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 a licensed securities dealer, 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, a licensed securities dealer 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 ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF HUTCHISON GLOBAL COMMUNICATIONS INVESTMENTS LIMITED AND POWERCOM NETWORK HONG KONG LIMITED

MAJOR AND CONNECTED TRANSACTION, MAJOR TRANSACTION AND ONGOING CONNECTED TRANSACTIONS

APPLICATION FOR SHARE WHITEWASH WAIVER FROM THE OBLIGATION TO MAKE A MANDATORY GENERAL OFFER TO ACQUIRE SHARES IN VANDA SYSTEMS & COMMUNICATIONS HOLDINGS LIMITED

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

PROPOSED GRANT OF GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

PROPOSED REFRESHMENT OF SHARE OPTION SCHEME LIMIT

PROPOSED CHANGE OF COMPANY NAME

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 12 to 60 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 Transactions (as defined herein), the Share Whitewash Waiver (as defined herein) and the Non-exempt Ongoing Connected Transactions (as defined herein) is set out on pages 61 to 62 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 Transactions, the Share Whitewash Waiver and the Non-exempt Ongoing Connected Transactions is set out on pages 63 to 108 of this document.

A notice convening the SGM (as defined herein) to be held at 10:45 a.m. (or as soon thereafter as the First SGM (as defined herein) has concluded or adjourned) on 5 March 2004 is set out on pages 219 to 225 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.

18 February 2004

CONTENTS

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

"Affiliate(s)"	in respect of a company, means any subsidiaries or holding companies of such company or any subsidiaries of any of the holding companies of such company;
"Announcement"	the joint announcement issued by HWL, CKH and Vanda dated 28 January 2004 in relation to, among other things, the HGC Transaction, the PowerCom Transaction and the Whitewash Waivers;
"associate"	shall have the meaning ascribed to such term under the Listing Rules or (on or after 31 March 2004) the Revised Listing Rules;
"Business Day"	a day on which banks in Hong Kong are generally open for business (excluding Saturday);
"Citigroup"	Citigroup Global Markets Asia Limited, the financial adviser of HWL and HGC Vendor in relation to the HGC Transaction;
"CKE"	Cheung Kong Enterprises Limited, an indirect wholly-owned subsidiary of CKH;
"CKE PowerCom Sale Shares"	162 shares in PowerCom held by CKE, representing 81% of the entire issued share capital of PowerCom;
"CKH"	Cheung Kong (Holdings) Limited, a company incorporated in Hong Kong and the ultimate holding company of CKE, whose shares are listed on the Main Board of the Stock Exchange;
"CKH Group"	CKH and its subsidiaries;
"CKH Loan"	the loan provided by CKH Group to PowerCom, the terms and conditions of which are described in the sub-section headed "Loan provided by CKH Group" in the section headed "Summary of the terms and conditions of existing facilities" below;
"CLP"	CLP Holdings Limited, a company incorporated in Hong Kong and the ultimate holding company of CLPT, whose shares are listed on the Main Board of the Stock Exchange;
"CLP Group"	CLP and its subsidiaries;
"CLPT"	CLP Telecommunications Limited, a wholly-owned subsidiary of CLP;

"CLPT PowerCom Sale Shares"	38 shares in PowerCom held by CLPT, representing 19% of the entire issued share capital of PowerCom;
"Concert Parties"	in respect of a person, means parties acting in concert (within the meaning as ascribed to that term under the Takeovers Code) with such person in relation to holding of Vanda Shares;
"Connected Transactions Waiver Application"	the application to the Stock Exchange for a waiver from strict compliance by Vanda with the connected transactions requirements under the Listing Rules and (on or after 31 March 2004) the Revised Listing Rules in relation to the Ongoing Connected Transactions as described in the subsection headed "Waiver Application" under the section headed "Ongoing Connected Transactions" in the Letter from the Board contained in this document;
"Consents"	licences, consents, approvals, authorisations, permissions, waivers, orders or exemptions;
"Consideration Shares"	the HGC Consideration Shares and the PowerCom Consideration Shares;
"Convertible Note Whitewash Waiver"	a waiver of the obligation of HGC Vendor and its Concert Parties to make a mandatory offer for all the Vanda Shares other than those already owned or agreed to be acquired by HGC Vendor or its Concert Parties under Rule 26 of the Takeovers Code as a result of the issue of shares of Vanda to the HWL Group (or as it may direct) pursuant to a partial or full exercise of the HGC Convertible Notes or any of them;
"DBS"	DBS Nominees Private Limited, a wholly-owned subsidiary of DBS Group Holdings Limited, a company whose securities are listed on the Stock Exchange of Singapore;
"Enlarged Vanda Capital"	the issued share capital of Vanda as to be enlarged by the issue of the Consideration Shares (and assuming no other changes in Vanda's capital structure after the Latest Practicable Date), which will consist of 6,901,443,961 Vanda Shares;
"Enlarged Vanda Group"	the Vanda Group, together with the HGC Group and the PowerCom Group;

"Enlarged Vanda Group Proforma NTA"	the proforma net tangible assets of the Enlarged Vanda Group after completion of the Transactions in the sum of HK$139,406,000 as set out in the section headed "Proforma Statement of Net Tangible Assets of the Enlarged Vanda Group After Completion of the Transactions" in Appendix IV to this document;
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate for the time being of the Executive Director;
"Facility"	an unsecured loan facility of a principal amount of HK$1,000 million to be made available by HIL to the Vanda Group at HGC Completion, the terms of which will include a conversion of the outstanding principal amount thereof into a Facility Convertible Note at each of the first and second anniversary of HGC Completion;
"Facility Convertible Note"	each of the convertible notes to be issued by Vanda entitling the holder thereof to convert the outstanding principal amount thereof into new shares of Vanda, which is to be issued by Vanda to HIL (or as it may direct) pursuant to the terms of the Facility; and "Facility Convertible Notes" shall be construed accordingly;
"First SGM"	the special general meeting of Vanda convened to be held at 10:30 a.m. on 5 March 2004 by the notice dated 10 February 2004 for the purpose of considering and, if thought fit, approving a change of company name of Vanda (including any adjourned meeting);
"General Mandate"	the general and unconditional mandate to the Vanda Directors to exercise all the powers of Vanda to allot, issue and otherwise deal with new shares in Vanda not exceeding 20% of the aggregate nominal amount of share capital of Vanda in issue as at the date of passing the resolution approving such mandate as enlarged by the issue of the Consideration Shares;
"HGC"	Hutchison Global Communications Investments Limited, currently a wholly-owned subsidiary of HGC Vendor and, where the context requires, includes a reference to all or any of its subsidiaries and partnership;

"HGC Acquisition Agreement"	the agreement dated 28 January 2004 made among HGC Vendor, Vanda and HIL under which Vanda has conditionally agreed to acquire the HGC Sale Shares from HGC Vendor, as amended by the parties thereto from time to time;
"HGC Board"	the board of directors of HGC;
"HGC Completion"	completion of the sale and purchase of the HGC Sale Shares in accordance with the HGC Acquisition Agreement;
"HGC Consideration Convertible Note"	a convertible note, with a face value of HK$3,200 million, to be issued by Vanda entitling the holder thereof to convert the principal amount thereof into new shares of Vanda, which is to be issued by Vanda to HGC Vendor (or another subsidiary of HWL as it may direct) to satisfy in part the consideration for the sale of HGC Sale Shares;
"HGC Consideration Shares"	4,875 million new Vanda Shares to be allotted and issued credited as fully paid at HK$0.80 per Vanda Share to HGC Vendor (or as it may direct) to satisfy in part the consideration for the sale of HGC Sale Shares;
"HGC Convertible Notes"	the HGC Consideration Convertible Note and the Facility Convertible Notes;
"HGC Group"	HGC and its subsidiaries and partnership;
"HGC Placing"	the placing and sale by the Placing Agent on behalf of HGC Vendor of 1,818,000,000 Vanda Shares to be issued by Vanda, which HGC Vendor will be entitled to receive as part of the HGC Consideration Shares, pursuant to the HGC Placing Agreement;
"HGC Placing Agreement"	an agreement dated 29 January 2004 made among HGC Vendor, HIL and the Placing Agent, as amended by the parties thereto from time to time;
"HGC Sale Shares"	the entire issued share capital of HGC;
"HGC Supplemental Acquisition Agreement"	the agreement dated 17 February 2004 made among HGC Vendor, Vanda and HIL whereby the parties conditionally agreed to amend the HGC Acquisition Agreement by, among others, disapplying the requirement of obtaining the Convertible Note Whitewash Waiver as a condition precedent to HGC Completion;

"HGC Transaction"	the transactions contemplated under the HGC Acquisition Agreement;
"HGC Vendor"	Hutchison Global Communications Holdings Limited, a company incorporated under the laws of the British Virgin Islands and an indirect wholly-owned subsidiary of HWL, to be renamed "Hutchison Global Communications Investment Holding Limited" as soon as reasonably practicable after completion of the Transactions and the proposed name change of Vanda becoming effective;
"HGCL"	Hutchison Global Communications Limited, a wholly-owned subsidiary of HGC and holder of an FTNS licence;
"HIL"	Hutchison International Limited, a wholly-owned subsidiary of HWL;
"HIL Loan"	the loan provided by HIL to HGCL, the terms and conditions of which are described in the sub-section headed "Loan provided by HWL Group" in the section headed "Summary of the terms and conditions of existing facilities" below;
"HKGAAP"	generally accepted accounting principles in Hong Kong;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China;
"HTL"	Hutchison Telecommunications Limited, an indirect wholly-owned subsidiary of HWL;
"Hutchison GlobalCenter"	Hutchison GlobalCenter Limited, currently an indirect wholly-owned subsidiary of HGC;
"HWL"	Hutchison Whampoa Limited, a company incorporated in Hong Kong and the ultimate holding company of HIL and HGC Vendor and, currently, of HGC, whose shares are listed on the Main Board of the Stock Exchange;
"HWL Group"	HWL and its subsidiaries;

"Independent Board Committee"	an independent board committee of the Vanda Board comprising Mr. Tuan Lam, a non-executive Vanda Director, Mr. Yang Paul Chunyao, as alternate to Mr. Stephen Ingram, a non-executive Vanda Director, and Mr. Lee G. Lam and Mr. Cheong Ying Chew, Henry, both being independent non-executive Vanda Directors, appointed to consider and make recommendations to the independent Shareholders in relation to the terms of the Transactions, the Share Whitewash Waiver, the Convertible Note Whitewash Waiver (if applicable) and the Non-exempt Ongoing Connected Transactions;
"Latest Practicable Date"	13 February 2004, being the latest practicable date prior to the issue of this document for ascertaining certain information contained herein;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"MDC"	Hazelwood Green Limited, currently a direct wholly-owned subsidiary of HGC;
"MOP$"	Pataca, the lawful currency of the Macau Special Administrative Region of the People's Republic of China;
"Non-exempt Ongoing Connected Transactions"	those Ongoing Connected Transactions which are subject to reporting, announcement and independent Shareholders' approval requirements as described in the subsection headed "Non-exempt Ongoing Connected Transaction" under the section headed "Ongoing Connected Transactions" in the Letter from the Board contained in this document;
"OFTA"	The Office of the Telecommunications Authority;
"Ongoing Connected Transactions"	the Non-exempt Telecommunications and Internet Services, the Non-exempt Data Centre Services Arrangements, the Non-exempt Lease Arrangements, the Bill Collection Services and the Shared Services Arrangements, each as defined in the section headed "Ongoing Connected Transactions" in the Letter from the Board contained in this document;
"Placing"	the HGC Placing and the PowerCom Placing;
"Placing Agent"	Citigroup Global Markets Hong Kong Futures Limited, the agent and underwriter in respect of the Placing;
"Placing Announcement"	the joint announcement issued by HWL, CKH and Vanda dated 31 January 2004 in relation to the Placing;

"PowerCom"	PowerCom Network Hong Kong Limited, currently an 81% held subsidiary of CKH and, where the context requires, includes a reference to all or any of its subsidiaries;
"PowerCom Acquisition Agreement"	the agreement dated 28 January 2004 made among CKE, CKH, Vanda and CLPT under which Vanda has conditionally agreed to acquire the PowerCom Sale Shares from CKE and CLPT, as amended by the parties thereto from time to time;
"PowerCom Board"	the board of directors of PowerCom;
"PowerCom Completion"	completion of the sale and purchase of the PowerCom Sale Shares in accordance with the PowerCom Acquisition Agreement;
"PowerCom Consideration Shares"	488,572,636 new Vanda Shares to be allotted and issued credited as fully paid at HK$0.80 per Vanda Share as to 395,743,835 Vanda Shares to CKE and as to 92,828,801 Vanda Shares to CLPT (or as they may respectively direct) to satisfy the consideration for the sale of PowerCom Sale Shares;
"PowerCom Group"	PowerCom and its subsidiaries;
"PowerCom Placing"	the placing and sale by the Placing Agent on behalf of CKE and CLPT of 147,000,000 Vanda Shares and 35,000,000 Vanda Shares to be issued by Vanda, which CKE and CLPT will be entitled to receive respectively as part of the PowerCom Consideration Shares, pursuant to the PowerCom Placing Agreement;
"PowerCom Placing Agreement"	an agreement dated 29 January 2004 made among CKH, CKE, CLPT and the Placing Agent, as amended by the parties thereto from time to time;
"PowerCom Sale Shares"	200 shares in PowerCom, representing its entire issued share capital;
"PowerCom Supplemental Acquisition Agreement"	the agreement dated 17 February 2004 made among CKE, CKH, CLPT and Vanda whereby the parties conditionally agreed to amend the PowerCom Acquisition Agreement by disapplying the requirement of obtaining the Convertible Note Whitewash Waiver as a condition precedent to PowerCom Completion;

"PowerCom Technology"	the technology adopted by PowerCom whereby broadband services can be accessed by the users through power sockets;
"PowerCom Transaction"	the transactions contemplated under the PowerCom Acquisition Agreement;
"PowerCom Vendors"	CKE and CLPT;
"Remaining HWL Group"	the HWL Group and associates of HWL, excluding the Enlarged Vanda Group for the purpose of assessing the Ongoing Connected Transactions;
"Repurchase Mandate"	the general and unconditional mandate authorising the repurchase by Vanda on the Stock Exchange of up to 10% of the aggregate nominal amount of share capital of Vanda in issue as at the date of passing the resolution approving such mandate as enlarged by the issue of the Consideration Shares;
"Revised Listing Rules"	the amended Listing Rules as announced by the Stock Exchange on 30 January 2004 which are to take effect on 31 March 2004;
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
"SGM"	the special general meeting of Vanda convened to be held at 10:45 a.m. (or as soon thereafter as the First SGM has concluded or adjourned) on 5 March 2004 for the purpose of considering and, if thought fit, approving, among other things, the Transactions, the Share Whitewash Waiver, the Convertible Note Whitewash Waiver (if applicable), the Non-exempt Ongoing Connected Transactions, the proposed increase in the authorised share capital of Vanda, the proposed grant of the General Mandate and the Repurchase Mandate and the proposed refreshment of the Share Option Scheme Limit (including any adjourned meeting);
"Share Option Scheme"	the share option scheme adopted by Vanda on 2 April 2002;
"Share Option Scheme Limit"	the total number of shares of Vanda which may be allotted and issued upon the exercise of all options (excluding options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme) to be granted under the Share Option Scheme and any other share option scheme of Vanda;

"Share Whitewash Waiver"	a waiver of the obligation of HGC Vendor and its Concert Parties to make a mandatory offer for all the Vanda Shares other than those already owned or agreed to be acquired by HGC Vendor or its Concert Parties under Rule 26 of the Takeovers Code as a result of the issue of the HGC Consideration Shares to HGC Vendor (or as it may direct) and/or issue of the PowerCom Consideration Shares to CKE and CLPT (or as they may respectively direct);
"Shareholder(s)"	holder(s) of Vanda Shares;
"Somerley"	Somerley Limited, a corporation deemed licensed under the transitional arrangements to carry out, among other things, Type 6 (advising on corporate finance) regulated activity for the purposes of the SFO and the independent financial adviser to the Independent Board Committee;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers;
"Transactions"	the HGC Transaction and PowerCom Transaction;
"UK"	the United Kingdom;
"US$"	United States dollars, the lawful currency of USA;
"USA"	the United States of America;
"Vanda" or the "Company"	Vanda Systems & Communications Holdings Limited, a company incorporated in Bermuda, whose shares are listed on the Main Board of the Stock Exchange;
"Vanda Board"	the board of Vanda Directors;
"Vanda Director(s)"	the director(s) of Vanda;
"Vanda Group"	Vanda and its subsidiaries;
"Vanda Share(s)"	share(s) in the share capital of Vanda with a par value of HK$0.10 each; and
"Whitewash Waivers"	the Share Whitewash Waiver and the Convertible Note Whitewash Waiver.

The glossary contains explanation of certain terms and definitions used in this document. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

"ATM"	Asynchronous Transfer Mode. ATM is a broad-bandwidth, low delay, packet-like (cell relay) switching and multiplexing technique. It is essentially connection oriented, although it is envisioned to support all services. ATM networks will accept or reject connections based on user's average and peak bandwidth requirements providing flexible and efficient service for LAN-to-LAN, compressed video and other applications that involve variable bit rate (VBR) traffic;
"CWDM"	Coarse Wavelength Division Multiplexing. CWDM allows for multiple wavelength signals to be sent over a fibre optic connection. This allows for more traffic over the fibre but generally the distance is shorter;
"DWDM"	Dense Wavelength Division Multiplexing. DWDM is an optical multiplexing technique used to increase the carrying capacity of a fibre network beyond what can currently be accomplished by time division multiplexing (TDM) techniques. Different wavelengths of light are used to transmit multiple streams of information along a single fibre with minimal interference;
"Fast Ethernet"	A newer Ethernet standard that transmits data at 100 Mbps over a local area network (LAN), typically used for file server connections;
"Frame Relay"	A packet-switching protocol that provides features like that of a dedicated digital data service (DDS) or T1 network, but without the expense of multiple dedicated circuits. Frame Relay is deployed over the same services used to deploy DDS and T1. Frame Relay circuits are connected to a packet switch within the network that ensures packets are routed to the correct location. Frame Relay is an ideal, cost-effective solution for networks with bursty traffic that require connections to multiple locations and where a certain degree of delay is acceptable;
"FTNS"	Fixed Telecommunications Network Services;
"Gigabit Ethernet"	A variant of Ethernet that provides specifications for network speeds of up to one gigabit per second. Gigabit Ethernet is also referred to as IEEE standard 802.3z;
"HFC cable"	Hybrid Fibre Coaxial cable. A technology being developed by the cable TV industry to provide two-way, high-speed data access using a combination of fibre optics and traditional coaxial cable;

"IPLC"	International Private Leased Circuit. An international private leased circuit is a service that involves dedicated circuits, private switching arrangements, and/or predefined transmission paths, whether virtual or physical, which provide communications between specific locations and across national boundaries;
"IRU"	Indefeasible Rights of Use. An IRU means the unconditional right to use a facility. The definition of "facility" can be flexible, including capacity such as a satellite transponder or a fibre pair in a trans-oceanic, fibre-optic cable. An IRU holder does not have the right to control the operation of the facility, however;
"ISPs"	Internet Service Providers. Organisations that provide individuals and businesses with access to the Internet (including commercial websites);
"MNCs"	Multinational corporations;
"PABX"	Private Automatic Branch Exchange. A PABX is a premises switching system, serving a commercial or government organization, and usually located on that organization's premises. PABXs provide telecommunications services on the premises or campus, (e.g., internal calling and other services), and access to public and private telecommunications network services;
"POPs"	Points of Presence. Sites where there exist a collection of telecommunications equipment, usually digital leased lines and multi-protocol routers;
"PSTN"	Public Switched Telephone Network. A public switched telephone network is a domestic telecommunications network usually accessed by telephones, key telephone systems, private branch exchange trunks, and data arrangements;
"SMEs"	Small and medium size enterprises;
"STM"	Synchronous Transport Module. STM is a structure in the synchronous digital hierarchy (SDH) transmission hierarchy. STM-1 is SDH's base-level transmission rate equal to 155.52 Mbit/s. Higher rates of STM-4, STM-16, and STM-64 are also defined;
"T1/E1"	Dedicated telephone lines that supports data rates of 1.544 Mbps (for T1) and 2.044 Mbps (for E1) in both directions. It actually consists of 24 /30 individual channels, each of these channels then supports 64K. They are a popular leased line option for businesses. ISPs also use them to connect to the Internet backbone; and
"Vfone"	A video telephone device that could support local video communication services based on broadband technologies.

VANDA SYSTEMS & COMMUNICATIONS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

Executive Directors:
FOK Kin-ning, Canning *(Chairman)*
LAI Kai Ming, Dominic *(Deputy Chairman)*
(Also as Alternate to Fok Kin-ning, Canning and Chan Wen Mee, May)
CHOW WOO Mo Fong, Susan
CHAN Wen Mee, May *(Also as Alternate to Lai Kai Ming, Dominic and Chow Woo Mo Fong, Susan)*
LAM Hon Nam
LOH Tiak Koon *(Chief Executive Officer)*

Non-executive Directors:
Tuan LAM
Stephen INGRAM
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

18 February 2004

To the Shareholders

Dear Sir or Madam,

PROPOSED ACQUISITION
OF THE ENTIRE ISSUED SHARE CAPITAL OF
HUTCHISON GLOBAL COMMUNICATIONS INVESTMENTS LIMITED
AND
POWERCOM NETWORK HONG KONG LIMITED

MAJOR AND CONNECTED TRANSACTION, MAJOR TRANSACTION AND ONGOING CONNECTED TRANSACTIONS

APPLICATION FOR SHARE WHITEWASH WAIVER
FROM THE OBLIGATION
TO MAKE A MANDATORY GENERAL OFFER
TO ACQUIRE SHARES IN VANDA SYSTEMS & COMMUNICATIONS HOLDINGS LIMITED

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

PROPOSED GRANT OF GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

PROPOSED REFRESHMENT OF SHARE OPTION SCHEME LIMIT

PROPOSED CHANGE OF COMPANY NAME

INTRODUCTION

On 28 January 2004, HWL, CKH and Vanda jointly announced in the Announcement that Vanda has conditionally agreed to purchase the HGC Sale Shares and the PowerCom Sale Shares from HGC Vendor and PowerCom Vendors, respectively.

The aggregate consideration for the HGC Sale Shares, which amounts to HK$7,100 million, will be satisfied:

i) as to HK$3,900 million, by the issue and allotment of the HGC Consideration Shares to HGC Vendor (or as it may direct) credited as fully paid at an issue price of HK$0.80 per share; and

ii) as to the remaining HK$3,200 million, by the issue of the HGC Consideration Convertible Note by Vanda to HGC Vendor (or another subsidiary of HWL as it may direct).

The aggregate consideration for the PowerCom Sale Shares, which amounts to approximately HK$391 million, will be satisfied by the issue and allotment of the PowerCom Consideration Shares to PowerCom Vendors (as to 395,743,835 Vanda Shares to CKE (or as it may direct) and 92,828,801 Vanda Shares to CLPT (or as it may direct)) credited as fully paid at an issue price of HK$0.80 per share.

In the Placing Announcement, it was stated that HGC Vendor, CKE and CLPT had entered into conditional agreements on 29 January 2004 to effect a placing of part of the HGC Consideration Shares and part of the PowerCom Consideration Shares conditional upon HGC Completion and PowerCom Completion respectively. Further details of the Placing are set out in the section headed "Placing of Vanda Shares" below.

