overdrafts and supplier loans wholly repayable within five years	2,017	3,001
Finance lease payable	10	–
Convertible bonds	5,717	6,780
Provisions for and write-off of bad and doubtful debts	4,027	4,277
Cost of inventories sold	332,394	377,604
Loss on disposal of subsidiaries	–	1,941
Impairment of a long term investment	3,700	–
Unrealised holding losses on other investments	3,266	–
Impairment on leasehold land and buildings	12,161	–
Write back of provisions against inventories*	(2,305)	(6,777)
Interest income	(690)	(2,248)
	<u>                    </u>	<u>                    </u>

\* Amounts included in cost of inventories sold

### 3. TAX

	(Unaudited) Six months ended 30th September,	
	2003 HK\$'000	2002 HK\$'000
Profits tax charged for the period		
– Outside Hong Kong	2,177	1,862
Profits tax charged for prior periods		
– Outside Hong Kong	9,836	–
	<hr/>	<hr/>
	12,013	1,862
Deferred tax	–	103
	<hr/>	<hr/>
	<b>12,013</b>	<b>1,965</b>

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

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

### 4. LOSS PER SHARE

The calculation of the basic loss per share for the period is based on the net loss from ordinary activities attributable to shareholders of HK\$55,585,000 (2002: HK\$17,269,000) and the weighted average of 592,173,426 (2002: 421,461,735) ordinary shares in issue during the period.

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

### 5. SEGMENT INFORMATION

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

**By geographical segments:**

	Hong Kong and Macau		Mainland China		South Asia		Corporate		Consolidated	
	Six months ended 30th September, 2003		Six months ended 30th September, 2002		Six months ended 30th September, 2003		Six months ended 30th September, 2002		Six months ended 30th September, 2003	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)										
Segment revenue:										
Sales to external customers	62,038	65,422	152,631	203,116	205,887	208,623	434	–	420,990	477,161
Other revenue	245	24	1,365	1,412	867	3,109	250	1,497	2,727	6,042
<b>Total</b>	<b>62,283</b>	<b>65,446</b>	<b>153,996</b>	<b>204,528</b>	<b>206,754</b>	<b>211,732</b>	<b>684</b>	<b>1,497</b>	<b>423,717</b>	<b>483,203</b>
<b>Segment results</b>	<b>1,542</b>	<b>1,746</b>	<b>(10,102)</b>	<b>(6,133)</b>	<b>3,453</b>	<b>14,654</b>	<b>(22,867)</b>	<b>(14,786)</b>	<b>(27,974)</b>	<b>(4,519)</b>
Unallocated interest and other gains									690	972
Impairment of a long term investment									(3,700)	–
Unrealised holding losses on other investments									(3,266)	–
Provision for loss on put option									(1,500)	–
Loss on disposal of subsidiaries									–	(1,941)
<b>Loss from operating activities</b>									<b>(35,750)</b>	<b>(5,488)</b>

**By business segments:**

	Systems integration and application solution services		Infrastructure solutions		(Discontinued operations-note 6) e-business		Corporate		Consolidated	
	Six months ended 30th September, 2003		Six months ended 30th September, 2002		Six months ended 30th September, 2003		Six months ended 30th September, 2002		Six months ended 30th September, 2003	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)										
Segment revenue:										
Sales to external customers	247,973	306,357	173,017	170,636	–	168	–	–	420,990	477,161
<b>Segment results</b>	<b>(11,542)</b>	<b>(1,754)</b>	<b>6,071</b>	<b>12,343</b>	<b>–</b>	<b>(323)</b>	<b>(22,503)</b>	<b>(14,785)</b>	<b>(27,974)</b>	<b>(4,519)</b>

## 6. DISCONTINUED OPERATIONS

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

## 7. ISSUED CAPITAL

During the six months ended 30th September, 2003, the bondholders of the Company’s convertible bonds served notices to the Company requesting the conversion of bond principal in the total amount of HK\$334,431,638 into new ordinary shares in the Company at the conversion price of HK\$0.30 each. As a result, a total of 1,114,772,126 ordinary shares of HK\$0.10 each of the Company were issued and allotted upon the full conversion of the convertible bonds.