The HWL Group, through HWL's wholly-owned subsidiary HIL, holds approximately 37.06% of the issued share capital of Vanda as at the Latest Practicable Date. Neither the CKH Group nor the CLP Group holds any Vanda Shares as at the Latest Practicable Date.

Immediately after the issue of the HGC Consideration Shares at HGC Completion but before exercise of any conversion rights under the HGC Convertible Notes, the issue of the PowerCom Consideration Shares pursuant to PowerCom Completion and the completion of the HGC Placing, and assuming no other changes in shareholding in Vanda since the Latest Practicable Date, the aggregate shareholding of the HWL Group in Vanda is expected to increase to approximately 84.91% of the issued share capital of Vanda as enlarged by the issue of the HGC Consideration Shares. The PowerCom Consideration Shares will be issued at PowerCom Completion. Immediately after the issue of the HGC Consideration Shares at HGC Completion and the PowerCom Consideration Shares at PowerCom Completion, but before exercise of any conversion rights under the HGC Convertible Notes and completion of the Placing, and assuming no other changes in shareholding in Vanda since the Latest Practicable Date, the HWL Group, the CKH Group and the CLP Group will hold approximately 78.89%, 5.73% and 1.35% of the Enlarged Vanda Capital respectively. Immediately after the issue of the HGC Consideration Shares and the PowerCom Consideration Shares and completion of the Placing, but before the exercise of any conversion rights under the HGC Convertible Notes, and assuming no other changes in shareholding in Vanda since the Latest Practicable Date, the HWL Group, the CKH Group and the CLP Group will hold approximately 52.55%, 3.60% and 0.84% of the Enlarged Vanda Capital respectively, and HGC Vendor and its Concert Parties will hold more than 50% in the Enlarged Vanda Capital. As a result, an obligation to make a mandatory general offer for all the Vanda Shares not already owned or agreed to be acquired by HGC Vendor or its Concert Parties will arise under the Takeovers Code following the HGC Completion, the PowerCom Completion and completion of the Placing unless the Share Whitewash Waiver is obtained. Based on the existence of a joint venture company between the CKH Group and the CLP Group unrelated to the Transactions, the CKH Group and the CLP Group are presumed to be acting in concert in relation to the proposed acquisition of Vanda Shares under the Takeovers Code. As a result of that, the HWL Group and the CLP Group are also presumed to be acting in concert in relation to the proposed acquisition of Vanda Shares under the Takeovers Code. Each of the CKH Group, the CLP Group and the HWL Group reserves the right to apply to the Executive for rebuttal of the relevant presumption. Whether or not the presumption of Concert Party between the CLP Group, the CKH Group and/or the HWL Group is rebutted, immediately after completion of the Transactions and of the Placing, the collective percentage shareholding of the HGC Vendor and its Concert Parties in Vanda will be above 50% (assuming no other changes in shareholding in Vanda since the Latest Practicable Date and no further transactions relating to Vanda Shares being committed before the date of the SGM which would have the effect of reducing such collective percentage shareholding to 50% or below).

Upon the issue and allotment of Vanda Shares pursuant to a partial or full exercise of the conversion rights under any of the HGC Convertible Notes, the aggregate shareholding of HGC Vendor and its Concert Parties in Vanda may increase by more than 2% from their lowest collective percentage shareholding (as determined or deemed for this purpose under the Takeovers Code) in the then preceding 12 month period. In such event, and if such lowest collective percentage shareholding is at or above 30% but is 50% or below, an obligation to make a mandatory general offer will arise as a result unless the Convertible Note Whitewash Waiver is obtained. Under the original terms of the HGC Acquisition Agreement and the PowerCom Acquisition Agreement as described in the Announcement, if either of the Whitewash Waivers is not available for any reason, the HGC Transaction will not become unconditional and will not proceed and the PowerCom Transaction will not become unconditional and will not proceed either. In the HGC Supplemental Acquisition Agreement and the PowerCom Supplemental Acquisition Agreement, the respective parties thereto have agreed that unless there are further transactions relating to Vanda Shares committed before the date of the SGM which would have the effect of reducing the collective percentage shareholding of HGC Vendor and its Concert Parties in Vanda to 50% or below of the issued share capital of Vanda immediately after completion of the HGC Transaction, the PowerCom Transaction, the Placing and any such further transactions, the Convertible Note Whitewash Waiver shall cease to be a condition precedent to the HGC Completion and the PowerCom Completion respectively with effect from the date of the SGM.

Immediately after completion of the Transactions and of the Placing, the collective percentage shareholding of the HGC Vendor and its Concert Parties in Vanda will be above 50%, assuming no other changes in shareholding in Vanda since the Latest Practicable Date and no further transactions relating to Vanda Shares committed before the date of the SGM which would have the effect of reducing such collective percentage shareholding to 50% or below. On such basis, HGC Vendor and its Concert Parties may further increase their shareholding in Vanda without incurring any obligation under Rule 26 of the Takeovers Code to make a general offer unless such collective percentage shareholding subsequently falls to 50% or below. In the event that such collective percentage shareholding will be above 50%, the Convertible Note Whitewash Waiver will cease to be a condition precedent to the HGC Completion and the PowerCom Completion, and will not be sought. However, if there are further transactions relating to Vanda Shares committed before the date of the SGM which would have the effect of reducing the collective percentage shareholding of HGC Vendor and its Concert Parties in Vanda to 50% or below immediately after completion of the HGC Transaction, the PowerCom Transaction and the Placing and any such further transactions, the Convertible Note Whitewash Waiver will remain as a condition precedent to the HGC Completion and the PowerCom Completion. An application will then be made to the Executive for the Convertible Note Whitewash Waiver, a further announcement will be made by the Company and a supplemental circular will be issued to the Shareholders in relation to the Convertible Note Whitewash Waiver. In such event, an adjournment of the SGM may be sought in order to give the Shareholders sufficient time to consider the supplemental circular.

An application has been made to the Executive for the Share Whitewash Waiver under Note 1 of the Notes on dispensation from Rule 26 of the Takeovers Code. The Executive has indicated his agreement, subject to the approval by an independent vote (within the meaning of Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code or as may be required by the Executive) of the Shareholders, to waive any obligation of HGC Vendor and its Concert Parties to make a general offer which might result from the issue of the HGC Consideration Shares to HGC Vendor (or as it may direct) and/or the issue of the PowerCom Consideration Shares to CKE and CLPT (or as they may respectively direct). HIL and Lam Ma & Wai Limited (being a company wholly-owned by Mr. Lam Hon Nam, an executive Vanda Director involved in the negotiations of the Transactions) will abstain from voting on the resolution approving, among others, the Share Whitewash Waiver.

Under the Listing Rules, the HGC Transaction constitutes a major and connected transaction for Vanda, which requires independent Shareholders' approval. The PowerCom Transaction constitutes a major transaction for Vanda which requires Shareholders' approval. The Ongoing Connected Transactions will constitute ongoing connected transactions for Vanda, some of which (being the Non-exempt Ongoing Connected Transactions) require independent Shareholders' approval.

The Independent Board Committee has been established to advise the independent Shareholders in relation to the Transactions, the Share Whitewash Waiver, the Convertible Note Whitewash Waiver (if applicable) and the Non-exempt Ongoing Connected Transactions. Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee in relation to the Transactions, the Share Whitewash Waiver, the Convertible Note Whitewash Waiver (if applicable) and the Non-exempt Ongoing Connected Transactions.

The purpose of this document is to provide you with further details of the Transactions, the Share Whitewash Waiver, the Ongoing Connected Transactions, the proposed increase in the authorised share capital of Vanda, the proposed grant of the General Mandate and the Repurchase Mandate, the proposed refreshment of the Share Option Scheme Limit and the proposed change of Vanda's name, to set out the advice of Somerley to the Independent Board Committee in respect of the Transactions, the Share Whitewash Waiver and the Non-exempt Ongoing Connected Transactions, to set out the opinion of the Independent Board Committee and to give you notice of the SGM at which ordinary resolutions will be proposed in order to seek independent Shareholders' approval of the Transactions, the Share Whitewash Waiver, the Convertible Note Whitewash Waiver (if applicable) and the Non-exempt Ongoing Connected Transactions and Shareholders' approval of the proposed increase in the authorised share capital of Vanda, the proposed grant of the General Mandate and the Repurchase Mandate and the proposed refreshment of the Share Option Scheme Limit.

THE HGC ACQUISITION AGREEMENT

Date:

28 January 2004

Parties:

HGC Vendor (as the vendor of the HGC Sale Shares)

HIL (as the guarantor for HGC Vendor)

Vanda (as the purchaser of the HGC Sale Shares)

Subject matter of sale and purchase:

The HGC Sale Shares, representing the entire issued share capital of HGC.

The HGC Sale Shares are warranted by HGC Vendor to be free from any mortgage, lien, pledge, charge, encumbrance or other security.

Consideration:

The consideration for the sale and purchase of the HGC Sale Shares is HK$7,100,000,000, which will be satisfied as to HK$3,900,000,000 by the issue and allotment of the HGC Consideration Shares at an issue price of HK$0.80 per share (credited as fully paid) by Vanda to HGC Vendor (or as it may direct) and as to the remaining HK$3,200,000,000 by the issue of the HGC Consideration Convertible Note, credited as fully paid at its full face value, by Vanda to HGC Vendor (or another subsidiary of HWL as HGC Vendor may direct) at HGC Completion. The consideration was determined after arm's length negotiations based on the competitive positioning of HGC in the industry, including the quality of HGC's fibre optic network. The issue price of the HGC Consideration Shares of HK$0.80 per share represents:

(i) a premium of approximately 1477.91% to the latest audited consolidated net tangible assets of Vanda of HK$0.0507 per Vanda Share as at 30 September 2003;

(ii) a discount of approximately 27.9% from HK$1.11, the closing price of the Vanda Shares on the Stock Exchange on 13 January 2004, the day on which the trading of Vanda Shares was suspended prior to the issue of the Announcement;

(iii) a discount of approximately 29.8% from HK$1.14, the closing price of the Vanda Shares on the Stock Exchange on 12 January 2004, the last complete trading day before the suspension of trading of Vanda Shares prior to the issue of the Announcement;

(iv) a discount of approximately 15.8% from HK$0.95, the average closing price of Vanda Shares on the Stock Exchange during the period of the last 10 full trading days before the suspension of trading of Vanda Shares prior to the issue of the Announcement;

(v) a discount of approximately 12.1% from HK$0.91, the average closing price of Vanda Shares on the Stock Exchange during the period of the last 30 full trading days before the suspension of trading of Vanda Shares prior to the issue of the Announcement; and

(vi) a discount of approximately 23.8% from HK$1.05, the closing price of the Vanda Shares on the Stock Exchange on the Latest Practicable Date.

An application has been made for the listing of, and permission to deal in, the HGC Consideration Shares.

A summary of the terms of the HGC Consideration Convertible Note is set out in the section headed "Summary of the terms and conditions of the HGC Consideration Convertible Note" below.

Conditions precedent:

HGC Completion is subject to, among others, a number of conditions precedent, the principal ones of which are summarised as follows:

1. the passing of a resolution by the Shareholders at a general meeting approving the increase in the authorised share capital of Vanda from HK$400,000,000 to HK$3,000,000,000 by the creation of an additional 26,000,000,000 Vanda Shares;

2. approval by the independent Shareholders of (a) the acquisition by Vanda of the HGC Sale Shares; (b) the issue and allotment of the HGC Consideration Shares to HGC Vendor (or as it may direct); (c) the issue of the HGC Consideration Convertible Note to HGC Vendor (or to another subsidiary of HWL as it may direct); (d) the entering into of the agreement for the provision of the Facility with HIL, if required under the Listing Rules or otherwise required by the Stock Exchange; (e) the issue of the Facility Convertible Note to HIL (or to another subsidiary of HWL as HIL may direct); (f) the issue and allotment of Vanda Shares which may be issued upon exercise of conversion rights under the HGC Convertible Notes; and (g) all other transactions contemplated under the HGC Acquisition Agreement at a general meeting of Vanda;

3. the passing of an ordinary resolution by an independent vote (within the meaning of Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code or as may be required by the Executive) of the Shareholders approving the Share Whitewash Waiver, and the Executive granting such a waiver;

4. the passing of an ordinary resolution by an independent vote (within the meaning of Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code or as may be required by the Executive) of the Shareholders approving the Convertible Note Whitewash Waiver, and the Executive granting such a waiver;

5. the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the HGC Consideration Shares and the Vanda Shares which may be issued upon exercise of conversion rights under the HGC Convertible Notes;

6. (a) the compliance with announcement and shareholders' approval requirements under the Listing Rules or otherwise of the Stock Exchange in relation to present and future transactions contemplated at present with HWL and/or any of its subsidiaries and/or their respective associates (both present and immediately after HGC Completion) which will constitute connected transactions for Vanda following HGC Completion, including, if required, the approval by the independent Shareholders in respect of the connected transactions and in respect of any waivers relating thereto as referred to in paragraph 6(b) below; and

   (b) the granting by the Stock Exchange of such waivers relating to the connected transactions mentioned in 6(a) above on such terms as may be reasonably acceptable to both HGC Vendor and Vanda;

7. the compliance with any other requirements of the Stock Exchange in relation to the sale and purchase of the HGC Sale Shares, the issue of the HGC Consideration Shares, the issue of the HGC Convertible Notes and the other transactions contemplated under the HGC Acquisition Agreement;

8. (where required) the Bermuda Monetary Authority granting its permission to the issue of the HGC Convertible Notes, the issue and allotment of the HGC Consideration Shares and shares of Vanda which may be issued upon exercise of conversion rights under the HGC Convertible Notes; and

9. the obtaining of all Consents from government or regulatory authorities or third parties which are necessary or desirable in connection with the execution and performance of the HGC Acquisition Agreement and any of the transactions contemplated under the HGC Acquisition Agreement.

As the entering into of the agreement for the provision of the Facility with HIL is exempt under Rule 14.24(8) of the Listing Rules or (on or after 31 March 2004) Rule 14A.65(4) of the Revised Listing Rules, approval by the independent Shareholders under item 2(d) above will not be required. The condition precedent in item 3 will not be waived in any event but pursuant to the terms of the HGC Supplemental Acquisition Agreement, unless there are further transactions relating to Vanda Shares committed before the date of the SGM which would have the effect of reducing the collective percentage shareholding of HGC Vendor and its Concert Parties in Vanda to 50% or below immediately upon completion of the HGC Transaction, the PowerCom Transaction, the Placing and any such further transactions, the condition precedent in item 4 above will automatically cease to be a condition precedent to the HGC Completion with effect from the date of the SGM. Save as described above, none of the other conditions precedent above can be waived without the agreement of all the parties to the HGC Acquisition Agreement. HGC Vendor and Vanda may jointly waive the condition precedent in item 9 above at any time if it is agreed that the Consents which have not been obtained are not material to the business of the Vanda Group and associated companies of Vanda and the HGC Group taken as a whole, and such waiver may be subject to such terms and conditions determined by HGC Vendor and Vanda jointly.

HGC Completion:

HGC Completion is to take place on the fourth Business Day after, among others, all the above conditions precedent to HGC Completion have either been fulfilled or waived. It is expected that HGC Completion would take place before 13 March 2004. If any of the conditions precedent to HGC Completion has not been fulfilled (or waived by the relevant parties) by 13 March 2004 (or such other date as the parties to the HGC Acquisition Agreement may agree), the HGC Acquisition Agreement shall lapse and be terminated and thereafter all rights, obligations and liabilities of all parties to the HGC Acquisition Agreement shall cease and determine except for antecedent breaches.

SUMMARY OF THE TERMS AND CONDITIONS OF THE HGC CONSIDERATION CONVERTIBLE NOTE

The principal terms of the HGC Consideration Convertible Note are summarised below:

Issuer:	Vanda.
Principal amount:	HK$3,200,000,000, credited as fully paid at its face value as satisfaction in part of the consideration for the HGC Sale Shares.
Maturity date:	Unless previously converted, the outstanding principal amount of the HGC Consideration Convertible Note (together with all unpaid and accrued interest) will be repaid by Vanda upon its maturity on the fifth anniversary of the date of issue of the HGC Consideration Convertible Note. The HGC Consideration Convertible Note will not be redeemable before the maturity date unless an event of default occurs.
Coupon:	The HGC Consideration Convertible Note will bear a coupon from its date of issue at the rate of 1.0% per annum, which will be payable once every six months in arrears on the principal amount of the HGC Consideration Convertible Note outstanding from time to time.

Security: None.

Conversion rights: The outstanding principal amount of the HGC Consideration Convertible Note or any part thereof may be converted into shares of Vanda to be issued to the holder of the HGC Consideration Convertible Note (or as it may direct) at any time and from time to time on or after the first anniversary of the date of issue but on or prior to the maturity date at the relevant conversion price (which is initially HK$0.96 per share, subject to adjustment). No fraction of a share of Vanda will be issued on conversion but (except in cases where any such cash payment would amount to less than HK$10) a cash payment will be made to the holder of the HGC Consideration Convertible Note in respect of such fraction. Assuming that the entire principal amount of the HGC Consideration Convertible Note is converted at the initial conversion price of HK$0.96 per share, a total of 3,333,333,333 new Vanda Shares will be issued. These new Vanda Shares represent approximately 48.30% of the Enlarged Vanda Capital before the exercise of any conversion rights under the HGC Consideration Convertible Note and assuming no other changes in shareholding in Vanda since the Latest Practicable Date. These new Vanda Shares represent approximately 32.57% of the issued share capital of Vanda as enlarged by the issue of the HGC Consideration Shares and the PowerCom Consideration Shares and the exercise of all of the conversion rights under the HGC Consideration Convertible Note and assuming no other changes in shareholding in Vanda since the Latest Practicable Date.

Ranking of shares to be issued upon conversion: Shares of Vanda to be issued by Vanda upon exercise of the conversion rights under the HGC Consideration Convertible Note will rank pari passu in all respects with all other shares of Vanda in issue on the date of the conversion notice and will be entitled to all dividends, bonuses and other distributions the record date of which falls on a date on or after the date of the conversion notice.

Conversion price: The initial conversion price of HK$0.96 per Vanda Share, subject to adjustment in accordance with the terms of the HGC Consideration Convertible Note, was determined after arm's length negotiations. The initial conversion price of HK$0.96 represents:

(i) a premium of approximately 1793.49% to the latest audited consolidated net tangible assets of Vanda of HK$0.0507 per share as at 30 September 2003;

(ii) a discount of approximately 13.5% from HK$1.11, the closing price of the Vanda Shares on the Stock Exchange on 13 January 2004, the day on which the trading of Vanda Shares was suspended prior to the issue of the Announcement;

(iii) a discount of approximately 15.8% from HK$1.14, the closing price of the Vanda Shares on the Stock Exchange on 12 January 2004, being the last complete trading day before the suspension of trading of Vanda Shares before the issue of the Announcement;

(iv) a premium of approximately 1.1% over HK$0.95, the average closing price of Vanda Shares on the Stock Exchange during the period of the last 10 full trading days before the suspension of trading of Vanda Shares prior to the issue of the Announcement;

(v) a premium of approximately 5.5% over HK$0.91, the average closing price of the Vanda Shares on the Stock Exchange during the period of the last 30 full trading days before the suspension of trading of Vanda Shares prior to the issue of the Announcement; and

(vi) a discount of approximately 8.6% from HK$1.05, the closing price of the Vanda Shares on the Stock Exchange on the Latest Practicable Date.

The terms of the HGC Consideration Convertible Note contain provisions relating to adjustments to the conversion price in the event of, among others, the following in relation to Vanda: (a) consolidation or sub-division of shares of Vanda, (b) issue of shares of Vanda by capitalising profits or reserves, (c) capital distribution to Shareholders, or grant to Shareholders rights to acquire for cash assets of the Vanda Group, (d) rights issue of shares of Vanda, or grant of options or warrants to subscribe for new shares of Vanda at below certain price levels, (e) issue for cash of any securities convertible into or exchangeable for or carrying rights of subscription for new shares of Vanda, at below certain price levels, (f) issue for cash of any shares of Vanda at below certain price levels, and (g) issue of shares of Vanda for the acquisition of asset at below certain price levels.

Voting: The holder of the HGC Consideration Convertible Note will not be entitled to receive notice of, attend or vote at general meetings of Vanda by reason only of its being holder of the HGC Consideration Convertible Note.

Transferability: Subject to the relevant rules, laws, regulations, requirements and Consents (including any requirements under the approval of the Stock Exchange for the listing of the Vanda Shares to be issued upon exercise of the conversion rights), any part of the HGC Consideration Convertible Note may be transferred to any third party (other than a connected person (as defined in the Listing Rules) of Vanda who is not an Affiliate of the noteholder except with the prior approval of Vanda and (if required) the Stock Exchange). The outstanding principal amount of the HGC Consideration Convertible Note may be transferred in full or in part (but only in multiples of HK$1,000,000 if in part). The provisions relating to transferability of the HGC Consideration Convertible Note described above have been varied since the date of the Announcement.

No application will be made for the listing of the HGC Consideration Convertible Note. An application has been made for the listing of, and permission to deal in, the shares of Vanda to be issued upon exercise of conversion rights under the HGC Consideration Convertible Note.

SUMMARY OF THE TERMS AND CONDITIONS OF THE FACILITY

Under the HGC Acquisition Agreement, HIL and Vanda will at HGC Completion enter into an agreement for the provision of an interest-bearing Facility by HIL to Vanda or its subsidiaries. The interest rate will be based on normal commercial terms with reference to inter-bank market lending rates. The principal terms of the Facility can be summarised as follows:

Principal amount: Up to HK$1,000,000,000

Availability: Within 2 years from the date of HGC Completion

Conversion right: At each of the first and second anniversary dates of the date of HGC Completion, Vanda will repay the principal amount drawn as at, and pay all accrued (but not paid) interest up to, such anniversary date under the Facility by the issue of a Facility Convertible Note of a principal amount equal to the aggregate of such outstanding principal amount and accrued (but not paid) interest under the Facility. The terms and conditions of the Facility Convertible Notes are in all material respects identical to those of the HGC Consideration Convertible Note summarised under the section headed "Summary of the Terms and Conditions of the HGC Consideration Convertible Note" of this document, with the conversion period of each Facility Convertible Note to be calculated from the date of issue; the initial conversion price under the Facility Convertible Note issued on the first anniversary of the date of HGC Completion being equal to the conversion price then in force under the HGC Consideration Convertible Note; and the initial conversion price under the Facility Convertible Note issued on the second anniversary of the date of HGC Completion being equal to the conversion price then in force under the first Facility Convertible Note. If the conversion rights under the first Facility Convertible Note have been exercised in full by then, the conversion price under the second Facility Convertible Note will be equal to the conversion price under the first Facility Convertible Note, taking into account all adjustments thereto as if it had not been fully converted.

Transferability of the Facility Convertible Notes: The transferability of the Facility Convertible Notes will in all material respects be identical to that of the HGC Consideration Convertible Note as described in the section "Summary of the terms and conditions of the HGC Consideration Convertible Note" above. The provisions relating to such transferability have been varied since the date of the Announcement.

No application will be made for the listing of the Facility Convertible Notes. An application has been made for the listing of, and permission to deal in, the shares of Vanda to be issued upon exercise of conversion rights under the Facility Convertible Notes. No security will be provided by Vanda for the issue of the Facility Convertible Notes and the said notes will not be redeemable before the maturity date unless an event of default under the said notes arises.

SUMMARY OF THE TERMS AND CONDITIONS OF EXISTING FACILITIES

Loan provided by HWL Group

An interest-bearing unsecured loan facility of up to HK$4,000,000,000 was made available by HIL to HGCL, of which a principal amount of approximately HK$3,400,000,000 was drawn and outstanding as at 31 December 2003. Upon HGC Completion and the entering into of the agreement relating to the Facility, such facility of a revised facility amount of up to HK$3,400,000,000 will continue to be made available by HIL to HGCL after HGC Completion up to the maturity date of 17 July 2008, on normal commercial terms.

Loan provided by CKH Group

A loan in the principal amount of approximately HK$16,800,000 is owed and outstanding by PowerCom to the CKH Group as at the Latest Practicable Date. At present, such loan is unsecured, interest-free and not repayable before August 2010. Such loan will continue to subsist after PowerCom Completion but on revised terms. At PowerCom Completion, a member of the CKH Group and PowerCom will enter into a written agreement to govern such loan on revised terms which are normal commercial terms. The revised terms of such agreement shall take effect from the date of PowerCom Completion.

THE POWERCOM ACQUISITION AGREEMENT

Date:

28 January 2004

Parties:

CKE (as vendor of CKE PowerCom Sale Shares)

CKH (as guarantor for CKE)

CLPT (as vendor of CLPT PowerCom Sale Shares)

Vanda (as purchaser of the PowerCom Sale Shares)

Subject matter of sale and purchase:

The PowerCom Sale Shares, representing the entire issued share capital of PowerCom.

CKE warranted the CKE PowerCom Sale Shares and CLPT warranted the CLPT PowerCom Sale Shares to be free from any mortgage, lien, pledge, charge, encumbrance or other security.

Consideration:

The consideration for the sale and purchase of the PowerCom Sale Shares is HK$390,858,108.80, which will be satisfied by the issue and allotment of the PowerCom Consideration Shares to the PowerCom Vendors as to 395,743,835 Vanda Shares to CKE (or as it may direct) and 92,828,801 Vanda Shares to CLPT (or as it may direct) credited as fully paid at an issue price of HK$0.80 per share.

The consideration for the sale and purchase of the PowerCom Sale Shares was determined after arm's length negotiations based on the judgment of Vanda's management of the competitiveness of the combined HGC-PowerCom solutions in the broadband market in Hong Kong and the uniqueness of the PowerCom Technology. The issue price of PowerCom Consideration Shares of HK$0.80 per share represents:

(i) a premium of approximately 1477.91% to the latest audited consolidated net tangible assets of Vanda of HK$0.0507 per Vanda Share, as at 30 September 2003;

(ii) a discount of approximately 27.9% from HK$1.11, the closing price of the Vanda Shares on the Stock Exchange on 13 January 2004, the day on which the trading of Vanda Shares was suspended prior to the issue of the Announcement;

(iii) a discount of approximately 29.8% from HK$1.14, the closing price of the Vanda Shares on the Stock Exchange on 12 January 2004, the last complete trading day before the suspension of trading of Vanda Shares prior to the issue of the Announcement;

(iv) a discount of approximately 15.8% from HK$0.95, the average closing price of Vanda Shares on the Stock Exchange during the period of the last 10 full trading days before the suspension of trading of Vanda Shares prior to the issue of the Announcement;

(v) a discount of approximately 12.1% from HK$0.91, the average closing price of the Vanda Shares on the Stock Exchange during the period of the last 30 full trading days before the suspension of trading of Vanda Shares prior to the issue of the Announcement; and

(vi) a discount of approximately 23.8% from HK$1.05, the closing price of the Vanda Shares on the Stock Exchange on the Latest Practicable Date.

An application has been made for the listing of and permission to deal in the PowerCom Consideration Shares.

Conditions precedent:

PowerCom Completion is subject to, among others, a number of conditions precedent, the principal ones are summarised as follows:

1. the passing of a resolution by the Shareholders at a general meeting approving the increase in the authorised share capital of Vanda from HK$400,000,000 to HK$3,000,000,000 by the creation of an additional 26,000,000,000 Vanda Shares;

2. approval by the Shareholders (with such Shareholders, if any, as the Stock Exchange may require abstaining from voting) of (a) the acquisition by Vanda of the PowerCom Sale Shares; and (b) the issue and allotment of the PowerCom Consideration Shares to CKE and CLPT (or as they may respectively direct); and (c) all other transactions contemplated under the PowerCom Acquisition Agreement at a general meeting of Vanda;

3. the passing of an ordinary resolution by an independent vote (within the meaning of Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code or as may be required by the Executive) of the Shareholders approving the Share Whitewash Waiver and the Convertible Note Whitewash Waiver, and the Executive granting such waivers;

4. the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the PowerCom Consideration Shares;

5. the compliance with any other requirements of the Stock Exchange in relation to the sale and purchase of the PowerCom Sale Shares, the issue of the PowerCom Consideration Shares and the other transactions contemplated under the PowerCom Acquisition Agreement;

6. (where required) the Bermuda Monetary Authority granting its permission to the issue and allotment of the PowerCom Consideration Shares;

7. the obtaining of all Consents from government or regulatory authorities or other parties which are necessary or desirable in connection with the execution and performance of the PowerCom Acquisition Agreement and any of the transactions contemplated under the PowerCom Acquisition Agreement; and

8. the HGC Acquisition Agreement having become unconditional and having been completed in accordance with its terms.

The condition precedent in item 3 as it relates to the Share Whitewash Waiver will not be waived in any event but pursuant to the terms of the PowerCom Supplemental Acquisition Agreement, unless there are further transactions relating to Vanda Shares committed before the date of the SGM which would have the effect of reducing the collective percentage shareholding of HGC Vendor and its Concert Parties in Vanda to 50% or below immediately upon completion of the HGC Transaction, the PowerCom Transaction, the Placing and any such further transactions, the condition precedent in item 3 above as it relates to the Convertible Note Whitewash Waiver will automatically cease to be a condition precedent to the PowerCom Completion with effect from the date of the SGM. Save as described above, none of the other conditions precedent above can be waived unless all the parties to the PowerCom Acquisition Agreement so agree. The PowerCom Vendors and Vanda may jointly waive the condition precedent set out in item 7 above at any time if it is agreed that the Consents which have not been obtained are not material to the business of the Vanda Group and associated companies of Vanda and the PowerCom Group taken as a whole, and such waiver may be subject to such terms and conditions determined by the PowerCom Vendors and Vanda jointly.

PowerCom Completion:

PowerCom Completion is expected to take place after all the conditions precedent have either been fulfilled or waived and immediately after HGC Completion (or where HGC Completion shall take place earlier than the date on which all the other conditions precedent have either been fulfilled or waived, on the fourth Business Day after the date on which, among others, all such other principal conditions precedent set out above have either been fulfilled or waived). It is expected that PowerCom Completion would take place before 13 March 2004. If any of the conditions precedent to PowerCom Completion has not been fulfilled (or waived by the relevant parties) by 13 March 2004 (or such other date as the parties to the PowerCom Acquisition Agreement may agree), the PowerCom Acquisition Agreement shall lapse and be terminated and all rights, obligations and liabilities of all parties to the PowerCom Acquisition Agreement shall cease and determine except for antecedent breaches.

PLACING OF VANDA SHARES

As stated in the Placing Announcement, Vanda was informed by HGC Vendor, CKE and CLPT that they had on 29 January 2004 entered into conditional agreements for the placement of 1,818,000,000 Vanda Shares, 147,000,000 Vanda Shares and 35,000,000 Vanda Shares respectively (2,000,000,000 Vanda Shares in aggregate, representing approximately 28.98% of the Enlarged Vanda Capital) at the placing price of HK$0.90 per Vanda Share, to more than 6 placees who are professional, institutional and/or other investors. As confirmed by the Placing Agent, the Placing Agent, together with its beneficial owners, are independent third parties not connected with the directors, chief executives or substantial shareholders of Vanda or its subsidiaries or any of their respective associates. Pursuant to the terms of the Placing, these Vanda Shares have been conditionally placed to independent third parties not connected with the directors, chief executive or substantial shareholders of Vanda or its subsidiaries or any of their respective associates. Prior consent has been obtained from the Executive in respect of the Placing.

The placing price of HK$0.90 per Vanda Share represents:

(i) a premium of approximately 1675.1% to the latest audited consolidated net tangible assets of Vanda of HK$0.0507 per Vanda Share as at 30 September 2003;

(ii) a discount of approximately 40.8% from HK$1.52, the closing price of the Vanda Shares on the Stock Exchange on 29 January 2004, the trading day before suspension of trading of the Vanda Shares prior to the issue of the Placing Announcement;

(iii) a discount of approximately 11.4% from HK$1.016, the average closing price of the Vanda Shares on the Stock Exchange during the period of the last 10 full trading days before suspension of trading of the Vanda Shares prior to the issue of the Placing Announcement;

(iv) a discount of approximately 3.5% from HK$0.9323, the average closing price of the Vanda Shares on the Stock Exchange during the period of the last 30 full trading days before suspension of trading of the Vanda Shares prior to the issue of the Placing Announcement; and

(v) a discount of approximately 14.3% from HK$1.05, the closing price of the Vanda Shares on the Stock Exchange on the Latest Practicable Date.

The HGC Placing is conditional upon:

(i) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Vanda Shares to be placed under the HGC Placing; and

(ii) completion of the HGC Transaction having occurred in accordance with the terms described in the HGC Placing Agreement.

If the above conditions are not fulfilled on or before 13 March 2004 (or such later time as may be agreed between HGC Vendor and the Placing Agent), the obligations and liabilities of the parties to the HGC Placing Agreement will be null and void.

Completion of the HGC Placing is to occur on the same day as HGC Completion, which is expected to take place before 13 March 2004.

The PowerCom Placing is conditional upon:

(i) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Vanda Shares to be placed under the PowerCom Placing; and

(ii) PowerCom Completion having occurred in accordance with the terms described in the PowerCom Placing Agreement.

If the above conditions are not fulfilled on or before 13 March 2004 (or such later time as may be agreed between CKE, CLPT and the Placing Agent), the obligations and liabilities of the parties to the PowerCom Placing Agreement will be null and void.

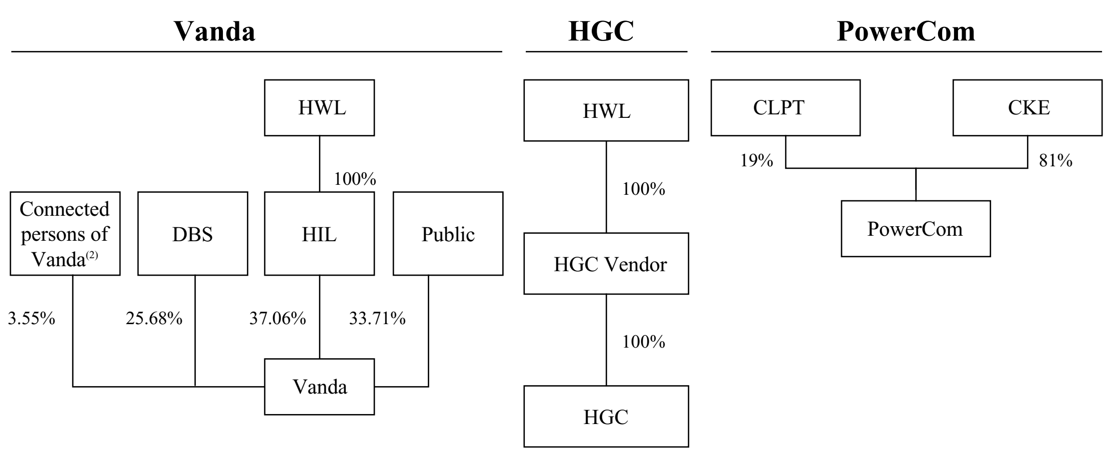
Completion of the PowerCom Placing is to occur on the same day as PowerCom Completion, which is expected to take place before 13 March 2004.

Vanda was informed by HGC Vendor that (i) HGC Vendor has undertaken to the Placing Agent that, for a period of three months from the date of completion of the Placing (save and except pursuant to the HGC Placing or any Vanda Shares acquired by it after completion of the Placing or compliance with the requirements of the Listing Rules or with the undertaking to the Stock Exchange to maintain sufficient public float), HGC Vendor will not sell, transfer or otherwise dispose of any Vanda Shares or any interest therein beneficially owned by HGC Vendor or any securities convertible into any such Vanda Shares or interest therein (including any part of the HGC Consideration Convertible Note) without first having obtained the written consent of the Placing Agent; and (ii) HGC Vendor has also undertaken to the Placing Agent to use its best endeavours to procure that, for a period of three months from the date of completion of the Placing (save and except pursuant to any employee share option scheme of Vanda, any outstanding subscription warrants, bonus or scrip dividend or similar arrangements, conversion of outstanding convertible bonds or loan notes, issue of Vanda Shares and of convertible notes pursuant to the HGC Transaction or the PowerCom Transaction, or any requirements under the Listing Rules to ensure sufficient public float following the date of completion of the Placing), Vanda will not allot or issue any Vanda Shares or any securities convertible into any Vanda Shares or interest therein without first having obtained the written consent of the Placing Agent.

Further, Vanda was informed by CKE and CLPT that each of CKE and CLPT has undertaken to the Placing Agent that, for a period of three months from the date of completion of the Placing (save and except pursuant to the PowerCom Placing or compliance with requirements of the Listing Rules), neither CKE nor CLPT will sell, transfer or otherwise dispose of any Vanda Shares acquired by it pursuant to the PowerCom Transaction or any interest therein beneficially owned by it or any securities convertible into any such Vanda Shares or interest therein without first having obtained the written consent of the Placing Agent.

SHAREHOLDING STRUCTURES OF VANDA, HGC AND POWERCOM PRIOR TO AND AFTER COMPLETION OF THE TRANSACTIONS AND OF THE PLACING

The following charts show the respective shareholding structures of HGC, Vanda and PowerCom immediately prior to completion of the Transactions and of the Placing[1]:

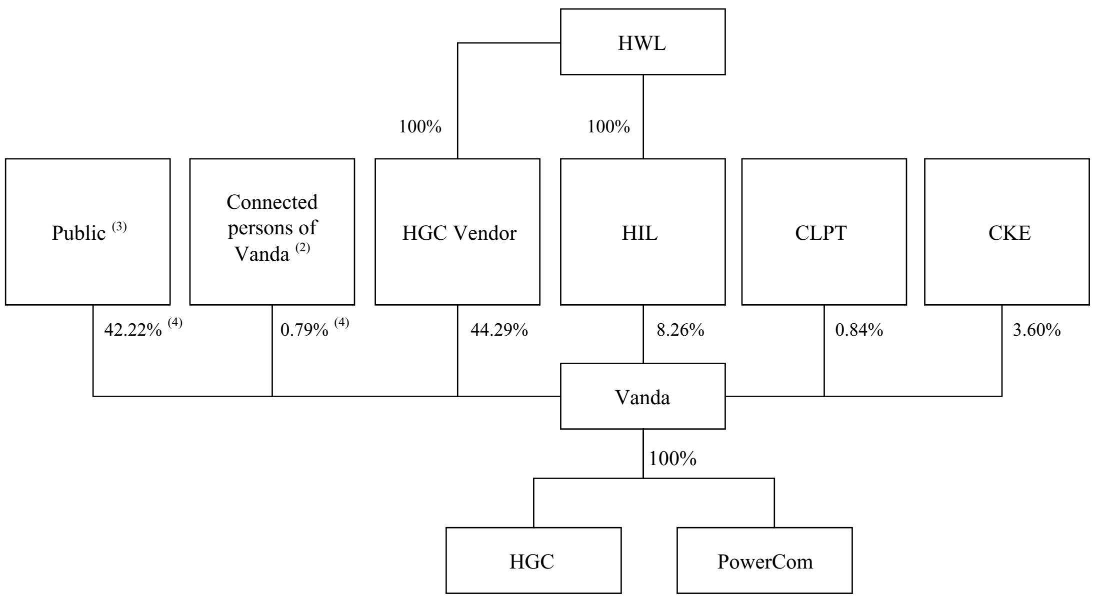


(1) The percentage figures shown in the charts above assume no other changes in shareholding in Vanda after the Latest Practicable Date.

(2) Includes Mr. Lam Hon Nam (an executive Vanda Director) and Lam Ma & Wai Limited but excludes any ex-Vanda Directors. Lam Ma & Wai Limited is wholly-owned by Mr. Lam Hon Nam.

* *The percentage figures shown in the charts above are approximate percentages rounded to 2 decimal places.*

The following chart shows the shareholding structures of HGC, Vanda and PowerCom immediately following completion of the Transactions and of the Placing but before exercise of any conversion rights under the HGC Consideration Convertible Note[(1)]:



(1) The percentage figures shown in the chart above assume no other changes in shareholding in Vanda after the Latest Practicable Date.

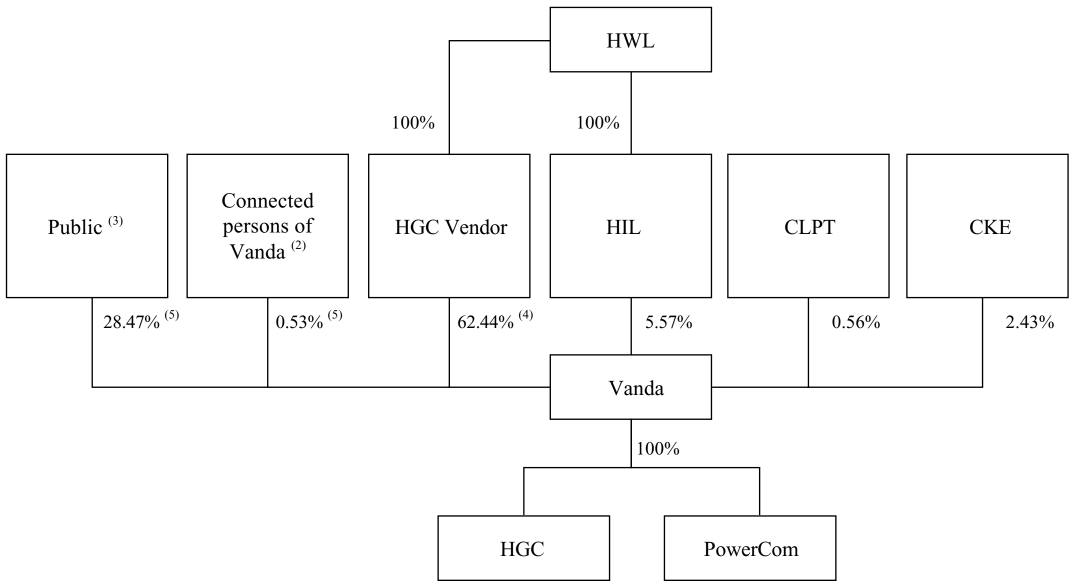
(2) Includes Mr. Lam Hon Nam (an executive Vanda Director) and Lam Ma & Wai Limited but excludes any ex-Vanda Directors. Lam Ma & Wai Limited is wholly-owned by Mr. Lam Hon Nam.

(3) Includes DBS, which will hold approximately 5.72% of the Enlarged Vanda Capital.

(4) On the basis that no new substantial shareholders are introduced to Vanda as a result of the Placing.

* *The percentage figures shown in the chart above are approximate percentages rounded to 2 decimal places.*

The following chart shows the proforma shareholding structures of HGC, Vanda and PowerCom immediately following completion of the Transactions and of the Placing, as if the HGC Consideration Convertible Note is fully converted at the initial conversion price of HK$0.96 per Vanda Share[(1)]:



(1) The percentage figures shown in the chart above assume no other changes in shareholding in Vanda after the Latest Practicable Date.

(2) Includes Mr. Lam Hon Nam (an executive Vanda Director) and Lam Ma & Wai Limited but excludes any ex-Vanda Directors. Lam Ma & Wai Limited is wholly-owned by Mr. Lam Hon Nam.

(3) Includes DBS, which will hold approximately 3.86% of the Enlarged Vanda Capital as further enlarged by the issue of Vanda Shares upon exercise in full of all conversion rights under the HGC Consideration Convertible Note at HK$0.96 per Vanda Share.

(4) The shareholding of the HWL Group in Vanda is expected to increase from approximately 68.01% to approximately 70.96% if the principal amount of HK$1,000,000,000 is fully drawn down against the Facility and fully converted into new Vanda Shares at the conversion price of HK$0.96 per Vanda Share. The other parties' shareholding in Vanda will decrease accordingly.

(5) On the basis that no new substantial shareholders are introduced to Vanda as a result of the Placing.

* *The percentage figures shown in the chart above are approximate percentages rounded to 2 decimal places.*

CONNECTION AMONG THE PARTIES

As at the Latest Practicable Date, HWL, through its wholly-owned subsidiary HIL, held approximately 37.06% of the issued share capital of Vanda. Certain directors on the respective board of directors of HIL and HGC Vendor are also directors of Vanda and of some of the existing subsidiaries of Vanda. As HWL is a controlling shareholder (as such term is defined under the Listing Rules) of Vanda; and HIL and HGC Vendor are wholly-owned subsidiaries of HWL, HIL and HGC Vendor are connected persons of Vanda under the Listing Rules.

As at the Latest Practicable Date, CKH, through a number of subsidiaries, held approximately 49.97% of the issued share capital of HWL. A director on the board of CKH and on the boards of a number of subsidiaries of CKH is also a Vanda Director. As CKH is not a holding company of HWL, CKH is not an associate of HWL under the Listing Rules and neither CKH nor CKE is a connected person of Vanda under the Listing Rules.

INFORMATION ON HGC

Business Overview

The global telecommunications industry is experiencing rapid growth as a result of the continued increase in international Internet and telecommunications traffic, global deregulation and technological advances in fibre optic transmission.

With effect from 1 January 2003, the local fixed network market in Hong Kong has been fully liberalised. OFTA no longer limits the number of FTNS or Fixed Carrier licence to be issued. Currently, there are nine local wireline-based FTNS, one local wireline-based FTNS over HFC cable and two local wireless FTNS licensees in Hong Kong, including five new local wireline-based licences issued after full liberalisation on 1 January 2003.

HGC is one of the leading providers of a wide range of voice and data communication services in Hong Kong. According to the directors of HGC, it was their intention to increase HGC's market share and in particular to capture new opportunities arising from any growth in the telecommunications industry. HGC currently operates a fibre optic network that is amongst the largest in Hong Kong. According to the directors of HGC, it was their belief that HGC's fibre optic network is of a higher standard in terms of speed, capacity, transmission quality, stability and scalability than that of other networks deploying traditional transmission technology.

HGC intends to build on its existing position to:

- increase its market share for the provision of voice and data communication services in Hong Kong;
- increase its market share as a carrier of bandwidth to and from Mainland China; and
- become one of the top Asian players in the international bandwidth market.

Competitive Strengths

HGC's key strengths can be summarised as follows:

- Fully fibre optic network in Hong Kong that allows the deployment of leading technology and high speed broadband services.
- Extensive network coverage in Hong Kong covering all major business areas and with a household penetration of approximately one million.
- Completed backbone infrastructure rendering further significant network investment, other than for "last mile" connections, unnecessary.
- Active business relationships with major local and international carriers both within and outside Hong Kong.
- Ability to capitalise extensive business diversity opportunities and business contacts of the CKH Group and the HWL Group.
- Integrated international and local services under common management.
- A growing regional presence as a carrier of international bandwidth.
- No inherited cost structure and an experienced management team.

HGC plans to use its competitive strengths to increase its market share through offering high value added services for both wholesale and retail markets.