## 8. CAPITAL COMMITMENT

As at 30th September, 2003, there was no significant capital commitment of the Group.

## 9. CONTINGENT LIABILITIES

As at 30th September, 2003, contingent liabilities of the Group not provided for in the financial statements were as follows:

	(Unaudited) 30th September, 2003 HK\$'000	(Audited) 31st March, 2003 HK\$'000
Guarantees given to banks in connection with bank guarantees provided by banks	10,438	25,842

The Group has a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), with an estimated maximum possible amount of HK\$3,442,000 as at 30th September, 2003 (31st March, 2003: HK\$3,832,000).

## 10. PLEDGE OF ASSETS

As at 30th September, 2003, other than the pledged deposits which were disclosed on the condensed consolidated balance sheet and the release of the charge of an investment property with a net book value of HK\$20,000,000, there was no material changes in the pledged assets of the Group from the information disclosed in the Group’s annual report for the year ended 31st March, 2003.

## 11. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period’s presentation.

## 12. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 29th December, 2003.

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of any interim dividend for the six months ended 30th September, 2003 (2002: Nil).

## **BUSINESS REVIEW**

The first half-year of 2003 has been a very challenging period for the Group. The outbreak of the Severe Acute Respiratory Syndromes (SARS) and a slow economy in our operating regions have affected the Group's overall income revenue and earnings.

For the six months ended 30th September, 2003, the Group's total turnover decreased by 11.8% to HK\$420,990,000 as compared with the same period of the last year (2002: HK\$477,161,000). Net loss from ordinary activities attributable to shareholders is HK\$55,585,000 (2002: HK\$17,269,000). Basic loss per share for this interim period is HK\$0.0939 (2002: HK\$0.0410).

In line with the Group's continued efforts in adopting stringent accounting measures, the Group has made a number of non-cash provisions including provision of bad and doubtful debts, provision for impairment of a long-term investment and leasehold land and buildings, and unrealised holding losses on other investments, totaling HK\$23,154,000.

### **Systems Integration and Application Solution Services**

Amid the weak economy in Hong Kong and Southeast Asia coupled with the adverse effects of SARS and the slow down of overall IT spending in the PRC market, the Group's systems integration and application solution business were affected in the first half of 2003. Turnover from systems integration and application solution services business declined 19.1% as compared to the corresponding period last year to HK\$247,973,000, accounting for 58.9% of the Group's total turnover (2002: HK\$306,357,000). The Group recorded a segment loss of HK\$11,542,000 from this operation (2002: HK\$1,754,000).

Nevertheless, we see increasing demand in IT services particularly from maintenance, security, storage and systems management. We are pleased to report that our operations have made significant progress in these arenas. As such, our revenue from IT services has reported growth as compared to last corresponding period. This is an encouraging result as the Group drives towards building competency in transforming our business portfolio to create value and sustainable profit growth.

During the period, the Group continued to build strong relationship with international technologies vendors. Our PRC operation forged strategic alliance with Business Object (BO), the world's leading business intelligence tools provider. Our software team was able to utilize BO's powerful data analysis system and developed a series of Business Intelligence solutions, catering for the China banking and taxation industry. These applications have since been successfully deployed to our customers including Zhejiang Rural Credit Cooperative Union and Tianjin Taxation Bureau. The Group also worked closely with renowned business solution provider, Misys International Banking Systems Limited to jointly develop international business solutions for the domestic banking market in Mainland China.

To further expand our service to our banking clients in Mainland China, the Group signed an exclusive agreement with KEBA, a leading automation machinery and solution provider based in Austria, to market self-service banking products in the PRC including KEBA's ATM (Automatic Teller Machine) products, after-sales services and application solutions services.



Despite a difficult operating environment, our PRC operation has successfully concluded a number of noteworthy contracts awarded by customers in the banking and finance as well as the government sectors. These included the Headquarters Payment System Project for the People's Bank of China; Network and Integration Project for Beijing Data Centre of the China Foreign Exchange, New Generation Integrated Business System for Kunming City Commercial Bank and Core Insurance System for Heng An Standard Life Insurance Co.