With the full liberalisation of the Hong Kong telecommunications market in January 2003, new entrants are likely to enter the market. These new entrants will find it difficult to build a network comparable in size and quality to that of HGC's. HGC's extensive network infrastructure therefore presents additional wholesale opportunities for HGC to offer its services to these new entrants. This is a natural extension of HGC's wholesale business.

Network Overview

HGC has an extensive state-of-the-art network with a fully fibre optic backbone in key business and residential districts in Hong Kong Island, Kowloon, Lantau Island and the New Territories. HGC's network is over 4,000 kilometres in duct length (one way equivalent) and over 700,000 kilometres in terms of core fibre optic cable, making it the largest fully-fibre optic building-to-building network in Hong Kong. In addition, HGC's Hong Kong network is interconnected with all local carriers in Hong Kong and with major networks in Mainland China. HGC's network is also connected directly to many major networks overseas.

HGC's backbone network is designed to handle high volume of traffic and can be readily upgraded for increased volumes. The network further supports a very high-speed transmission for Internet and data communications. Currently the network spans Hong Kong along a number of major fibre routes, including:

- a fibre route inside tunnels of Hong Kong's Mass Transit Railway;
- fibre routes along major roads and expressways in Hong Kong;
- a fibre link to the Hong Kong International Airport at Chek Lap Kok;
- fibre rings linking most major districts in Hong Kong; and
- a submarine cable connecting Chek Lap Kok and Tuen Mun.

The backbone is within 50 metres of most residential structures of at least 30 storeys and of most commercial structure of at least 20 storeys with 10,000 square feet/storey. HGC has installed direct connections to over 4,000 buildings and has block-wired over 1,400 buildings. In addition, HGC continues to expand its "last mile" local access (the last 50 metres).

Products and Services

The following is the revenue breakdown by key products for the years ended 31 December 2002 and 2003:

	2002 (unaudited)		**2003 (unaudited)**	
Amount in HK$ million	*Total*	*%*	*Total*	*%*
Data Services	597.1	48%	683.4	43%
Local Voice Services	301.8	25%	446.8	28%
International Direct Dialing	144.6	12%	204.3	13%
Residential Broadband Services	121.8	10%	164.6	10%
International Bandwidth	88.2	7%	126.8	8%
Intercompany Eliminations	(21.8)	(2)%	(24.8)	(2)%
Total Revenue	1,231.7	100%	1,601.1	100%

HGC provides products and services to retail end users (residential consumers, MNCs and SMEs) as well as to wholesale customers (other telecommunications carriers and operators). The following is a summary of the products and services, which HGC provides:

Data services

This line of business consists of:

1) connectivity for mobile operators;

2) leased lines for telecommunications carriers, other fixed network operators, ISPs and other wholesale customers;

3) connectivity for large corporations, including many major financial institutions, government and quasi-government bodies and corporates;

4) business broadband service to SMEs; and

5) broadband services to schools.

Data services provided by HGC include products such as DWDM, CWDM, Gigabit Ethernet, Fast Ethernet, STM, T1/E1, ATM, Frame Relay and other products.

Local voice services

HGC offers basic voice and fax services to residential customers covered by its PSTN. Some value added services such as call waiting and call forwarding are also offered. As at 31 December 2003, HGC had approximately 212,000 residential subscribers.

HGC also offers a wide range of voice connectivity services for business customers, including high-capacity digital connections for PABX, keyline system and other devices at customers' premises.

International Direct Dialing (IDD)

HGC provides IDD voice and fax services, international calling card accounts, pre-paid phone cards and personal number services to both residential and business customers.

In the wholesale market, HGC provides voice interconnection and local termination to international voice carriers.

The total handled voice minutes were approximately 502 million for the year ended 31 December 2003.

HGC intends to continue growing its wholesale IDD traffic volume because the increased aggregated volume handled should enable HGC to achieve more competitive rates with international carriers for the delivery of IDD traffic.

Residential broadband services

HGC offers broadband Internet access under two product options: (i) "last mile" transmission through telecommunication cables and (ii) electric power grids. HGC's residential broadband services are often bundled with other value added services. HGC also offers users high-quality connections for their video telephone devices (for example, Vfones). As at 31 December 2003, HGC had approximately 120,000 broadband subscribers compared with approximately 67,000 as at 31 December 2002, an increase of approximately 79%.

International bandwidth

The services provided by HGC include IPLC, Internet protocol transit and IRU sales to MNCs, international voice telephony resellers, international carriers and ISPs both in Hong Kong and overseas.

HGC intends to increase its international bandwidth revenues through building up its sales channels for promoting business with local carriers and entering into direct dealings with selective customers. HGC plans to establish more POPs in specific countries to provide the necessary service platforms, as well as to develop more products that can meet end customer requirements. Planned POPs to be established include Singapore, Korea, Malaysia and Indonesia.

HGC's local optic fibre network has been directly connected to China Telecom's Synchronous Digital Hierarchy Ring since 2000. HGC has also established interconnection arrangements with other major carriers in Mainland China.

HGC intends to continue to develop its relationships with China Telecom, China Netcom and other major carriers in Mainland China, as HGC believes there are many collaboration and referral opportunities arising from such relationships.

Data centre business

Hutchison GlobalCenter offers data centre facilities, managed hosting solutions, operations outsourcing and disaster recovery solutions to both local corporations and MNCs. As at 31 December 2003, over 80% of its hosting capacity was occupied. Its customers include major financial institutions, shipping companies, ISPs, content delivery service providers and media and entertainment companies. Hutchison GlobalCenter's total revenues in the year ended 31 December 2003 were approximately HK$43 million and it has achieved positive operating cashflows before interest payments for the past two financial years. In recognition of the business synergy which can be gained through integrating the data centre facilities and business of Hutchison GlobalCenter with the wide range of telecommunication services being provided by HGC, Hutchison GlobalCenter was acquired by HGC in December 2003.

Equipment Suppliers

In order to provide the highest level of service to its customers, HGC sources its equipment needs from a variety of suppliers including Huawei, Cisco, RiverStone, Siemens, Ericsson, HP, IBM and Sun Microsystems.

Competitive Landscape

The key competitors for HGC in its respective business lines are as follows:

- Data services and local voice and data – PCCW, WTT, NWT, HKBN
- IDD – PCCW, CTI, NWT, WTT
- Residential broadband services – PCCW, HKBN, i-CABLE
- International bandwidth – FLAG, ANC, Reach

Summary Financial Information

The following financial information, except for the financial ratios, is extracted from the accountants' report of HGC for financial years ended 31 December 2001, 2002 and 2003, included in Appendix I to this document.

Summary Historical Financial Data

	For the years ended 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Historical Income Statement Data			
Turnover	1,075,165	1,231,712	1,601,130
Cost of services(1)	(874,642)	(828,841)	(805,341)
Gross profit(2)	200,523	402,871	795,789
Operating expenses(3)	(446,758)	(807,697)	(750,356)
Profit/(loss) from operations	(246,235)	(404,826)	45,433
Other income	21,573	10,248	7,407
Profit/(loss) before taxation	(224,662)	(394,578)	52,840
Taxation	–	–	–
Profit/(loss) attributable to shareholders	(224,662)	(394,578)	52,840

	As at 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Historical Balance Sheet Data			
Cash and cash equivalents	71,731	18,474	8,446
Other current assets	231,764	199,340	237,326
Fixed assets	4,057,057	5,098,734	6,045,145
Other assets	1,607,503	1,388,062	1,403,507
Total assets	5,968,055	6,704,610	7,694,424
Current liabilities	(784,149)	(935,282)	(963,796)
Long-term liabilities	(1,550,174)	(2,530,174)	(3,438,634)
Total liabilities	(2,334,323)	(3,465,456)	(4,402,430)
Total shareholders' equity	3,633,732	3,239,154	3,291,994

	For the years ended 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Other Historical Financial Data			
Depreciation of fixed assets	(220,736)	(296,534)	(376,700)
Amortisation of prepaid capacity	(6,693)	(20,672)	(35,568)
Capital expenditure	1,048,082	1,339,826	1,255,639
Financial Ratios			
Gross profit margin	19%	33%	50%
Operating profit margin	-23%	-33%	3%
Net profit margin	-21%	-32%	3%

(1) Cost of services is exclusive of depreciation of fixed assets and amortisation of prepaid capacity.

(2) Gross profit is defined as revenue minus cost of services exclusive of depreciation of fixed assets and amortisation of prepaid capacity, which are included in operating expenses.

(3) Operating expenses include depreciation of fixed assets and amortisation of prepaid capacity.

Risks related to HGC's business

HGC faces competition from existing and new fixed line providers when providing fixed line telecommunications services. Following the deregulation of the telecommunications business in Hong Kong, significant competitors have emerged that supply local and international telecommunications services. Some of these licensees are subsidiaries of major foreign telecommunications service providers.

Increasing liberalisation of the telecommunications markets in Hong Kong may further attract new local and foreign entrants to the market, which may introduce new products and services, thereby increasing the level of competition in the industry. Increased competition could result in price reductions, reduced gross margins or loss of market share, any of which could impact the HGC Group's profitability.

The Hong Kong telecommunications industry operates under licences granted by OFTA. HGC's operations could be adversely affected by any revocation or amendment of its existing licences or the granting of new licences to other service providers. There can be no assurance that the existing regulatory and licensing framework will remain unchanged. The effect of any future regulatory changes on the viability or competitiveness of the HGC's business cannot be accurately predicted.

Some of the specific risks which HGC is subject to in such competitive environment include competition from different types of service providers (such as other FTNS operators, cable communications companies, telecommunications resellers and website hosting providers), additional costs to implement new technologies as the industry is subject to rapid and significant changes in that respect, intensive competition for highly-skilled personnel in the industry and limited availability of persons with the requisite knowledge and experience.

HGC is also relying on obtaining rights from various parties (including its competitors, government and private parties) in order to build, expand and operate its network. If HGC cannot obtain such rights on favourable terms or at all, HGC may not be able to implement its network development and provide its services on a commercial basis. Further, HGC's ability to provide viable communications services depends upon its ability to secure and maintain interconnection arrangements with other operators, and there is no assurance that such arrangements can be agreed on favourable terms.

The reliability of HGC's network has historically been consistently good. However, any future large-scale or frequent failures of HGC's network might significantly hinder the ability of HGC to attract and retain customers.

INFORMATION ON POWERCOM

Business Overview

PowerCom was incorporated in 2000. In August 2002, CLPT became a strategic investor. PowerCom is currently owned as to 19% by CLPT and the remaining 81% by CKE.

PowerCom provides broadband services that can be accessed by the users through power sockets. For many Internet users, this new technology has resolved many hassles that they may have encountered before. Computers no longer need to be located next to a TV socket or a telephone socket and computers can now be connected online virtually anywhere inside an apartment.

From the perspective of a telecommunication operator, the PowerCom Technology offers two competitive advantages for the residential market. Firstly, the PowerCom Technology makes use of existing in-building electrical cables, which means that the installation of the PowerCom Technology equipment inside a building is much simpler when compared to traditional means. Through the PowerCom Technology, an Internet access service can be made available to a building and its residents through the power lines in approximately 3 days. Secondly, the PowerCom Technology is a lower cost "last mile" solution for telecommunication operators with an estimated cost of approximately HK$35,000 to "broadband-enable" all the households inside a 30-storey residential building.

PowerCom entered into a strategic partnership with HGC in July 2002. PowerCom's broadband technology combined with HGC's state-of-the-art fibre optic network backbone offers users a high level of performance and convenience at a competitive price. The HGC-PowerCom Broadband Service is currently offered to residential estates, hotels and serviced apartments in Hong Kong. As at 31 December 2003, PowerCom had approximately 21,000 paying subscribers after operation for approximately 15 months.

Summary Financial Information

The following financial information is extracted from the accountants' report of PowerCom for the three years ended 31 December 2003, included in Appendix II to this document. PowerCom recorded turnover of approximately HK$0.05 million, HK$0.9 million and HK$6.7 million for the years ended 31 December 2001, 2002 and 2003, respectively. Its net loss was approximately HK$14.4 million, HK$18.7 million and HK$9.0 million for the years ended 31 December 2001, 2002 and 2003, respectively. It had net liabilities of approximately HK$16.1 million, HK$21.7 million and HK$30.6 million as at 31 December 2001, 2002 and 2003, respectively.

Risks related to PowerCom's business

In terms of broadband Internet service provided by PowerCom alone or in co-operation with HGC, PowerCom faces competition from existing and new broadband service providers and "last mile" technology providers. Following the deregulation of the telecommunications business in Hong Kong, significant competitors have emerged and there is currently intense competition amongst all the players in the market.

Increasing liberalisation of the telecommunications markets in Hong Kong may further attract new local and foreign entrants to the market, which may introduce new types of access technologies, products and services, thereby increasing the level of competition in the industry. Increased competition could result in price reductions, reduced gross margins or loss of market share, any of which could impact PowerCom's profitability.

The Hong Kong telecommunications industry operates under licences granted by the OFTA. PowerCom's operations could be adversely affected by any revocation or amendment of HGC's or PowerCom's existing licences or the granting of new licences to other service providers. There can be no assurance that the existing regulatory and licensing framework will remain unchanged. The effect of any future regulatory changes on the viability and competitiveness of PowerCom's business cannot be accurately predicted.

Some of the specific risks which PowerCom is subject to in such competitive environment include competition from different types of service providers (such as other FTNS operators, cable communications companies, and telecommunications resellers), additional costs to implement new technologies from existing or new partners as PowerCom related technology is subject to rapid and significant changes in that respect, intensive competition for highly-skilled personnel in the industry and limited availability of persons with the requisite knowledge and experience.

PowerCom is also relying on obtaining rights from various parties (including property management companies, competitors, technology partners, government and equipment suppliers) in order to build, expand and operate its network. If PowerCom cannot obtain such rights on favourable terms or at all, PowerCom may not be able to implement its technology and service development plan and provide its services on a commercial basis.

The reliability of PowerCom's network has historically been good. However, any future large-scale or frequent failures of PowerCom's network might significantly hinder the ability of PowerCom to attract and retain customers.

INFORMATION ON VANDA

Business Overview

Vanda engages in the business of trading of computers and peripherals, systems integration, development and sale of software for the finance and banking industry, distribution of telecommunication products, and e-commerce solutions, mainly in Mainland China.

Vanda was founded in 1982, with its shares listed on the Main Board of the Stock Exchange since 1995. Headquartered in Hong Kong, Vanda has an extensive geographical coverage with operations spanning Mainland China, Hong Kong, Macau and Southeast Asian countries, including Singapore, Malaysia and the Philippines, to the United Kingdom. In Mainland China, Vanda has a strong presence, operating eight offices in key cities including Beijing, Changchun, Chengdu, Dalian, Guangzhou, Shanghai, Shenzhen and Wuhan.

Vanda is one of the market leaders in Mainland China in the provision of systems integration and software applications services in the banking and finance sector. Vanda has a client base that includes the biggest five domestic banks in Mainland China. Vanda has a reseller network of over 300 companies, distributing high-end computer products in Singapore, Malaysia and the Philippines.

Vanda is a premier IT service provider in Asia and is one of IBM's largest three business partners in Asia. Vanda's diverse client base includes major banks, financial institutions, postal and telecommunications companies, utility companies and government departments. In addition to utilising its own resources and expertise, Vanda collaborates with leading IT partners, including IBM and Cisco, to provide quality systems integration services.

Summary Financial Information

The following summary audited historical financial data should be read in conjunction with Vanda's audited financial statements for the six-month period ended 30 September 2003 and for the year ended 31 March 2003, included in Appendix III to this document. The historical financial data summarised below, except for the financial ratios, are extracted from the Vanda's 2001, 2002 and 2003 annual reports and the audited financial statements of Vanda for the period from 1 April 2003 to 30 September 2003.

	For the years ended			For the period from 1 April 2003 to
	31 March 2001	**31 March 2002**	**31 March 2003**	**30 September 2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Historical Income Statement Data				
Turnover	1,165,033	1,103,086	1,024,638	420,990
Cost of sales	(1,018,050)	(966,146)	(854,664)	(353,563)
Gross profit	146,983	136,940	169,974	67,427
Operating expenses	(131,986)	(226,280)	(156,789)	(76,346)
Profit/(loss) from operations	14,997	(89,340)	13,185	(8,919)
Other expenses	(201,538)	(106,946)	(180,977)	(34,508)
Loss before tax	(186,541)	(196,286)	(167,792)	(43,427)
Income tax expense	(10,375)	(23)	(4,713)	(12,013)
Loss after tax	(196,916)	(196,309)	(172,505)	(55,440)
Minority interests	8,147	5,240	(1,310)	(145)
Net loss attributable to shareholders	(188,769)	(191,069)	(173,815)	(55,585)

	As at 31 March 2001	**As at 31 March 2002**	**As at 31 March 2003**	**As at 30 September 2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Historical Balance Sheet Data				
Cash and cash equivalents *(Note)*	158,971	106,330	77,737	75,390
Restricted cash	–	10,491	30,423	12,841
Pledged time deposits	42,725	52,437	62,112	58,172
Other current assets	557,890	279,130	339,133	263,736
Net property and equipment	106,964	105,646	85,158	70,787
Other assets	173,748	142,206	10,735	3,591
Total assets	1,040,298	696,240	605,298	484,517
Current liabilities	(582,413)	(497,046)	(453,706)	(390,611)
Long-term liabilities	(282,259)	(220,132)	(339,991)	(4,741)
Total liabilities	(864,672)	(717,178)	(793,697)	(395,352)
Minority interests	(11,950)	(9,700)	(10,974)	(11,119)
	(876,622)	(726,878)	(804,671)	(406,471)
Total shareholders' equity/(deficit)	163,676	(30,638)	(199,373)	78,046

	For the years ended			For the period from 1 April 2003 to
	31 March 2001	31 March 2002	31 March 2003	30 September 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other Historical Financial Data				
Depreciation	16,567	20,027	12,871	4,741
Amortisation	11,768	3,056	–	–
Capital expenditure	31,225	27,808	3,084	2,782
Financial Ratios				
Gross profit margin	13%	12%	17%	16%
Operating profit margin	1%	-8%	1%	-2%
Net profit margin	-16%	-17%	-17%	-13%

(Note) Owing to the adoption of the revised Statement of Standard Accounting Practice No.2.115 "Cash flow statements" ("SSAP15"), financial periods beginning on or after on 1 January 2002 should follow the revised SSAP15 in the preparation of financial statements in which the definition of cash equivalents has been revised. The historical financial data summarised above for 2001 has not been adjusted as per the requirements of the revised SSAP 15.

ONGOING CONNECTED TRANSACTIONS

Certain members of the Enlarged Vanda Group have entered into certain transactions and are expected to continue to enter into such transactions with the Remaining HWL Group after completion of the Transactions. After completion of the Transactions and of the Placing, such transactions will constitute connected transactions for Vanda under the Listing Rules and (on or after 31 March 2004) the Revised Listing Rules for so long as HWL's interest, held directly or indirectly through its subsidiaries, in Vanda shall equal to or exceed 10% of the then issued share capital of Vanda.

Non-exempt Ongoing Connected Transactions

The following are those of the Ongoing Connected Transactions which will after completion of the Transactions and of the Placing be subject to reporting, announcement and independent Shareholders' approval requirements under the Listing Rules and (on or after 31 March 2004) the Revised Listing Rules:

Provision of telecommunications and Internet services to the Remaining HWL Group

The Enlarged Vanda Group (other than the Vanda Group) currently provides, and will continue to provide, local and international telecommunications services (including, among others, leased line services), mobile interconnection services, mobile number portability (MNP) porting and dipping services, Internet access bandwidth (with value added services) and Internet and web hosting services to the Remaining HWL Group (the "Non-exempt Telecommunications and Internet Services"). Local and international telecommunications services have been provided to the Remaining HWL Group since about 1995 following the issuance of the FTNS licence to the HGC Group whereas certain other services were first provided at around the time when such services were available from the relevant member of the Enlarged Vanda Group (other than the Vanda Group). The provision of the Non-exempt Telecommunications and Internet Services at present is, and after the HGC Completion and the PowerCom Completion will be, on normal commercial terms and in the ordinary and usual course of business of the Enlarged Vanda Group. The services are and will be charged by the Enlarged Vanda Group at rates no less favourable to the Enlarged Vanda Group than those provided to independent third parties.

The total charges in respect of the Non-exempt Telecommunications and Internet Services paid by the Remaining HWL Group to the Enlarged Vanda Group (other than the Vanda Group) in the year ended 31 December 2003 was approximately HK$259.0 million. It is expected that the total of such charges payable by the Remaining HWL Group to the Enlarged Vanda Group for each of the three years ending 31 December 2004, 2005 and 2006 will not exceed HK$382.8 million, HK$548.8 million and HK$669.0 million respectively, representing an increase over the preceding year of approximately 48%, 43% and 22% respectively. These amounts are arrived at by reference to the figure for the year ended 31 December 2003, after taking into account (i) the expected growth in the areas of business for which the relevant services are provided; (ii) expansion of customer base for existing business, such as IRU sales and leasing of IPLCs, that are anticipated; and (iii) anticipated general business growth. Such factors are expected to lead to an increase in the volume and value of the services provided to the Remaining HWL Group, and thus resulting in the expected increase in the charges payable. However, as the rates of growth attributed to one or more of such factors vary from year to year, the expected annual percentage increase in the charges is therefore not uniform over the period.

As the provision of the Non-exempt Telecommunications and Internet Services is of a continuing and recurring nature and the aggregate annual consideration is expected to be more than the higher of HK$10,000,000 or 3% of the Enlarged Vanda Group Proforma NTA, it will be subject to independent Shareholders' approval pursuant to Chapter 14 of the Listing Rules. Further, as one or more of (where applicable) the "assets ratio", "revenue ratio" and "consideration ratio" under the Revised Listing Rules in respect of the provision of such services is or are expected to be (i) not less than 2.5% on an annual basis; and (ii) equal to or more than 25% on an annual basis or the annual consideration for such services is expected to be more than HK$10,000,000, under Chapter 14A of the Revised Listing Rules the provision of such services will also be subject to independent Shareholders' approval.

Provision of data centre services to the Remaining HWL Group

Hutchison GlobalCenter currently provides, and is expected to continue to provide, after completion of the Transactions and of the Placing, data centre services to the Remaining HWL Group ("Non-exempt Data Centre Services Arrangements"). Such data centre services include data centre facilities (including power supply, telecommunications connectivity, air-conditioning, and fire prevention and security systems), hardware and software management and co-location services. Some of such services have been provided to the Remaining HWL Group since 2000. The provision of such services at present is, and after the HGC Completion and the PowerCom Completion will be, on normal commercial terms and in the ordinary and usual course of business of Hutchison GlobalCenter. Such services are and will also be charged at rates no less favourable to the Enlarged Vanda Group than those provided to independent third parties.

The total consideration in respect of the Non-exempt Data Centre Services Arrangements received by Hutchison GlobalCenter (although not a member of the HGC Group then) for the provision of such services in the year ended 31 December 2003 was approximately HK$16.2 million and it is expected that the total of such consideration to be received by Hutchison GlobalCenter for each of the three years ending 31 December 2004, 2005 and 2006 will not exceed HK$23.9 million, HK$26.3 million and HK$28.9 million respectively, representing an increase over the preceding year of approximately 47%, 10% and 10% respectively. These amounts are arrived at by reference to the figure for the year ended 31 December 2003. A considerable increase is expected for the amount in respect of the year ending 31 December 2004 as compared to the figure for the year ended 31 December 2003 mainly because of the introduction of a new area of business (namely, IT out-sourcing). For each of the two years ending 31 December 2005 and 2006, the amount stated in respect of each year represents an expected general business growth from that of the preceding year. The introduction of the new area of business referred to above and the general business growth are expected to lead to an increase in the volume or value (or both) of the services provided to the Remaining HWL Group, and thus resulting in the expected increase in the consideration payable.

As the provision of services under the Non-exempt Data Centre Services Arrangements is of a continuing and recurring nature and the aggregate annual consideration is expected to be more than the higher of HK$10,000,000 or 3% of the Enlarged Vanda Group Proforma NTA, it will be subject to independent Shareholders' approval pursuant to Chapter 14 of the Listing Rules. Further, as one or more of (where applicable) the "assets ratio", "revenue ratio" and "consideration ratio" under the Revised Listing Rules in respect of the provision of such services may be (i) not less than 2.5% on an annual basis; and (ii) equal to or more than 25% on an annual basis or the annual consideration for such services is expected to be more than HK$10,000,000, under Chapter 14A of the Revised Listing Rules the provision of such services will in that event also be subject to independent Shareholders' approval.

Discloseable Ongoing Connected Transactions

The following are those of the Ongoing Connected Transactions which will after completion of the Transactions and of the Placing be subject to reporting and announcement requirements under the Listing Rules and (on or after 31 March 2004) the Revised Listing Rules:

Lease and licence arrangements between the Remaining HWL Group and the Enlarged Vanda Group

The Enlarged Vanda Group (as lessee or licensee) has since around 2000 entered into various lease and licence arrangements with various members of the Remaining HWL Group (as landlord or licensor) (the "Lease Arrangements"). The Lease Arrangements are in respect of building spaces and other premises for use by the Enlarged Vanda Group as offices or for other business purposes, and will expire in 2004 to 2006 (with options to renew in some cases). The Lease Arrangements have been and will be entered into on normal commercial terms and on terms no less favourable to the Enlarged Vanda Group than those offered by landlords and licensors who are independent third parties.

In respect of those arrangements under the Lease Arrangements with an annual consideration of not less than HK$1,000,000 each in the relevant year, the aggregate consideration paid by the Enlarged Vanda Group to the Remaining HWL Group (excluding any amounts paid and payable to the landlords or licensors as reimbursement for payments in turn payable to third parties) in the year ended 31 December 2003 was approximately HK$16.7 million. It is expected that the aggregate consideration payable under all the Lease Arrangements with an annual consideration of not less than HK$1,000,000 each in the relevant year by the Enlarged Vanda Group to the Remaining HWL Group (excluding any amounts paid and payable to the landlords or licensors as reimbursement for payments in turn payable to third parties) for each of the three years ending 31 December 2004, 2005 and 2006 will not exceed HK$18.3 million, HK$21.0 million and HK$22.8 million respectively. These amounts are arrived at by reference to the figure for the year ended 31 December 2003, after taking into account (in the case of leases and licences which are to expire) the expected increase in rental, management fees etc. in view of the current property market in Hong Kong.

Each of those arrangements under the Lease Arrangements which are not exempt from disclosure requirements ("Non-exempt Lease Arrangements") is of a continuing and recurring nature. The annual consideration under each of the Non-exempt Lease Arrangements individually is expected to be less than the higher of HK$10,000,000 or 3% of the Enlarged Vanda Group Proforma NTA. Further, in respect of each of the Non-exempt Lease Arrangements, each of (where applicable) the "assets ratio", "revenue ratio" and "consideration ratio" under the Revised Listing Rules is on an annual basis expected to be (i) less than 2.5%; or (ii) equal to or more than 2.5% but less than 25% and the annual consideration is expected to be less than HK$10,000,000. Therefore, all Non-exempt Lease Arrangements will fall within the requirements under Rule 14.25(1) of the Listing Rules and the exemption under Rule 14A.34 of the Revised Listing Rules, and thus are only subject to the reporting and announcement requirements set out in those rules and are exempt from the independent Shareholders' approval requirements.

Bill collection services provided by a member of the Remaining HWL Group

Under an agreement dated 1 November 2002 between A.S. Watson Group (HK) Limited ("Watson", which is an indirect wholly-owned subsidiary of HWL) and HGCL as amended, Watson was appointed as an agent for HGCL and its subsidiaries to receive at retail outlets operated by Watson in Hong Kong customer payments for services rendered by HGCL and its subsidiaries ("Bill Collection Services"). HGCL is required to pay to Watson an agreed amount of commission per transaction, depending on the number of transactions processed per month, subject to an agreed minimum commission per month if the number of transactions per month is less than an agreed minimum. HGCL is also responsible for paying any EPS, credit card or Octopus card charges at the rates notified by Watson. The agreement commenced on 1 November 2002 and is expected to continue until 31 December 2006. The agreement has been entered into on normal commercial terms.

The total consideration paid by HGCL for such services in the year ended 31 December 2003 was approximately HK$3.2 million. It is expected that the total of such consideration for each of the three years ending 31 December 2004, 2005 and 2006 will not exceed HK$4.3 million, HK$5.6 million and HK$6.0 million respectively, representing an increase over the preceding year of approximately 34%, 30% and 7% respectively. These amounts are arrived at by reference to the figure for the year ended 31 December 2003, taking into account the expected increases in the number of transactions for customer payments effected at the retail outlets of Watson. Such expected increases in number of transactions are arrived at taking into account (i) the expected growth in the areas of services to be provided by HGCL and its subsidiaries to customers (such as broadband services and fixed line telecommunications services); and (ii) the expected increase in the number of customers making payments through retail outlets of Watson. Factors described in (i) and (ii) are expected to lead to an increase in the number or value (or both) of the customer payment transactions, and thus resulting in the expected increase in the consideration payable. However, as the rates of growth attributed to one or both of such factors vary from year to year, the expected annual percentage increase in the consideration is therefore not uniform over the period.

The transactions under the Bill Collection Services are of a continuing and recurring nature and the aggregate annual consideration is expected to be less than the higher of HK$10,000,000 or 3% of the Enlarged Vanda Group Proforma NTA. Further, each of (where applicable) the "assets ratio", "revenue ratio" and "consideration ratio" under the Revised Listing Rules is on an annual basis expected to be (i) less than 2.5%; or (ii) equal to or more than 2.5% but less than 25% and the annual consideration is expected to be less than HK$10,000,000. Therefore, all such transactions will fall within the requirements under Rule 14.25(1) of the Listing Rules and the exemption under Rule 14A.34 of the Revised Listing Rules, and thus are only subject to the reporting and announcement requirements set out in those rules and are exempt from the independent Shareholders' approval requirements.

Sharing of services with the Remaining HWL Group

Members of the Remaining HWL Group have been (since the commencement of business of the HGC Group in around 1995) sharing with and are expected to continue to share with the Enlarged Vanda Group services including, among others, legal and regulatory services, company secretarial services, financial, accounting, tax and internal audit support services, provident fund management services, participation in the Remaining HWL Group's pension scheme, participation in the Remaining HWL Group's medical scheme, participation in the Remaining HWL Group's insurance scheme, shared use of accounting software system and related services, information technology services, participation in the Remaining HWL Group's procurement projects with third party vendors/suppliers, other staff benefits and staff training services, use of the Remaining HWL Group's club debentures, company functions and activities, electrical and mechanical support services, electronic mail messaging services, sharing of electricity services, mail and courier services (the "Shared Services Arrangements"). The Enlarged Vanda Group will bear the costs and expenses incurred in connection with the provision of such services. In addition, the Enlarged Vanda Group will pay a fee to the Remaining HWL Group. Vanda intends to enter into an agreement with HIL in relation to the Shared Services Arrangements.

The fee paid by the HGC Group in the year ended 31 December 2003 was approximately HK$12.0 million. It is expected that such fee payable by the Enlarged Vanda Group for the three years ending 31 December 2004, 2005 and 2006 will not exceed HK$8.0 million, HK$9.0 million and HK$9.8 million respectively. These amounts are arrived at by reference to the figure for the year ended 31 December 2003. The maximum amount expected to be payable by the Enlarged Vanda Group to the Remaining HWL Group in each of the years ending 31 December 2004, 2005 and 2006 is less than the fee paid for the year ended 31 December 2003 on the expectation that the management functions in relation to the HGC Group will be taken over by the board and executives of the Enlarged Vanda Group following completion of the HGC Transaction. Such taking over by the board and executives of the Enlarged Vanda Group is expected to result in a decrease in the level (and hence value) of the Shared Services Arrangements, and thus resulting in the expected decrease in the fee payable in the three years ending 31 December 2004, 2005, 2006 respectively compared with that paid in the year ended 31 December 2003. The expected increase in the maximum amounts payable for the years ending 31 December 2005 and 2006 is attributable to the general business growth and level of activities of the Enlarged Vanda Group thereby resulting in increased utilisation of the Shared Services Arrangements by the Enlarged Vanda Group and general inflationary increases.

The transactions under the Shared Services Arrangements are of a continuing and recurring nature and the aggregate annual consideration is expected to be less than the higher of HK$10,000,000 or 3% of the Enlarged Vanda Group Proforma NTA. Further, each of (where applicable) the "assets ratio", "revenue ratio" and "consideration ratio" under the Revised Listing Rules is on an annual basis expected to be (i) less than 2.5%; or (ii) equal to or more than 2.5% but less than 25% and the annual consideration is expected to be less than HK$10,000,000. Therefore, the Shared Services Arrangements will fall within the requirements under Rule 14.25(1) of the Listing Rules and the exemption under Rule 14A.34 of the Revised Listing Rules, and thus are only subject to the reporting and announcement requirements set out in those rules and are exempt from the independent Shareholders' approval requirements.

Waiver Application

The Vanda Directors (including members of the Independent Board Committee) are of the view that each of the Ongoing Connected Transactions is or will be on normal commercial terms and is fair and reasonable and in the interests of the Shareholders taken as a whole, having regard to the circumstances in which it was entered into or is to be entered into.

Each of the transactions under the Non-exempt Lease Arrangements, Bill Collection Services and Shared Services Arrangements will be subject to the reporting and announcement requirements set out in Rule 14.25(1) of the Listing Rules or (on and after 31 March 2004) Rules 14A.45 to 14A.47 of the Revised Listing Rules. Each of the transactions under the Non-exempt Telecommunications and Internet Services and the Non-exempt Data Centre Services Arrangements will be subject to the reporting, announcement and independent shareholders' approval requirements set out in Rules 14.25(3) and 14.29 of the Listing Rules or (on and after 31 March 2004) Rules 14A.45 to 14A.48 of the Revised Listing Rules. However, as all

Ongoing Connected Transactions will be conducted in the ordinary and usual course of business and will occur on a regular basis, it would not be practical for Vanda to make ongoing disclosures of, or, where it is required under the Listing Rules or the Revised Listing Rules, obtain approval from the independent Shareholders for, each of such transactions. As such, Vanda has applied to the Stock Exchange for the grant of a waiver from strict compliance with the connected transactions requirements under Chapter 14 of the Listing Rules or (on or after 31 March 2004) Chapter 14A of the Revised Listing Rules for each of the Ongoing Connected Transactions subject to the conditions set out below and, in respect of the Non-exempt Ongoing Connected Transactions, for a term of three years ending 31 December 2006 and subject to the approval of the independent Shareholders:

(a) the Ongoing Connected Transactions are or are to be entered into:

(i) in the ordinary and usual course of business of the Enlarged Vanda Group;

(ii) on an arm's length basis and conducted either (1) on normal commercial terms or (2) where there is no available comparison, on terms no less favourable to the Enlarged Vanda Group than those available to or from (as appropriate) independent third parties; and

(iii) either (1) in accordance with the terms of the agreements governing the relevant Ongoing Connected Transactions or (2) where there are no such agreement, on terms that are fair and reasonable so far as the Shareholders are concerned;

(b) the annual aggregate values of each category of the Ongoing Connected Transactions for each financial year of Vanda shall not exceed the relevant cap amounts ("Cap Amounts") set out below:

Transactions	**Cap Amounts**
Non-exempt Telecommunications and Internet Services	HK$382.8 million, HK$548.8 million and HK$669.0 million for the years ending 31 December 2004, 31 December 2005 and 31 December 2006 respectively
Non-exempt Data Centre Services Arrangements	HK$23.9 million, HK$26.3 million and HK$28.9 million for the years ending 31 December 2004, 31 December 2005 and 31 December 2006 respectively
Each of the Non-exempt Lease Arrangements individually	the limit set out in Rule 14.25(1) of Listing Rules, or (on or after 31 March 2004) Rule 14A.34 of the Revised Listing Rules
Bill Collection Services	the limit set out in Rule 14.25(1) of Listing Rules, or (on or after 31 March 2004) Rule 14A.34 of the Revised Listing Rules
Shared Services Arrangements	the limit set out in Rule 14.25(1) of Listing Rules, or (on or after 31 March 2004) Rule 14A.34 of the Revised Listing Rules

(c) the independent non-executive Vanda Directors shall review the Ongoing Connected Transactions annually and confirm in Vanda's annual report and accounts for the relevant financial year that such transactions have been entered into:

(i) in the ordinary and usual course of business of the Enlarged Vanda Group;

(ii) on arm's length basis and conducted either (1) on normal commercial terms or (2) where there is no available comparison, on terms no less favourable to the Enlarged Vanda Group than those available to or from (as appropriate) independent third parties; and

(iii) either (1) in accordance with the terms of the agreements governing the relevant Ongoing Connected Transactions or (2) where there are no such agreements, on terms that are fair and reasonable so far as the Shareholders are concerned;

(d) the auditors of Vanda shall review the Ongoing Connected Transactions annually and confirm to the Vanda Board in writing (with a copy to the Stock Exchange) that:

(i) the Ongoing Connected Transactions have received the approval of the Vanda Board;

(ii) if the Ongoing Connected Transactions involve provision of goods or services by Vanda, the transactions have been entered into in accordance with the pricing policies stated in the relevant agreements governing them or set by the Vanda Board from time to time;

(iii) the Ongoing Connected Transactions have been entered into in accordance with the relevant agreements governing them or, if there are no such agreements, on terms that are fair and reasonable so far as the Shareholders are concerned; and

(iv) the aggregate annual values of the Ongoing Connected Transactions have not exceeded the relevant caps referred to in (b) above;

(e) details of the Ongoing Connected Transactions as described in Rule 14A.45(1) to (5) of the Revised Listing Rules shall be disclosed in the annual report of Vanda for the relevant financial year; and

(f) Vanda shall promptly notify the Stock Exchange if it knows or has reason to believe that the independent non-executive Vanda Directors and/or the auditors of Vanda will not be able to confirm the matters set out in (c) and (d) above respectively.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

Vanda and HGC participate in two distinct but related segments of the Information Communication Technology market. Vanda is engaged primarily in the provision of systems integration and software application services while the HGC Group is engaged in the provision of network and Internet access services. Increasingly as network and system infrastructure converge, clients are looking to total solution providers that can provide a full spectrum of integrated services to better optimise their investment in information technology and communications infrastructure and to achieve a competitive advantage for their business.

Vanda and HGC operate across a number of common markets and both companies have a strong set of corporate clients. The Vanda Directors believe that the HGC Transaction will enable Vanda to grow its business through cross-selling and bundling of HGC's services while reducing incremental administrative and selling costs.

Vanda Directors believe that PowerCom's unique access technology in Hong Kong combined with HGC's fibre optic network will offer a compelling value proposition to the customers enabling the broadband business unit of the combined entity to gain market share more effectively. With the acquisition of HGC and PowerCom, both bringing in advanced broadband access technology, Vanda would be uniquely positioned as a next generation technology services provider in Hong Kong that is able to differentiate itself with the breadth of its service offerings and geographical coverage and the depth of expertise ranging from system and network infrastructure to software development.

Based on the above reasons, Vanda Directors believe that the Transactions will be beneficial to Vanda.

TAKEOVERS CODE IMPLICATIONS OF THE TRANSACTIONS

Immediately after the issue of the HGC Consideration Shares at HGC Completion but before issue of any PowerCom Consideration Shares, exercise of any conversion rights under the HGC Convertible Notes and completion of the HGC Placing, the aggregate shareholding of the HWL Group in Vanda will increase from approximately 37.06% as at the Latest Practicable Date to approximately 84.91% of the issued share capital of Vanda as enlarged by the issue of the HGC Consideration Shares, assuming no other changes in shareholding in Vanda since the Latest Practicable Date. The PowerCom Consideration Shares will be issued at PowerCom Completion. Immediately after the issue of the HGC Consideration Shares at the HGC Completion and the issue of the PowerCom Consideration Shares at the PowerCom Completion, but before exercise of any conversion rights under the HGC Convertible Notes and completion of the Placing, and assuming no other changes in shareholding in Vanda since the Latest Practicable Date, the HWL Group, the CKH Group and the CLP Group are expected to hold approximately 78.89%, 5.73% and 1.35% of the Enlarged Vanda Capital respectively, and HGC Vendor and its Concert Parties will hold more than 50% of the Enlarged Vanda Capital. As a result, under the Takeovers Code, HGC Vendor and its Concert Parties will have an obligation to make a mandatory general offer following completion of the Transactions and of the Placing to acquire all the Vanda Shares other than those already owned or agreed to be acquired by HGC Vendor and/or its Concert Parties, unless the Share Whitewash Waiver is obtained. Based on the existence of a joint venture company between the CKH Group and the CLP Group unrelated to the Transactions, the CKH Group and the CLP Group are presumed to be acting in concert in relation to the proposed acquisition of Vanda Shares under the Takeovers Code. As a result of that, the HWL Group and the CLP Group are also presumed to be acting in concert in relation to the proposed acquisition of Vanda Shares under the Takeovers Code. Each of the CKH Group, the CLP Group and the HWL Group reserves the right to apply to the Executive for rebuttal of the relevant presumption. Whether or not the presumption of Concert Party between the CLP Group, the CKH Group and/or the HWL Group is rebutted, immediately after completion of the Transactions and of the Placing, the collective percentage shareholding of the HGC Vendor and its Concert Parties in Vanda will be above 50% (assuming no other changes in shareholding in Vanda since the Latest Practicable Date and no further transactions relating to Vanda Shares being committed before the date of the SGM which would have the effect of reducing such collective percentage shareholding to 50% or below).

If the Share Whitewash Waiver is obtained, immediately after the issue of the HGC Consideration Shares and the PowerCom Consideration Shares and completion of the Placing but before exercise of any conversion right under the HGC Convertible Notes, and assuming no other changes in shareholding in Vanda since the Latest Practicable Date, the HWL Group, the CKH Group and the CLP Group will hold approximately 52.55%, 3.60% and 0.84% of the Enlarged Vanda Capital respectively. As the aggregate percentage shareholding of HGC Vendor and its Concert Parties will, on that basis and at that time, exceed 50% of the Enlarged Vanda Capital, HGC Vendor and its Concert Parties may further increase their shareholding in Vanda without incurring any obligation under Rule 26 of the Takeovers Code to make a general offer unless such aggregate percentage shareholding subsequently falls to 50% or below.

Upon the issue and allotment of Vanda Shares pursuant to a partial or full exercise of the conversion rights under any of the HGC Convertible Notes, the aggregate shareholding of HGC Vendor and its Concert Parties in Vanda may increase by more than 2% from their lowest collective percentage shareholding (as determined or deemed for this purpose under the Takeovers Code) in the then preceding 12 month period. In such event, and if such lowest collective percentage shareholding is at or above 30% but is 50% or below, an obligation to make a mandatory general offer will arise as a result unless the Convertible Note Whitewash Waiver is obtained. Under the original terms of the HGC Acquisition Agreement and the PowerCom Acquisition Agreement as described in the Announcement, if either of the Whitewash Waivers is not available for any reason, the HGC Transaction will not become unconditional and will not proceed and the PowerCom Transaction will not become unconditional and will not proceed either. In the HGC Supplemental Acquisition Agreement and the PowerCom Supplemental Acquisition Agreement, the respective parties thereto have agreed that unless there are further transactions relating to Vanda Shares committed before the date of the SGM which would have the effect of reducing the collective percentage shareholding of HGC Vendor and its Concert Parties in Vanda to 50% or below of the issued share capital of Vanda immediately after completion of the HGC Transaction, the PowerCom Transaction, the Placing and any such further transactions, the Convertible Note Whitewash Waiver shall cease to be a condition precedent to the HGC Completion and the PowerCom Completion respectively with effect from the date of the SGM.

Immediately after completion of the Transactions and of the Placing, the collective percentage shareholding of HGC Vendor and its Concert Parties in Vanda will be above 50%, assuming no other changes in shareholding in Vanda since the Latest Practicable Date and no further transactions relating to Vanda Shares committed before the date of the SGM which would have the effect of reducing such shareholding to 50% or below. On such basis, the HWL Group and its Concert Parties may further increase their shareholding in Vanda without incurring any obligation under Rule 26 of the Takeovers Code to make a general offer unless such collective percentage shareholding subsequently falls to 50% or below. In the event that such collective percentage shareholding will be above 50%, the Convertible Note Whitewash Waiver will cease to be a condition precedent to the HGC Completion and the PowerCom Completion, and will not be sought. However, if there are further transactions relating to Vanda Shares committed before the date of the SGM which would have the effect of reducing the collective percentage shareholding of HGC Vendor and its Concert Parties in Vanda to 50% or below immediately after completion of the HGC Transaction, the PowerCom Transaction, the Placing and any such further transactions, the Convertible Note Whitewash Waiver will remain as a condition precedent to the HGC Completion and the PowerCom Completion. An application will then be made to the Executive for the Convertible Note Whitewash Waiver, a further announcement will be made by Vanda and a supplemental circular will be issued to the Shareholders in relation to the Convertible Note Whitewash Waiver. In such event, an adjournment of the SGM may be sought in order to give the Shareholders sufficient time to consider the supplemental circular.

An application has been made to the Executive for the Share Whitewash Waiver under Note 1 of the Notes on dispensation from Rule 26 of the Takeovers Code. The Executive indicated his agreement, subject to the approval by an independent vote (within the meaning of Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code or as may be required by the Executive) of the Shareholders, to waive any obligation of HGC Vendor and its Concert Parties to make a general offer which might result from the issue of the HGC Consideration Shares to HGC Vendor (or as it may direct) and/or the issue of the PowerCom Consideration Shares to CKE and CLPT (or as they may respectively direct). HIL and Lam Ma & Wai Limited (being a company wholly-owned by Mr. Lam Hon Nam, an executive Vanda Director involved in the negotiations of the Transactions) will abstain from voting on the resolution approving, among others, the Share Whitewash Waiver.

MAINTENANCE OF THE LISTING OF VANDA SHARES

It is the intention of Vanda to maintain the listing of the Vanda Shares on the Stock Exchange after completion of the Transactions and of the Placing. Vanda currently also intends to continue its current principal business after completion of the Transactions and of the Placing.

Assuming no other changes in shareholding in Vanda since the Latest Practicable Date, upon completion of the Placing, and based on the information available as at the Latest Practicable Date, no new substantial shareholder (as such term is defined in the Listing Rules) is expected to be introduced to Vanda. If it becomes aware that there are new substantial shareholders or new shareholder holding 5% or more in the Enlarged Vanda Capital as a result of completion of the Placing, an announcement will be made. On the basis that no new substantial shareholders are introduced to Vanda as a result of the Placing, the public float of the Vanda Shares is expected to be raised to approximately 42.22% and the prescribed minimum percentage of 25% of Vanda Shares which must be in the hands of the public as required under Rule 8.08(1) of the Listing Rules will therefore be restored upon completion of the Placing.