In Hong Kong and Singapore, during the period under review, the Group has secured numerous contracts from enterprises to provide systems integration services. They included Sony Music, Textwood and Asia Television Limited in Hong Kong, as well as SingTel and Union Overseas Bank in Singapore.

### **Infrastructure Solutions**

During the period, despite adverse effect of the SARS and a weak economy in South Asia, our distribution business in the region has reported a moderate growth of approximately 1.4% to HK\$173,017,000 (2002: HK\$170,636,000), contributing approximately 41.1% of the Group's total turnover. The infrastructure solution business recorded a segment profit of HK\$6,071,000 (2002: HK\$12,343,000).

The Group is pleased to report that our distribution arm, Azure Technologies in Singapore and the Philippines, were able to secure contracts with several major clients. They included Unilever in Singapore, as well as International Exchange Bank and Super Value Inc. in the Philippines.

In line with the Group's strategic road map to transform the Group into a solutions-based IT service provider, earlier in the year, we have formed a new business entity "Vanda InnovAsia". The new company comprises a team of IT professionals with deep domain skill in banking applications. This team will focus on business applications and provide a wide spectrum of IT services from consulting, software and application development to systems infrastructure and outsourcing.

### **LIQUIDITY AND CAPITAL RESOURCES**

On 3rd September, 2003, Hutchison International Limited ("Hutchison") and DBS Nominees Private Limited ("DBS Private Equity") fully exercised their conversion rights attaching to the convertible bonds issued by the Company at the conversion price of HK\$0.30 per share according to the Amendment Agreements approved in the special general meeting held on 29th August, 2003.

As at 30th September, 2003, the Group's total bank balances and bank deposits (including pledged bank deposits) amounted to HK\$146,403,000 (31st March, 2003: HK\$170,272,000) and the Group's interest-bearing bank and other borrowings was HK\$59,994,000 (31st March, 2003 (excluding convertible bonds): HK\$91,703,000). HK\$57,536,000 of the amounts of the interest-bearing bank and other borrowings were repayable within one year and the remaining portion were repayable within a period of 2 to 5 years.

As at 30th September, 2003, gearing ratio has not been shown as the Group is in a net cash position. As at 30th September, 2002, gearing ratio had not been shown as the Group recorded a net deficiency in assets position.

## **EMPLOYEES AND REMUNERATION POLICIES**

The Group employed a total of approximately 659 employees as at 30th September, 2003 (30th September, 2002: 639 employees). Pay rates for employees are maintained at competitive level, salary and bonuses are rewarded on a performance related basis. Other staff benefits include a medical scheme, provident fund and share option schemes.

## **PROSPECTS**

With Hutchison and DBS Private Equity becoming our major shareholders, the Group is now in a much stronger position with a clean balance sheet, positive net asset value and revenue growth potential. The Group has recently entered into agreements with Hutchison 3G UK Ltd. and Hutchison Whampoa IT Services S.à.r.l., both are subsidiaries of Hutchison, to set out the basis upon which certain computer software application services may be provided by the Group upon their request. Such co-operation with Hutchison will provide opportunities for the Group to enhance its revenue growth.

Looking ahead, we believe that the macro environment will remain challenging. Hardware profit margin will continue to experience downward pressure and drop further as competition intensified. However, we believe that the Group will benefit from customers' demand shift from hardware centric to service-driven IT market where the Group is already gaining presence.

The Group regards building our IT service capabilities and business as our top priority and the way forward. Every effort will be made to accelerate our revenue portfolio transformation by aggressively building our business towards applications solutions to opt for higher profit margin. Internally, the Group will continue to adopt cost control measures in line with its business across the region.

With the strong support and commitments from our major shareholders together with our solid business base in China and Asean, we endeavor to drive business growth and transformation, manage costs and deliver tangible value for our clients and our shareholders.

## **THE CODE OF BEST PRACTICE**

The Directors are not aware of any information which would reasonably indicate that the Company is not or was not in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the six months ended 30th September, 2003, except that the independent non-executive directors of the Company were not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws.

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

During the six months ended 30th September, 2003, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

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

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

By order of the Board  
**Loh Tiak Koon**  
*Chief Executive Officer*

Hong Kong, 29th December, 2003

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