The Stock Exchange has stated that if, at the date of completion of the Transactions, less than 25% (or such lower percentage as may be allowed under the Listing Rules) of the Vanda Shares are held by the public or if the Stock Exchange believes that:

- **a false market exists or may exist in the trading in the Vanda Shares; or**

- **there are too few Vanda Shares in public hands to maintain an orderly market;**

then it will consider exercising its discretion to suspend trading in the Vanda Shares until a sufficient public float is attained. In this connection, it should be noted that upon the completion of the Transactions without completion of the Placing, there may be insufficient public float for the Vanda Shares and therefore trading in the Vanda Shares may be suspended until sufficient level of public float is attained.

If Vanda remains a listed company, the Stock Exchange will closely monitor all future acquisitions or disposals of assets by Vanda. The Stock Exchange has indicated that it has the discretion to require Vanda to issue an announcement and a circular to its Shareholders irrespective of the size of the proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of Vanda. The Stock Exchange also has the power, pursuant to the Listing Rules, to aggregate a series of transactions of Vanda and any such transactions may result in Vanda being treated as if it were a new listing applicant as set out in the Listing Rules.

INTENTION REGARDING THE VANDA GROUP

The scope of the business of the Vanda Group will be expanded by virtue of the acquisition of the HGC Group and the PowerCom Group. Other than that, Vanda has been informed that HGC Vendor has no intention to effect any major changes in relation to the business, including any redeployment of the fixed assets, of Vanda Group or the existing employment of the staff of Vanda Group after completion of the Transactions.

APPOINTMENT OF NEW DIRECTORS TO THE VANDA BOARD

The HGC Acquisition Agreement provides that with effect immediately after HGC Completion, Messrs. Frank John Sixt, Wong King Fai, Peter and Kan Ka Wing, Frankie will be appointed to the Vanda Board. The biography and information of each of the new executive Vanda Directors to be appointed is set out below:

Frank John SIXT, has been an executive director of HWL since 1991 and group finance director since 1998. He is the chairman of TOM.COM LIMITED. He is also an executive director of Cheung Kong Infrastructure Holdings Limited and Hongkong Electric Holdings Limited and a director of CKH, Hutchison Telecommunications (Australia) Limited, Husky Energy Inc. and Partner Communications Company Ltd. He holds a Master's degree in Arts and a Bachelor's degree in Civil Law, and is a member of the Bar and of the Law Society of the Provinces of Quebec and Ontario, Canada.

WONG King Fai, Peter, is the Chief Executive Officer of HGCL. Mr. Wong has a wealth of experience in telecommunications and computing industries in USA, Canada and Southeast Asia. In his current capacity, Mr. Wong oversees the business development of HGC and leads the company to develop into a leading optical fibre network and service provider in Hong Kong, which offers a wide array of fixed telecommunications services including local and international voice, data, broadband and multimedia services. Mr. Wong has been appointed to his current role since HGC was spun off from Hutchison Telecommunications (Hong Kong) Limited ("Hutchison Telecom") in January 2000. Prior to this appointment, Mr. Wong was Fixed Network Director of Hutchison Telecom since he joined the company in 1996, responsible for the establishment of infrastructure, service and market development of its fixed network business. Before joining Hutchison Telecom, Mr. Wong gained extensive telecommunications experience with Cable & Wireless Hongkong Telecom through his responsibilities in various senior roles. Mr. Wong holds a Master's degree in Telecommunications from the University of Birmingham, UK and is a Fellow of the Hong Kong Institute of Engineers.

KAN Ka Wing, Frankie, is the Chief Financial Officer of HGCL and has many years of finance experience in industries as diverse as property, media, telecommunications, banking, fund management and securities. He initially joined companies closely affiliated with HWL Group in the late eighties and spent four years there assuming different senior roles. Just prior to joining HGC, Mr. Kan was the director responsible for the establishment of the Growth Enterprise Market of the Stock Exchange. Mr. Kan re-joined the HWL Group, with HGCL, in May 2000. He is a Chartered Accountant with an economics degree earned in the UK.

PROPOSED INCREASE IN VANDA'S AUTHORISED SHARE CAPITAL

The authorised share capital of Vanda consists of 4,000,000,000 Vanda Shares, of which 1,537,871,325 Vanda Shares are in issue as at the Latest Practicable Date. At the SGM, an ordinary resolution will be proposed to increase the authorised share capital of Vanda from HK$400,000,000 divided into 4,000,000,000 Vanda Shares to HK$3,000,000,000 divided into 30,000,000,000 Vanda Shares by the creation of an additional 26,000,000,000 Vanda Shares.

PROPOSED GRANT OF GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

At the SGM, an ordinary resolution will be proposed to grant the General Mandate to the Vanda Directors to allot, issue and deal with shares in Vanda not exceeding 20% of the aggregate nominal amount of share capital of Vanda in issue as at the date of passing the resolution approving the General Mandate as enlarged by the issue of the Consideration Shares to provide flexibility to Vanda to raise fund by issue of Vanda Shares efficiently.

At the same SGM, it is also proposed to grant to the Vanda Directors the Repurchase Mandate authorising the repurchase by Vanda on the Stock Exchange of up to 10% of the aggregate nominal amount of share capital of Vanda in issue as at the date of passing the resolution approving the Repurchase Mandate as enlarged by the issue of the Consideration Shares.

If the Repurchase Mandate is granted, a further ordinary resolution will be proposed at the same SGM providing that any shares in Vanda repurchased under the Repurchase Mandate will be added to the total number of shares in Vanda which may be allotted and issued under the General Mandate.

With respect to the Repurchase Mandate and the General Mandate, the Vanda Directors wish to state that they have no present intention of exercising the Repurchase Mandate to repurchase any shares in Vanda or the General Mandate to issue any shares in Vanda for fund raising purpose.

An explanatory statement as required by the relevant provisions of the Listing Rules concerning the regulation of repurchases by companies of their own securities on the Stock Exchange is set out in Appendix V to this document.

PROPOSED REFRESHMENT OF SHARE OPTION SCHEME LIMIT

Vanda adopted the Share Option Scheme pursuant to an ordinary resolution passed by the Shareholders in general meeting on 2 April 2002. Under the rules of the Share Option Scheme:

(1) the maximum number of shares of Vanda which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme must not in aggregate exceed 30% of the shares of Vanda in issue from time to time;

(2) the Share Option Scheme Limit must not in aggregate exceed 10% of the shares of Vanda in issue as at the date of approval of the Share Option Scheme;

(3) subject to (1) above and without prejudice to (4) below, Vanda may seek approval of the Shareholders in general meeting to "refresh" the Share Option Scheme Limit (a circular containing the information required by the Listing Rules to be despatched to Shareholders for that purpose) provided that the total number of shares of Vanda which may be allotted and issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option scheme must not exceed 10% of the shares of Vanda in issue as at the approval of "refreshed" limit and, for the purpose of calculating the "refreshed" limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme) previously granted under the Share Option Scheme and any other share option scheme will not be counted; and

(4) subject to (1) above and without prejudice to (3) above, Vanda may seek separate approval of the Shareholders in general meeting to grant options beyond the Share Option Scheme Limit or, if applicable, the "refreshed" limit referred to in (3) above to participants specifically identified by Vanda before such approval is sought.

As at the Latest Practicable Date, particulars of the options granted under the Share Option Scheme since the date the Share Option Scheme was adopted are set forth below:

Date of grant	Number of options	Exercised	Lapsed	Cancelled	Outstanding as at the Latest Practicable Date	Exercise Price per Vanda Share *(HK$)*	Exercise Period
2.4.2002	20,000,000	Nil	Nil	Nil	20,000,000	0.886	3.4.2003–2.4.2006
2.5.2002	17,100,000	Nil	7,250,000	Nil	9,850,000	0.94	2.5.2003–1.5.2006
2.5.2003	7,250,000	Nil	Nil	Nil	7,250,000	0.34	2.5.2004–1.5.2007
16.5.2003	5,500,000	Nil	2,250,000	Nil	3,250,000	0.41	16.5.2004–15.5.2007
	49,850,000	Nil	9,500,000	Nil	40,350,000		

These options were granted to eligible participants in recognition of their contribution to Vanda.

As at the Latest Practicable Date, 2,480,000 options granted under the share option scheme of Vanda adopted on 22 March 1995 (and terminated on 2 April 2002) remain outstanding. Together with the 40,350,000 outstanding options granted under the Share Option Scheme as stated above, a total of 42,830,000 options granted under all share option schemes of Vanda remain outstanding, and 42,830,000 Vanda Shares will be allotted and issued upon the exercise of such options, representing approximately 2.79% of the issued share capital of Vanda as at the Latest Practicable Date. Based on the number of Vanda Shares in issue on 10 September 2003 (being the date on which the Share Option Scheme Limit was last refreshed), the Share Option Scheme Limit was 75,000,000 Vanda Shares. Since 10 September 2003, no option has been granted under the Share Option Scheme. Unless the Share Option Scheme Limit is "refreshed", 75,000,000 Vanda Shares, representing approximately 4.88% of the issued share capital of Vanda as at the Latest Practicable Date, may be issued pursuant to the grant of options under the Share Option Scheme. The Vanda Directors believe that such 4.88% is insufficient and it is in the interest of Vanda to "refresh" the Share Option Scheme Limit to permit the grant of further options under the Share Option Scheme, which will increase the flexibility of Vanda to reward eligible participants in recognition of their contribution to Vanda.

It is proposed that the Share Option Scheme Limit is "refreshed" so that the total number of shares of Vanda which may be allotted and issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option scheme on or after the date of the SGM will not exceed 5% of the issued share capital of Vanda as at the date of passing the resolution approving the "refreshment" of Share Option Scheme Limit as enlarged by the allotment and issue of the HGC Consideration Shares and the PowerCom Consideration Shares.

If the Share Option Scheme Limit is "refreshed", on the basis of 1,537,871,325 Vanda Shares in issue as at the Latest Practicable Date and assuming that no Vanda Shares are issued or repurchased by Vanda prior to the SGM and the Consideration Shares have been issued, the Share Option Scheme Limit will re-set to 345,072,198 Vanda Shares and Vanda will be allowed to grant further options under the Share Option Scheme and other share option schemes carrying the rights to subscribe for a maximum of 345,072,198 Vanda Shares on or after the date of the SGM.

Application has been made to the Stock Exchange for the listing of, and permission to deal in, any shares of Vanda, representing 5% of the issued share capital of Vanda as at the date of passing the resolution approving the "refreshment" of Share Option Scheme Limit as enlarged by the allotment and issue of the HGC Consideration Shares and the PowerCom Consideration Shares, to be issued upon the exercise of the options granted under the "refreshed" Share Option Scheme Limit on or after the date of the SGM.

An ordinary resolution will be proposed at the SGM to approve the proposed refreshment of the Share Option Scheme Limit in the terms as set out in the notice of SGM.

PROPOSED CHANGE OF VANDA'S NAME

As stated in Vanda's announcement dated 10 February 2004, the Vanda Board proposed that upon approval by the Shareholders, and subject to and conditional upon (a) completion of the HGC Acquisition Agreement; and (b) the approval of the Registrar of Companies in Bermuda, the name of Vanda be changed to "Hutchison Global Communications Holdings Limited" and the Chinese name of Vanda, for identification purposes, be changed to "和記環球電訊控股有限公司". The proposed name change is to signify the new identity of Vanda following the HGC Completion and will take effect from the date on which the new name is entered on the register by the Registrar of Companies in Bermuda in place of the current name.

The proposed change of name of Vanda will not affect any of the rights of the Shareholders. All existing share certificates in issue bearing the current name of Vanda will continue to be evidence of title to the Vanda Shares under the new name and will not require replacement as a result of the change of name becoming effective and will be valid for trading, settlement and registration purposes.

A further announcement will be made by Vanda to address, among others, arrangements for exchange of share certificates bearing the new name to replace share certificates bearing the current name and arrangements for trading of the Vanda Shares on the Stock Exchange when the change of name becomes effective.

The First SGM has been convened at which a special resolution will be proposed to consider, and if thought fit, to approve the change of name of Vanda. The notice to convene the First SGM has been published in the newspapers and also sent by post on 11 February 2004 to the Shareholders together with a form of proxy for use at the First SGM.

GENERAL

For Vanda, the HGC Transaction constitutes a major transaction (but not a very substantial acquisition, as the assets to be purchased by Vanda are all listed assets) and a connected transaction under the Listing Rules, which requires independent Shareholders' approval (with HIL and other persons so required under the Listing Rules or otherwise by the Stock Exchange abstaining from voting), and the PowerCom Transaction constitutes a major transaction under the Listing Rules, which requires approval by Shareholders. The Ongoing Connected Transactions will constitute ongoing connected transactions for Vanda which require disclosure and/or independent Shareholders' approval.

Under the Takeovers Code, if the Share Whitewash Waiver is granted by the Executive, it will be subject to approval of an independent vote (within the meaning of Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code or as may be required by the Executive) of the Shareholders on a vote taken by a poll.

The Independent Board Committee has been established to advise the independent Shareholders in relation to the Transactions, the Share Whitewash Waiver, the Convertible Note Whitewash Waiver (if applicable) and the Non-exempt Ongoing Connected Transactions. Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee in relation to the Transactions, the Share Whitewash Waiver, the Convertible Note Whitewash Waiver (if applicable) and the Non-exempt Ongoing Connected Transactions.

Shareholders of Vanda and potential investors should note that the Transactions and the Placing, which are subject to a number of conditions precedent, may or may not be completed. In particular, the HGC Transaction is subject to, among others, conditions precedent that the Whitewash Waivers be obtained, and thus if either of such waivers is not available (unless ceased to apply according to the terms of the HGC Supplemental Acquisition Agreement) and a mandatory general offer is required to be made following HGC Completion, PowerCom Completion or following exercise of the conversion rights under the HGC Convertible Notes, the HGC Transaction will not proceed. In the circumstances, a mandatory general offer will not be made by HGC Vendor or any of its Concert Parties. Further, the PowerCom Transaction is also subject to, among others, a condition precedent that the Whitewash Waivers be obtained, and thus if either of such waivers is not available (unless ceased to apply according to the terms of the PowerCom Supplemental Acquisition Agreement) and a mandatory general offer is required to be made following PowerCom Completion, the PowerCom Transaction will not proceed. In the circumstances, a mandatory general offer will not be made by the PowerCom Vendors, HGC Vendor or other Concert Parties of HGC Vendor. Shareholders of Vanda and potential investors are reminded to exercise caution when dealing in the securities of these three listed issuers.

SGM

There is set out on pages 219 to 225 of this document a notice convening the SGM to be held at 10:45 a.m. (or as soon thereafter as the First SGM has concluded or adjourned) on 5 March 2004 at which ordinary resolutions will be proposed to the Shareholders to approve, among other things, the Transactions, the Share Whitewash Waiver, the Convertible Note Whitewash Waiver (if applicable), the Non-exempt Ongoing Connected Transactions, the proposed increase in the authorised share capital of Vanda, the proposed grant of the General Mandate and the Repurchase Mandate and the proposed refreshment of the Share Option Scheme Limit. As mentioned in the section headed "Reasons for and benefits of the Transactions" above, the Vanda Directors believe that the Transactions when both effected on their respective terms under the HGC Acquisition Agreement and the PowerCom Acquisition Agreement will be beneficial to Vanda as HGC and PowerCom will both bring in advanced broadband access technology under one roof and Vanda would be uniquely positioned as a next generation technology services provider in Hong Kong. The Vanda Directors would therefore consider it to be in the commercial interest of Vanda that both of the Transactions are considered by the Shareholders as a combined proposition. Accordingly, the resolution at the SGM for the approval of, among others, the HGC Transaction, the PowerCom Transaction, the Share Whitewash Waiver, the Convertible Note Whitewash Waiver (if applicable) and the Non-exempt Ongoing Connected Transactions is being proposed as a combined resolution which will be voted on by poll by an independent vote (within the meaning of Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code or as may be required by the Executive) of the Shareholders. HIL and other persons so required under the Listing Rules or the Takeovers Code or otherwise by the Stock Exchange or the Executive will abstain from voting on such resolution. At the SGM, other resolutions will also be proposed for the approval of the proposed increase in the authorised share capital of Vanda, the proposed grant of the General Mandate and the Repurchase Mandate and the proposed refreshment of the Share Option Scheme Limit, and all Shareholders are eligible to vote on those resolutions.

A form of proxy for use at the SGM is also 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 Vanda 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 Vanda Directors believe that the resolutions approving the proposed increase in the authorised share capital of Vanda, the proposed grant of the General Mandate and the Repurchase Mandate and the proposed refreshment of the Share Option Scheme Limit 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 Transactions, the Share Whitewash Waiver and the Non-exempt Ongoing Connected Transactions 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, among others, the Transactions, the Share Whitewash Waiver and the Non-exempt Ongoing Connected Transactions.

ADDITIONAL INFORMATION

Your attention is drawn to the letter of advice from the Independent Board Committee and the letter from Somerley containing its advice to the Independent Board Committee in relation to the Transactions, the Share Whitewash Waiver and the Non-exempt Ongoing Connected Transactions set out on pages 61 to 62 and pages 63 to 108 of this document respectively.

Your attention is also drawn to the additional information set out in the appendices to this document and the notice of the SGM.

Yours faithfully,
By Order of the Board
Vanda Systems & Communications Holdings Limited
Loh Tiak Koon
Chief Executive Officer and Executive Director

VANDA GROUP

VANDA SYSTEMS & COMMUNICATIONS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

18 February 2004

To the independent Shareholders

Dear Sir or Madam,

**Proposed acquisition
of the entire issued share capital of
Hutchison Global Communications Investments Limited
and
PowerCom Network Hong Kong Limited**

**Major and Connected Transaction, Major Transaction
and Ongoing Connected Transactions**

**Application for Share Whitewash Waiver
from the obligation to make a mandatory general offer to acquire shares in
Vanda Systems & Communications Holdings Limited**

Proposed increase in authorised share capital

Proposed grant of general mandates to issue and repurchase shares

Proposed refreshment of Share Option Scheme Limit

Proposed change of company name

We refer to the document of Vanda to the Shareholders dated 18 February 2004 ("**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 Transactions, the Share Whitewash Waiver, the Convertible Note Whitewash Waiver (if applicable) and the Non-exempt Ongoing Connected Transactions. Somerley has been appointed as the independent financial adviser to advise us in connection with the Transactions, the Share Whitewash Waiver, the Convertible Note Whitewash Waiver (if applicable) and the Non-exempt Ongoing Connected Transactions. 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 63 to 108 of the Document.

Your attention is also drawn to the "Letter from the Board" set out on pages 12 to 60 of and the additional information set out in the appendices to the Document.

Having taken into account the terms of the Transactions, the Share Whitewash Waiver and the Non-exempt Ongoing Connected Transactions, the interests of the independent Shareholders and the advice of Somerley, we consider that the terms of the Transactions, the Share Whitewash Waiver and the Non-exempt Ongoing Connected Transactions 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, among others, the Transactions, the Share Whitewash Waiver and the Non-exempt Ongoing Connected Transactions.

Yours faithfully,
The Independent Board Committee

Tuan Lam
Non-executive Director

Yang Paul Chunyao
(as alternate to Stephen Ingram)
Non-executive Director

Lam Lee G.
Independent non-executive Director

Cheong Ying Chew, Henry
Independent non-executive Director

Somerley Limited
Suite 2201, 22nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

18 February 2004

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

Dear Sirs,

PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF HGC AND POWERCOM
MAJOR AND CONNECTED TRANSACTION, MAJOR TRANSACTION AND NON-EXEMPT ONGOING CONNECTED TRANSACTIONS
APPLICATION FOR SHARE WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in relation to the HGC Transaction, the PowerCom Transaction, the Share Whitewash Waiver, the Convertible Note Whitewash Waiver (if applicable) and the Non-exempt Ongoing Connected Transactions, details of which are contained in the circular to the shareholders of Vanda Systems & Communications Holdings Limited (the "Company") dated 18 February 2004 (the "Circular"), of which this letter forms a part. Unless otherwise defined, terms used in this letter have the same meanings as defined in the Circular.

(i) Scale of Transactions

The Transactions involve the acquisition by Vanda of (i) HGC, HWL Group's fixed line telecommunication business; and (ii) PowerCom, a company which has developed "last mile" connection technology relevant to HGC's business. The enterprise value (defined for this purpose as the combined value of shares and interest-bearing loans minus cash as at 31 December 2003 ("Net Debt")) may be analysed as follows:

Company			**Enterprise value**	
		Notes	*HK$ million*	*%*
HGC	– shares owned by HWL Group	*1*	7,100	64.7
	– Net Debt	*2*	3,431	31.3
			10,531	96.0

PowerCom	– shares owned by CLP Group	*3*	74	0.7
	– shares owned by CKH Group	*4*	317	2.9
	– Net Debt	*5*	47	0.4
			438	4.0
Total enterprise value			10,969	100.0

Notes:

1. Consideration is satisfied as to HK$3.9 billion by the issue of 4,875 million new Vanda Shares credited as fully paid at HK$0.80 each and as to HK$3.2 billion by the issue of the HGC Consideration Convertible Note of a nominal value of HK$3.2 billion.

2. Includes shareholder loan from HIL to HGCL, a wholly-owned subsidiary of HGC, of approximately HK$3.4 billion as at 31 December 2003 which will remain outstanding on terms described below.

3. Consideration is payable by the issue of 92,828,801 new Vanda Shares credited as fully paid at HK$0.80 each.

4. Consideration is payable by the issue of 395,743,835 new Vanda Shares credited as fully paid at HK$0.80 each.

5. Includes shareholder loan from the CKH Group of approximately HK$16.8 million which will remain outstanding on terms described below.

(ii) HGC Transaction – independent Shareholders' approval of Share Whitewash Waiver and Non-exempt Ongoing Connected Transactions required

The HGC Transaction is the principal transaction, representing approximately 96% of the above enterprise value. Because a large number of new Vanda Shares are to be issued pursuant to the HGC Transaction, a mandatory general offer obligation for HGC Vendor and its Concert Parties will be triggered at HGC Completion. Consequently, the HGC Completion is conditional on, among other things, the Share Whitewash Waiver. The HGC Transaction also involves issue of the HGC Consideration Convertible Note, which upon conversion, and in the absence of the Convertible Note Whitewash Waiver, may trigger a mandatory general offer obligation for HGC Vendor and its Concert Parties if their then collective shareholding is between 30% and 50%. Immediately after completion of the HGC Transaction, the PowerCom Transaction and the Placing, the collective percentage shareholding of HGC Vendor and its Concert Parties in Vanda will be above 50%, assuming no other changes in shareholding in Vanda since the Latest Practicable Date and no further transactions relating to Vanda Shares being committed before the date of the SGM which would have the effect of reducing such shareholding to 50% or below. In such event, the respective parties to the HGC Transaction and the PowerCom Transaction have agreed to dispense with the obtaining of the Convertible Note Whitewash Waiver as a condition to the HGC Completion and the PowerCom Completion respectively. Therefore we shall not opine in this letter on the Convertible Note Whitewash Waiver.

As HGC Vendor is a member of the HWL Group which presently controls approximately 37.1% of Vanda, the HGC Transaction and the ongoing transactions between the Enlarged Vanda Group and the HWL Group also constitute connected transactions for Vanda under the Listing Rules. Approval by independent Shareholders is required for both the Share Whitewash Waiver and the Non-exempt Ongoing Connected Transactions. The Independent Board Committee has been established to make a recommendation to the independent Shareholders on these matters and we have been appointed as independent financial adviser to advise the Independent Board Committee.

(iii) PowerCom Transaction

The PowerCom Transaction represents about 4% of the above enterprise value of the Transactions. PowerCom is 81% controlled by the CKH Group and 19% by the CLP Group, neither of which are connected persons (as defined under the Listing Rules) of Vanda and so the PowerCom Transaction is not a connected transaction for Vanda. CLP Group's 19% minority interest in PowerCom is valued at HK$74 million, representing approximately 0.7% of the aggregate enterprise values of HGC and PowerCom.

The HGC Transaction is not conditional on the PowerCom Transaction being completed. However, the Share Whitewash Waiver covers the issue of PowerCom Consideration Shares and CLPT is presumed to be acting in concert with CKE and with HGC Vendor in relation to the proposed acquisition of Vanda Shares under the Takeovers Code (although each of the CKH Group, the CLP Group and the HWL Group has indicated that they reserve their right to make submission to the Executive for rebuttal of such presumption). Consequently, we have included an evaluation of the PowerCom Transaction as a factor in our assessment of whether the terms of the Share Whitewash Waiver are fair and reasonable.

(iv) Independent Board Committee membership

Of the Vanda Directors, Messrs Fok Kin-ning, Canning (Chairman) and Lai Kai Ming, Dominic (Deputy Chairman), Mrs. Chow Woo Mo Fong, Susan and Ms. Chan Wen Mee, May are directors or employee of HIL which is a party to the HGC Acquisition Agreement. Messrs Lam Hon Nam and Loh Tiak Koon (Chief Executive Officer) are salaried Vanda Directors. Accordingly, the remaining Vanda Directors, namely Messrs Tuan Lam, Yang Paul Chunyao (in his capacity as alternate Vanda Director to Mr. Stephen Ingram), Lam Lee G. and Cheong Ying Chew, Henry have been appointed by the Vanda Board as the Independent Board Committee to make a recommendation to the independent Shareholders regarding the HGC Transaction, the PowerCom Transaction, the Share Whitewash Waiver, the Convertible Note Whitewash Waiver (if applicable) and the Non-exempt Ongoing Connected Transactions. We have been appointed as independent financial adviser to advise the Independent Board Committee in respect of the HGC Transaction, the PowerCom Transaction, the Share Whitewash Waiver, the Convertible Note Whitewash Waiver (if applicable) and the Non-exempt Ongoing Connected Transactions.

(v) Somerley's role as the independent financial adviser

In 2003, we acted as financial adviser to CLP, the holding company of the vendor of a minority stake in PowerCom, regarding an application to the Executive and the Takeovers Panel for an interpretation of certain sections of the Takeovers Code. We believe that Somerley has no conflict of interest in acting as the independent financial adviser to the Independent Board Committee in respect of the HGC Transaction, the PowerCom Transaction, the Share Whitewash Waiver, the Convertible Note Whitewash Waiver (if applicable) and the Non-exempt Ongoing Connected Transactions, and that our previous work for CLP is not reasonably likely to create, or to create the perception of, such a conflict.

Save as mentioned, we are not connected with the Company or HWL or its Concert Parties or their respective substantial shareholders and, accordingly, are considered suitable to give independent advice on the HGC Transaction, the PowerCom Transaction, the Share Whitewash

Waiver, the Convertible Note Whitewash Waiver (if applicable) and the Non-exempt Ongoing Connected Transactions. 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 HWL or the Company and their respective substantial shareholders or their respective Concert Parties.

(vi) Information relied on and its limitations

In formulating our opinion and advice, we have relied on the information and facts supplied, and the opinions expressed, by the Vanda 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 31 March 2003 and the interim report for the six months ended 30 September 2003 and have received a summary of the budget of the Vanda Group for the period ending 31 March 2005. We have sought and received confirmation from the Vanda Directors that no material facts have been omitted from the information supplied and opinions expressed by them.

We have also received the past accounts and certain projected cash flows for HGC and PowerCom and discussed them with the management of these companies. The projections are of particular importance to us as the enterprise value for HGC of approximately HK$10.5 billion and of PowerCom of approximately HK$438 million rely significantly on projections of their cash flows. Such projections covering the years 2004-2008 are not verifiable to prospectus standards and have not been so verified, although we have reviewed them, discussed them with the management of HGC and PowerCom and compared them (where possible) with data relating to other telecommunications companies. There remains considerable scope for error and variation in such projections, as discussed under the below sections headed "HGC Transaction" (section 4), the "PowerCom Transaction" (section 5) and "Risk factors" (section 10) respectively.

We consider that the information which we have received is sufficient for us to formulate the opinion and advice as set out in this letter. 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 an independent investigation into the business and affairs of the Vanda Group, the HGC Group or the PowerCom Group. We have also assumed that all facts and 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.

REASONS FOR THE TRANSACTIONS

The Vanda Directors have described the reasons for and benefits of the Transactions in the "Letter from the Board" in the Circular. In summary, these are:

- Vanda and HGC operate across a number of common markets and both companies have a strong set of corporate clients. The HGC Transaction will enable Vanda to grow its business through cross-selling and bundling of HGC's services while reducing incremental administrative and selling costs;

- a full spectrum of integrated services can be offered to clients in information technology and communications infrastructure to help them to achieve a competitive advantage for their business;

- PowerCom's access technology combined with HGC's fibre optic network will assist the broadband business unit of the combined entity to gain market share more effectively;

- following the HGC Completion and the PowerCom Completion, Vanda would be positioned as a next generation technology service provider in Hong Kong that is able to differentiate itself by the breadth of its service, geographical coverage and the depth of expertise ranging from system and network infrastructure to software development.

Following discussions with the Vanda Directors, we consider that the above benefits are capable of being realised in the longer term. However, our analysis does not assume any concrete benefits from these factors. The Transactions value the HGC Group and the PowerCom Group in aggregate at approximately HK$11 billion, which compares with Vanda's current market capitalisation of approximately HK$1.6 billion and audited net assets as at 30 September 2003 of less than HK$0.1 billion. Consequently, the Transactions represent a major milestone in the development of Vanda, and we have chiefly analysed them as "stand-alone" acquisitions in terms of price and other terms.

PRINCIPAL FACTORS AND REASONS TAKEN INTO ACCOUNT

In arriving at our opinion on the HGC Transaction, the PowerCom Transaction, the Share Whitewash Waiver and the Non-exempt Ongoing Connected Transactions, we have taken the following principal factors and reasons into consideration:

1. Background to the Transactions

The Vanda 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 Vanda Group later diversified into the development and sale of software for the finance and banking industry as well as distribution of telecommunication products in the PRC. The Vanda Shares were first listed on the Stock Exchange in 1995.

The Vanda Group continued to expand after flotation and diversified into cabling and intelligent building projects and e-commerce solutions. New funds continued to be needed. In 2000, Vanda raised about HK$277 million in 2-year convertible bonds of which approximately HK$198 million was issued to HIL. Mr. Lai Kai Ming, Dominic, a director of HWL, became a non-executive Vanda Director.

The bonds matured in 2002. HIL in effect rolled over its bonds and DBS subscribed for a new bond of approximately HK$136 million (together, the "2002 Bonds"), convertible in each case at a price of HK$0.85 per Vanda Share. HIL and DBS jointly nominated Mr. Loh Tiak Koon to be an executive Vanda Director. HIL further nominated Ms. Chan Wen Mee, May to be a Vanda Director. DBS nominated Messrs Tuan Lam and Stephen Ingram to be non-executive Vanda Directors.

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

The 2002 Bonds, with an aggregate nominal value of approximately HK$334.4 million, were due to be repaid in April 2005 if not previously converted. Though the Vanda Group had been able to generate positive cash flow from operating activities of approximately HK$73.8 million and HK$5.4 million respectively during the two financial years ended 31 March 2003, the conversion price of HK$0.85 was "out-of-the-money" and the prospect of having to repay the 2002 Bonds represented an impending financial problem for the Vanda Group. In the circumstances, Vanda agreed in July 2003 with HIL and DBS to convert the 2002 Bonds into Vanda Shares at an adjusted conversion price of HK$0.30 per Vanda Share. Shortly after conversion of the 2002 Bonds in September 2003, HIL and DBS completed a placing of Vanda Shares and thereby restoring the public float of Vanda Shares, resulting in Vanda's shareholding structure as set out in section 8 below.

After conversion of the 2002 Bonds in September 2003, Vanda had no significant long-term debt outstanding and pro-forma net assets of approximately HK$135 million. Further losses have eroded this figure to approximately HK$78 million by 30 September 2003 but the share price has remained, in our view, remarkably firm (see section 6 below). We attribute this to market expectation of a transaction broadly of the type now announced.

2. Business of the Vanda Group

The current main businesses of the Vanda Group are:

(i) trading of computers and peripherals, systems integration, development and sale of software for the finance and banking industry; and

(ii) infrastructure solutions involving distribution of computer products,

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

For the financial year ended 31 March 2003 and the six months ended 30 September 2003, the respective contributions to turnover from the principal activities and geographical areas were as follows:

Turnover by principal activity	**Year ended 31 March 2003** *HK$'000*	*%*	**Six months ended 30 September 2003** *HK$'000*	*%*
Systems integration and application solution services	670,186	65.4%	247,973	58.9%
Infrastructure solutions	354,284	34.6%	173,017	41.1%
e-Business (Discontinued operation)	168	0.0%	–	0.0%
	1,024,638	100.0%	420,990	100.0%

Turnover by geographical location	Year ended 31 March 2003 HK$'000	%	Six months ended 30 September 2003 HK$'000	%
South Asia	439,512	42.9%	205,887	48.9%
Mainland China	414,954	40.5%	152,631	36.3%
Hong Kong and Macau	170,172	16.6%	62,038	14.7%
Corporate	–	–	434	0.1%
	1,024,638	100.0%	420,990	100.0%

(i) Systems integration and application solution services

The systems integration and application solution services offered by the Vanda Group include:

– business intelligence

– application software development and solutions (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

– system customisation, installation and test run services

– storage systems management

– systems and product management

– business process outsourcing.

The Vanda Group is one of the market leaders in Mainland China in the provision of systems integration and software applications services in the banking and finance sector. The Vanda Group has a client base that includes the biggest five domestic banks in Mainland China.

The Vanda Group is a premier IT service provider in Asia and is one of IBM's largest three business partners in Asia. Vanda's diverse client base includes major banks, financial institutions, postal and telecommunications companies, utility companies and government departments.

(ii) Infrastructure solutions involving distribution of computer products

In 1988, the Vanda Group started marketing mid-range computer systems for IBM. The system distribution business is mainly conducted in Singapore, Malaysia and the Philippines through its distribution arm, Azure Technologies, which has established a strong position in the Asean region.

3. Financial results

A summary of financial information of the Vanda Group for the three years ended 31 March 2003 and the six months ended 30 September 2003 is set out in the "Letter from the Board" in the Circular. We summarise below points we consider significant:

(i) Analysis of 2001/02 – 2002/03 results

2001/02

The Vanda Group suffered an audited loss before tax and minority interests of approximately HK$196.3 million during the financial year ended 31 March 2002, mainly due to a number of large provisions. A sizeable provision was made for inventories and accounts receivable in Mainland China and South Asia. Provisions were also made for divestment of a number of non-core businesses. In view of the slow economy and fierce competition, Vanda also implemented measures to reduce operational costs, including streamlining its workforce by 20%. Because of these measures and significant depreciation charges (which are non-cash), the Vanda Group achieved a net cash inflow from operating activities of approximately HK$73.8 million during the year.

2002/03

Consolidated turnover was HK$1,024.6 million, a drop of 7.1% as compared to the previous year. This was due mainly to:

- weak IT spending across the Asia Pacific region
- disposal of non-core business
- a more selective approach in bidding for projects to improve profit margins and working capital management.

Audited losses before tax and minority interests amounted to approximately HK$167.8 million, slightly less than 2001/02 but still a substantial amount.

The Vanda Group's strategy to strengthen its core businesses and bring costs into line with the business level achieved some positive results. Excluding other operating expenses (mainly one time restructuring costs and impairment in the value of investments), a profit was achieved from operating activities of approximately HK$12.8 million, compared to a loss of approximately HK$88.2 million for the preceding financial year. The improvements in operating profit were attributable to:

- Gross margin 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.

Cash inflow from operating activities was 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 had not become due prior to the year end, as compared to the figure in the same month of the preceding financial year, thus leading to a larger year end balance of accounts receivables.

(ii) Analysis of 2003/04 interim results

	Six months ended 30 September	
	2002	**2003**
	HK$'000	*HK$'000*
Turnover		
– System integration and software services	306,357	247,973
– Infrastructure solutions	170,636	173,017
– e-business (discontinued operation)	168	–
	477,161	420,990
Gross profit	83,919	67,427
Profit/(Loss) from operating activities before provision and impairment	730	(11,096)
Provision and impairment:		
– Provisions for and write-off of bad and doubtful debts	(4,277)	(4,027)
– 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)
	(6,218)	(24,654)
Loss from operating activities after provision and impairment	(5,488)	(35,750)
Loss before tax	(14,957)	(43,427)
Tax *(note)*	(1,965)	(12,013)
Minority interests	(347)	(145)
Net loss attributable to shareholders	(17,269)	(55,585)

Note: The substantial tax charge of the Vanda Group for the six months ended 30 September 2003 was mainly due to the underprovision of profits tax charged outside Hong Kong in prior periods.

The Vanda Group suffered an audited loss before tax of approximately HK$43.4 million during the six months ended 30 September 2003. The size of this loss was partly due to provisions and impairments totalling HK$24.7 million. A provision of HK$12.2 million was made in respect of three investment properties of the Vanda Group in Hong Kong and the PRC reflecting the adverse property market conditions. In addition, provisions for impairment in the value of investments of approximately HK$7.0 million were made.

In the Vanda Directors' opinion, the above provisions were due mainly to adverse market conditions and continued efforts in tightening accounting measures and no further large provisions are expected in the coming financial period. Cash inflow from operating activities was approximately HK$25.5 million, which represents a turn around position compared with the cash outflow of approximately HK$11.3 million for corresponding period last year.

In general terms, the Vanda Directors consider that the financial results for the six-month period were adversely impacted by (i) the weak economy in Hong Kong and Southeast Asia; (ii) the outbreak of SARS, particularly in the Southeast Asia; and (iii) the slow down of overall IT spending in the PRC market. They expect these factors to be less significant in the coming financial period.

Despite the difficult operating environment, the Vanda Group has made some progress during the period:

Systems Integration and application solution services

IT services (particularly from maintenance, security, storage and systems management) achieved growth in turnover in the period.

The PRC operation has successfully concluded a number of contracts with customers in the banking and finance as well as the government sectors. In Hong Kong and Singapore, the Group has also secured contracts from international enterprises to provide systems integration services.

Infrastructure solutions

The distribution business has recorded a moderate growth of approximately 1.4% (to HK$173 million), contributing approximately 41.1% of the total turnover. A segment profit of approximately HK$6.1 million was recorded and several major clients particularly in Singapore and Philippines were secured during the period.

Despite these signs of improvement, we are of the view that competition in the Vanda Group's present lines of business will continue to be intense, particularly for systems integration solutions in the PRC.

4. HGC Transaction

(i) Consideration

The aggregate consideration for the purchase of the HGC Sale Shares is HK$7.1 billion. Bearing in mind HGC's Net Debt which principally comprises a loan from HIL to HGCL of approximately HK$3.4 billion, the total enterprise value placed on HGC is approximately HK$10.5 billion. The consideration for the HGC Sale Shares will be satisfied as to HK$3.9 billion by the issue and allotment of the HGC Consideration Shares at an issue price of HK$0.80 per Vanda Share, credited as fully paid, and as to the remaining HK$3.2 billion by the issue of the HGC Consideration Convertible Note, credited as fully paid at its full face value, with an initial conversion price of HK$0.96 per Vanda Share. The Vanda Directors have stated that the consideration was determined after arm's length negotiations based on the competitive positioning of HGC in the industry, including the quality of HGC's fibre optic network.

(ii) Conditions precedent

HGC Completion is subject to a number of conditions. The most significant ones from the point of view of the independent Shareholders are:

Share Whitewash Waiver

- the passing of an ordinary resolution by an independent vote (within the meaning of Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code or as may be required by the Executive) of the Shareholders approving the Share Whitewash Waiver, and the Executive granting such a waiver. The Share Whitewash Waiver is fundamental to the Transactions and the Transactions will not proceed if it is not granted.

Connected transaction approval for the acquisition of HGC from HWL

- approval by the independent Shareholders by resolution to be proposed at the SGM of (a) the acquisition by Vanda of the HGC Sale Shares; (b) the issue of the HGC Consideration Shares and the HGC Consideration Convertible Note; (c) the issue of the Facility Convertible Note to HIL (or to another subsidiary of HWL as HIL may direct), if required under the Listing Rules or otherwise required by the Stock Exchange; (d) the issue and allotment of Vanda Shares which may be issued upon exercise of conversion rights under the HGC Convertible Notes; and (e) all other transactions contemplated under the HGC Acquisition Agreement.

Non-exempt Ongoing Connected Transactions

- (a) the compliance with announcement and shareholders' approval requirements under the Listing Rules or otherwise of the Stock Exchange in relation to present and future transactions contemplated at present with HWL and/or any of its subsidiaries and/or their respective associates (both present and immediately after HGC Completion) which will constitute connected transactions for Vanda following HGC Completion, including, if required, the approval by the independent Shareholders in respect of the connected transactions and in respect of any waivers relating thereto as referred to in (b); and

  (b) the granting by the Stock Exchange of such waivers relating to the connected transactions mentioned in (a) on such terms as may be reasonably acceptable to both HGC Vendor and Vanda.

(iii) History of HGC

HGC was set up as part of the group companies of Hutchison Global Crossing Holdings Limited (the "HGCH Group"). The HGCH Group took the opportunity of the deregulation of the local telecommunications market to obtain through HGCL, its wholly-owned subsidiary, a FTNS licence from the Hong Kong Government in 1995. The monopoly of PCCW Limited ("PCCW") in the local FTNS market came to an end in July 1995 when the Hong Kong Government issued three additional local FTNS licences, to the HGCH Group, the Wharf group and the New World group.

In 1999-2000, HWL split its telecommunication business into mobile and fixed line. HGCH focused on FTNS business and became a 50:50 joint venture between HWL and Global Crossing Ltd. ("Global Crossing"). For its 50% share, Global Crossing provided to the HWL Group US$400 million (HK$3,108 million) in Global Crossing convertible preferred stock. Additionally, Global Crossing committed to contribute to the joint venture international telecommunications capacity rights on its global fibre optic network and global data center related capabilities together valued at US$350 million (HK$2,720 million), as well as US$50 million (HK$389 million) in cash. In aggregate, Global Crossing's investment valued the joint venture enterprise at US$1.2 billion (HK$9.3 billion). In October 2000, Global Crossing transferred its interest in the HGCH Group to Asia Global Crossing Limited ("AGC"). In 2002, AGC encountered severe financial difficulties and in May 2002, the HWL Group bought back AGC's 50% interest in HGCH, a 42.5% interest in ESD Services, a 50% interest in Hutchison GlobalCenter (which engages in the data centre business and is now part of HGC Group) and all its loan interest in ESD Services and Hutchison GlobalCenter at an aggregate consideration of US$120 million in cash (HK$932 million). Since then, the HGCH Group has remained wholly-owned by HWL.

(iv) Business of HGC and its competitive strengths

The business of HGC is mainly twofold:

(a) Physical infrastructure

In terms of physical telecommunications infrastructure, HGC has constructed a Hong Kong wide fixed line telecommunications network with a fully fibre optic backbone in key business and residential districts in Hong Kong Island, Kowloon, Lantau Island and the New Territories. HGC's network is over 4,000 kilometres in duct length (one way equivalent) and over 700,000 kilometres in terms of core fibre optic cable, making it the largest fully fibre optic building-to-building network in Hong Kong. Fibre optic network, compared to "legacy" copper network, allows higher speed transmission and facilitates deployment of leading technology. This is particularly important for broadband services and data services, which requires higher capacity bandwidth. These services are becoming increasing popular with the advancement of telecommunications technology, growth of local and international trade as well as the emergence of the 3G market.

HGC's extensive network is reasonably self-contained and does not rely heavily on the Type II interconnection (which in practical terms means PCCW is obliged to open its copper network for interconnection with other FTNS operators at a regulated cost) provided by PCCW. This is important as the Hong Kong Government is consulting the market as to the suitability of the current policy regarding the Type II interconnection.

The management of HGC consider HGC has a comprehensive infrastructure backbone in Hong Kong which is comparable to PCCW's in terms of key geographical coverage. This puts HGC in a very competitive position to capture both retail and wholesale business. HGC regards itself as a key network supplier in the provision of bandwidth to other telecommunications operators on a wholesale basis. The Vanda Directors believe that construction of a comprehensive network in a highly congested and busy area like Hong Kong creates a high entry barrier due to heavy capital expenditure requirements, space limitations and a long investment period. HGC believes it would be very difficult for another competitor to create a comparable network now, however much the market is deregulated.

HGC has a fully fibre optic backbone with access to approximately 1 million households (approximately 50% of total households in Hong Kong). HGC also believes that its fibre optic network will remain competitive in technological terms in the medium to long term. Replacement of the network due to the technological advancement is not anticipated. Future capital expenditure ("Capex") spending will be increasingly tied to establishing services to new customers.

HGC's Hong Kong network is interconnected with all local carriers in Hong Kong and major networks in Mainland China. HGC's network is also connected directly to many major networks overseas. HGC's backbone network is designed to handle high volumes of traffic and supports very high-speed transmission for Internet and data communications.

The backbone is within 50 metres of most residential structures of at least 30 storeys and of most commercial structures of at least 20 storeys with 10,000 sq. feet/ storey. HGC has installed direct connections to over 4,000 buildings and has "blockwired" over 1,400 buildings. HGC continues to expand its "last mile" local access.

The following map illustrates the geographical coverage of HGC's fixed line telecommunications network:

Source: Website of HGC at www.hgc.com.hk

(b) Services provided

The following is the revenue breakdown by five key services for the years ended 31 December 2002 and 2003:

	2002 (unaudited)		**2003 (unaudited)**	
Amount in HK$ million	*Total*	*%*	***Total***	*%*
(i) Data Services	597.1	48%	**683.4**	**43%**
(ii) Local Voice Services	301.8	25%	**446.8**	**28%**
(iii) International Direct Dialing	144.6	12%	**204.3**	**13%**
(iv) Residential Broadband Services	121.8	10%	**164.6**	**10%**
(v) International Bandwidth	88.2	7%	**126.8**	**8%**
Intercompany Eliminations	(21.8)	(2%)	**(24.8)**	**(2%)**
Total Revenue	1,231.7	100%	**1,601.1**	**100%**

HGC provides products and services to retail end users (residential consumers, multinational corporations ("MNCs") and small and medium size enterprises ("SMEs")) as well as to wholesale customers (other telecommunications carriers and operators). The following is a summary of the products and services, which HGC provides:

(I) Data services

This line of business is the largest for HGC and consists of:

1) connectivity for mobile operators;

2) provision of local leased lines on wholesale basis to customers including telecommunications carriers, other FTNS operators and Internet Service Providers;

3) connectivity for large corporations, many major financial institutions, multi-national organizations and government bodies;

4) business broadband services to SMEs;

5) broadband services to schools.

It is a common misconception that the increased use of mobile phones disadvantages fixed line operators. In fact, mobile calls are substantially routed through fixed line networks. HGC will benefit from the growth of mobile traffic, particularly as applications such as videos or photography gain increased usage.

(II) Local voice services

HGC offers basic voice and fax services and value added services such as call waiting and call forwarding to residential customers. As at 31 December 2003, HGC had approximately 212,000 residential subscribers.

HGC also offers a wide range of voice connectivity services for business customers.

(III) International Direct Dialing (IDD)

HGC provides IDD voice and fax services to both residential and business customers. Traffic to and from Mainland China accounts for approximately half of HGC's revenue in this sector. Currently HGC's network is interconnected with major networks in Mainland China.

In the wholesale market, HGC provides voice interconnection and local termination to international voice carriers.

The total handled voice minutes were approximately 502 million for the year ended 31 December 2003.

(IV) Residential Broadband services

HGC offers broadband internet access through telecommunication cables with speed up to 10Mbps (megabits per second). This enables high quality connections for video telephone devices such as Vfones. As at 31 December 2003, HGC had approximately 120,000 broadband subscribers compared with approximately 67,000 as at 31 December 2002, an increase of approximately 79%.

Besides offering "last mile" broadband access via telecommunication cables, HGC has a co-operative arrangement with PowerCom to offer broadband access via electric power grids with speed up to 1.5 Mbps under the "HGC-PowerCom" brand at a lower price. Revenue generated from this service is shared with PowerCom. Further details of this business is given in the section headed "PowerCom Transaction".

(V) International Bandwidth ("IBW")

HGC provides International Private Leased Circuit (IPLC), IP-Transit and Indefeasible Rights of Use (IRU) sales to MNCs, international voice telephony resellers, international carriers and ISPs both in Hong Kong and overseas.

HGC plans to establish more points of presence ("POPs") in specific countries to provide the necessary service platforms. Planned POPs to be established include Singapore, Korea, Malaysia and Indonesia.

(VI) General

Looking forward, HGC targets to achieve significant revenue growth to gain economies of scale. The management of HGC expects that data services which has historically carried a higher incremental EBITDA margin will remain a key contributor to HGC. HGC will continue to capitalise upon possession of its technological advanced and high quality comprehensive fibre optic network in Hong Kong.

(v) Financial position and results

(a) Balance sheet

Set out below is a summary of the audited consolidated balance sheet of HGC as at 31st December 2003:

	2002	**2003**
	HK$ million	*HK$ million*
Fixed assets *(Note)*		
(i) Network related		
Land and building	60.3	58.2
Telecommunication equipment	4,002.7	5,133.4
Construction in progress	935.2	751.6
	4,998.2	5,943.2
(ii) Others	100.5	101.9
	5,098.7	6,045.1
Pre-paid capacity and maintenance *(Note)*	1,287.6	1,277.6
Other non-current assets	100.5	126.0
	6,486.8	7,448.7
Current assets	217.8	245.8
Current liabilities	(935.3)	(963.8)
Net current liabilities	(717.5)	(718.0)
Shareholder loan	–	(3,424.0)
Bank and other loans	(2,530.1)	(14.7)
Net assets	3,239.2	3,292.0
Capital commitments contracted but not provided for	1,469.6	1,129.0

Note:

Accumulated depreciation at 31st December 2003 was:

	HK$ million
Fixed assets – *network related*	1,068.2
Pre-paid capacity and maintenance	94.3
	1,162.5

Included in the figure for telecommunication equipment of HK$5,133 million is the cost of building the conduits and installing the fibre optic cable for HGC's network. Pre-paid capacity and maintenance of HK$1,278 million principally represents bandwidth injected by Global Crossing as part of the arrangements for it to take a 50% interest in HGCH in early 2000. Adding these amounts to accumulated depreciation provides an approximation of the total cost of establishing HGC's network to-date of approximately HK$8.4 billion, as follows:

	HK$ million
Fixed assets – *network related*	5,943
Pre-paid capacity	1,278
Accumulated depreciation – *network related*	1,163
	8,384

(b) Profit and loss account

The consolidated profit and loss accounts of HGC for the three financial years ended 31st December 2003 are set out in Appendix I to the Circular. An analysis of HGC's performance and growth for 2003 is set out below:

		2002	**2003**	**Growth**
	Notes	*HK$ million*	*HK$ million*	*%*
Turnover	*1*	1,242.0	1,608.5	29.5
Cost of services		(828.8)	(805.3)	
Selling, general and administrative expenses		(167.2)	(212.9)	
Provision for doubtful debts		(9.9)	(10.9)	
Adjusted earnings before interest, tax, depreciation and amortisation ("EBITDA")	*2*	236.1	579.4	145.4
EBITDA margin %		***19.0%***	***36.0%***	***+17%***
Depreciation and amortisation		(317.2)	(412.3)	
Operating profit/(loss)		(81.1)	167.1	
Finance costs	*3*	(87.7)	(63.1)	
Taxation	*4*	–	–	
Adjusted profit/(loss) after taxation		(168.8)	104.0	
Less: adjustments		(225.7)	(51.2)	
Profit/(loss) after taxation per audited accounts		(394.5)	52.8	

Notes:

1. Including other revenue of HK$7.4 million (2003) and HK$10.2 million (2002).

2. Adding back a provision in 2002 for write-off of prepaid capacity and maintenance of HK$225.7 million, which we consider non-recurring.

3. Adding back a charge in 2003 of HK$51.2 million for unamortised prepaid finance costs written off on the repayment of a bank loan, which we consider non-recurring.

4. HGC has significant accumulated losses for tax purposes.

(vi) Evaluation of consideration for the HGC Sale Shares of HK$7.1 billion (implying an enterprise value of HK$10.5 billion after allowing for the Net Debt of HK$3.4 billion)

(a) By reference to projected cash flows

The management of HGC has provided us with projections of cash flow of the HGC Group for the 5-year period from 2004-2008. We have discussed these projections and the assumptions on which they are based with the management of HGC.

The main assumptions made by the management of HGC and our comments on them are as follows:

- Considerable growth in turnover is assumed. This growth is derived partly from an increase in the total market size but principally from an assumed increase in market share.

- HGC estimates that its market share in most of the sectors in which it operates will increase significantly by 2008. We believe that HGC's modern technology (particularly for the Data, Broadband and IBW sectors) and its comprehensive network will give it an advantage over its competitors. For example, with effectively only one major competitor in Data, we believe HGC should be well placed to win approximately an equal share of sizeable new contracts.

- Because of the low variable costs associated with HGC's business, HGC has benefited from economies of scale resulting in substantially higher margins on incremental business. Consequently, as set out above, 2003 turnover increased by 29.5% over 2002 turnover, but adjusted 2003 EBITDA increased by 145% over adjusted 2002 EBITDA from 19% to 36%. PCCW's telecommunications services have an EBITDA margin of approximately 50% for 2002 and certain of HGC's costs, such as for employees, are significantly lower than those for PCCW.

- Capex commitments at 31st December 2003 were HK$1,129 million. New Capex commitments are expected to decline to a significantly lower level as construction of HGC's backbone has been completed. Further infrastructure spending will be mainly incurred for customer access and "last mile" connection. Other expenditure will include transmission equipments and customer premise equipments. These items are largely scalable to growth in turnover and customer base.

Until recently, little information, even about the past performance of HGC, has been publicly available. The management of HGC have made the establishment of a comprehensive fibre optic network their first priority, taking the view that until such coverage was available, little effective general marketing or publicity could be undertaken. Indeed, they commented to us that for much of the period from 1995, they have been more of a civil engineering concern than a telecommunications company. Even in the context of the Circular, very little specific forward looking information can be included as it is not verifiable to prospectus standards for public disclosure. The projections we have been shown have not been verified or reported on by the auditors of either HGC or Vanda, or significantly tested by feedback from market analysts or others.

We therefore regard such projections and assumptions as subject to a large degree of possible variation and risk and have tried to establish a range of values rather than a single point valuation. We have adopted a standard model used by the market for valuing companies in the telecom sector. Projections of cash flows for a 5 year period are made and discounted back to present value at an appropriate discount rate, based principally on the estimated weighted average cost of capital of businesses in the telecommunications industry. At the end of the 5 year period, as individual years can no longer be distinguished clearly, a multiple (based on the current estimated EBITDA rating of mature Asia-Pacific telecoms businesses) of the final year's EBITDA is used to calculate a terminal value, which is discounted back to present value. We have run various changes in the key assumptions discussed above to obtain a range of value.

The range of values which we have calculated for HGC enterprise value is between approximately HK$8.8 billion and HK$12.8 billion. Subtracting approximately HK$3.4 billion for Net Debt, the HGC equity value is between HK$5.4 billion and HK$9.4 billion. The consideration for HGC of HK$7.1 billion is towards the mid-point of this range.

In considering whether the consideration for the HGC Sale Shares is fair and reasonable, we have taken two further factors into account:

(1) Premium for control

Vanda is acquiring control of HGC and control usually commands a premium over the "fair" market value. The model referred to above calculates fair market value for a normal investor acquiring a minority interest. It may be argued that in this case, a "control premium" should not apply as the HWL Group is not losing control. However, Vanda as a corporate entity is nevertheless buying a 100% interest and the consideration for the HGC Sale Shares should in our opinion be assessed to some degree in this context.

(2) Method of payment

Vanda is not paying in cash but the consideration for the HGC Sale Shares will be satisfied by the issue of new Vanda Shares (unbacked by earnings or significant assets) and the HGC Consideration Convertible Note. This is unlikely to be acceptable to a majority of vendors in the context of a wholly arms length commercial transaction. Again, it may be argued that the HWL Group will realise some cash through the Placing and may be willing to accept this form of consideration because it in effect still controls HGC through Vanda. Nevertheless, Vanda itself is able to make an acquisition of a very significant business which it could not have afforded if cash consideration had been required.

Consequently, we are of a view that the value placed on HGC is within a fair and reasonable range. We have also borne in mind that Vanda is gaining control of a significant business and paying with a form of non cash consideration.

(b) Comparison with net assets and costs

Pursuant to the HGC Acquisition, the Company will acquire the entire equity of HGC at approximately HK$7.1 billion. Based on HGC's audited financial statement for the year ended 31st December 2003, HGC's audited net asset value as at 31st December 2003 was approximately HK$3.3 billion. Therefore, the HGC Acquisition reflects a premium of approximately HK$3.8 billion over HGC's latest audited net asset value.

Taking into account the Net Debt position of HGC of approximately HK$3.4 billion as at 31st December 2003, the enterprise value of HGC is approximately HK$10.5 billion. This represents a premium of approximately HK$2.1 billion over HGC's estimated investment to-date into its fibre optic network in Hong Kong and international bandwidth of approximately HK$8.4 billion. The reason why the premium over cost is less than the premium over net assets is principally because of operating losses and accumulated depreciation. Certain of HGC's equipments, such as switches, has a relatively short life but the conduits for the network for example may in practice have a longer commercial life than the 25 year maximum depreciation period adopted by HGC in its accounts. The management of HGC believes that the value of much of the network, particularly the conduit system, is higher than its historical cost due to restricted space in the telecommunications broadcasting equipment rooms of many of the buildings and limited opportunities to carry out civil works to develop a conduit system in Hong Kong.

We consider that a premium over HGC's net asset value is justifiable. A FTNS business requires heavy capital investment at the outset and is bound to incur operating losses, eroding net asset value until customer levels build up to the break-even level. The HGC Transaction gives Vanda a favourable opportunity to acquire HGC at a stage when a comprehensive and high quality fibre optic fixed line network has already been established.

(c) Comparable companies and transactions

A discounted cash flow valuation requires access to substantially more information than is available to us for other telecommunications companies in the Asia-Pacific region having significant fixed line businesses. Consequently, we have not been able to value other telecom businesses for comparison purposes using the same model as for HGC.

By reference to adjusted 2003 EBITDA of approximately HK$579.4 million as set out above, the ratio of enterprise value of HK$10.5 billion to EBITDA for HGC is approximately 18 times, which is a high figure. However, we do not consider 2003 EBITDA is a fair basis for comparison. HGC is in the middle of a period of rapid EBITDA growth. The prospective EBITDA for HGC as it reaches a more mature stage results in a comparable multiple to brokers' consensus estimates of prospective (or forward) EBITDA multiples for four leading broadly comparable telecommunications companies in the developed Asia-Pacific region (being Singapore Telecom, Chunghwa Telecom (Taiwan), KT Corp (Korea) and PCCW).

We have also researched, through Dealogic Limited (a global research house for corporate finance activities) and other sources, transactions comparable to the HGC Transaction in the global fixed line telecommunications services industry in the last two years for a transaction size of over US$500 million. After reviewing the search result, given the lack of publicly available information, we have concluded that it is difficult to identify any closely comparable transactions. As a part of its privatisation initiative, in December 2002 the Taiwanese Government sold a 13.5% stake in Chunghwa Telecom to a consortium of eight local investors for US$1.88 billion. In July 2003, a further 10% stake in Chunghwa Telecom was sold to investors. Both sales were priced at a slight discount to the current market price of the shares, reflecting a multiple of 5.2 to 5.7 times 2002 EBITDA. However, as sales of a minority interest, we do not consider the Chunghwa transactions as having much similarity to the HGC Transaction which involves a purchase of 100% interest.

Although the HWL Group bought back 50% of HGC from AGC and other assets for approximately HK$932 million in May 2002, this was in special circumstances owing to AGC's financial difficulties. In addition, HGC has changed and progressed, in terms of business and infrastructure development, in the intervening two years.

5. PowerCom Transaction

(i) Consideration

The consideration for the sale and purchase of the PowerCom Sale Shares is approximately HK$391 million, to be satisfied by the issue of 395,743,835 new Vanda Shares to CKE (or as it may direct) and 92,828,801 new Vanda Shares to CLPT (or as it may direct) credited as fully paid at an issue price of HK$0.80 per share.

The consideration for the sale and purchase of the PowerCom Sale Shares was determined after arm's length negotiations based on the judgment of Vanda's management of the competitiveness of the combined HGC-PowerCom solutions in the broadband market in Hong Kong and the uniqueness of the PowerCom Technology.

(ii) Conditions precedent

The PowerCom Completion is subject to similar conditions precedent to the HGC Completion.

In addition, the PowerCom Completion is conditional on the HGC Acquisition Agreement having become unconditional and having been completed in accordance with its terms.

(iii) History and business

PowerCom commenced operations as a broadband Internet services provider in September 2000. The PowerCom Technology provides two major competitive advantages for the residential market. First, by making use of existing electric power cables within buildings, PowerCom Technology allows broadband access via connection of a computer through a modem and a nearby power socket. This offers a simpler and more convenient means to provide broadband access inside a building compared to the traditional "last mile" transmission through the telecommunication cables. Secondly, the PowerCom Technology offers a lower cost "last-mile" alternative for a telecommunication operator; the estimated cost to "broadband-enable" all households inside a 30-story residential building is only approximately HK$35,000.

In July 2002, PowerCom entered into a co-operative arrangement with HGC. Through this co-operative arrangement, PowerCom markets its Internet access services under the "HGC-PowerCom" brand name to residential homes, hotels and service apartments in Hong Kong. PowerCom generates revenue by charging customers a monthly subscription fee. Its services are currently available at a number of residential housing estates, and four hotels and service apartments including Harbour Plaza Hong Kong, Harbour Plaza North Point, Harbour Plaza Metropolis and Horizon Suite Hotel. Presently PowerCom has approximately 21,000 paying customers.

PowerCom Internet access services are considered by HGC's management to have a strategic importance as a complementary offering to HGC's existing Residential Broadband Services business (RBS), which provides customers Broadband Internet access via traditional in-building blockwiring. HGC's management believes that offering both types of Internet access services to customers under the HGC brand and combining PowerCom's technology with HGC fibre optic network backbone would effectively enhance HGC's overall brand recognition and potential market share and offer cost savings in blockwiring fees payable to other FTNS operators.

PowerCom also works closely with Hongkong Electric Holdings Limited and CLPT (a member of the CLP Group) on various operational aspects.

(iv) Financial performance

PowerCom only began generating material revenue after the co-operation with HGC officially commenced operation in September 2002. Turnover was approximately HK$0.9 million and approximately HK$6.7 million for the 12-month period ended 31st December 2002 and 31st December 2003 respectively. Net losses were recorded due to both low revenue and relatively high fixed costs in the early stage of operation. The net loss narrowed to approximately HK$9.0 million in 2003 (2002 – approximately HK$18.7 million) as revenue began to increase mainly through the HGC partnership.

PowerCom has established a customer base of approximately 21,000 but will need to achieve further market penetration before it can earn significant profits. The management of PowerCom estimates that the total cost so far spent on the assets and development of the business of PowerCom is approximately HK$115 million, which includes certain development costs incurred prior to incorporation of PowerCom and hence not accounted for in PowerCom's books. For the year ended 31st December 2003, PowerCom had negative cash flow and a deficit on net assets.

(v) Assessment of value

We have been provided with a copy of PowerCom's financial projections for the period 2004-2008. We have discussed with the management of PowerCom the basis and assumptions for the projections but they have not been reviewed by any other third party, such as the auditors of Vanda or PowerCom. For the purpose of assessing value, we have adopted a similar model to HGC, which is based on the present value of the discounted cash flows provided to us. We have been unable to identify any listed companies or acquisitions of businesses similar to PowerCom to serve as comparisons.

We have approached the assessment of value of PowerCom in a similar way to HGC, as described above. Projections of revenue, margins and funding requirements for relatively new technology applications such as PowerCom are subject to a larger margin of error than for HGC. Consequently, we have used a somewhat higher rate to discount the 2004-2008 estimated cash flow and applied a lower multiple of 2008 EBITDA to calculate the "terminal value" of PowerCom in 2008 to compensate for higher risk.

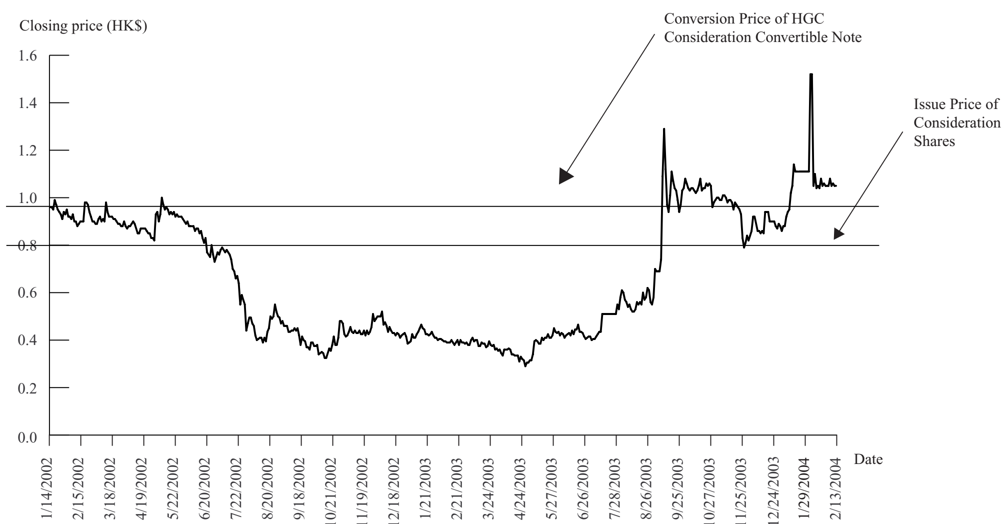
Our calculations show a range of potential value on either side of approximately HK$400 million. The range suggests that the PowerCom Transaction is relatively risky for Vanda. However, we believe the risks are manageable in the context of the Enlarged Vanda Group as the value placed on PowerCom represents less than 5% of the overall enterprise value of the Transactions and the consideration is wholly payable in new Vanda Shares. We also believe there are potential commercial benefits as described above for Vanda and HGC in acquiring PowerCom and, as in the case of HGC, have considered a premium for control. Consequently, we consider that the consideration for the PowerCom Sale Shares of approximately HK$391 million is within a fair and reasonable range.

6. Share price performance and comparison with Issue Price and Conversion Price

(i) Share price

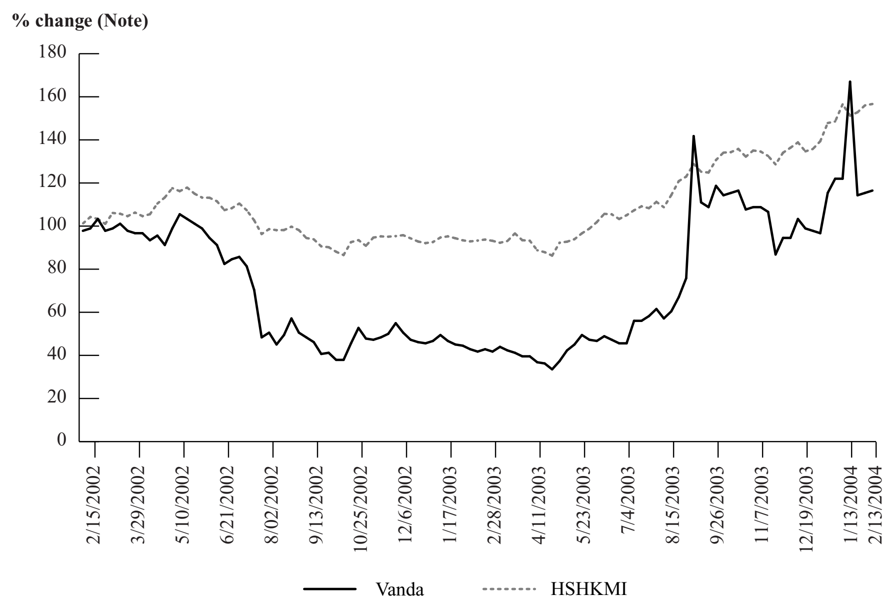
Vanda Share price during the last two years has featured a number of short periods of rising levels combined with increased volume, typically followed by a period of decline on lower volumes. The chart below shows the closing prices of the Vanda Shares traded on the Stock Exchange during the 24 months preceding 13 January 2004 (the "Last Trading Day"), being the last trading day before suspension of trading of Vanda Shares pending release of the Announcement (the "Comparison Period"), and up to and including the Latest Practicable Date:

Share price performance of Vanda



The following chart shows the performance of the Vanda Share against the market as measured by the Hang Seng Hong Kong Mid Cap Index ("HSHKMI") during the period from 1 February 2002 up to the Latest Practicable Date:

Relative share price performance



Note: The base figures are the closing price per Vanda Share and the HSHKMI on 1 February 2002.

The closing price of the Vanda Shares during the Comparison Period ranged from HK$0.29 to HK$1.29. On 18 February 2002, the Company announced, among other things, the issue of the 2002 Bonds to HIL and DBS. The share price rose by 8.9% on the following day. After that, possibly reflecting market anticipation of poor financial results, the share price was weak and continued to trade at depressed levels until July 2003. Following the Company's announcement on 23 July 2003 of the conversion of the 2002 Bonds, the share price rose during most of July and August 2003 with a high of HK$0.70. The share price increased by approximately 74.3% (from HK$0.74 on 3 September 2003 to HK$1.29 on 5 September 2003) after the Company announced the completion of the conversion of the 2002 Bonds and the appointment of Mr. Fok Kin-ning, Canning as an executive Vanda Director and chairman of the Company. On 5 September 2003, a placement of 150,000,000 Vanda Shares by HIL and DBS restored the public float in compliance with the relevant requirements under the Listing Rules. On resumption of trading, the Vanda share price dropped and reached HK$0.94 on 10 September 2003, represented an accumulated decrease of 27.1% since 5 September 2003. Market speculation on immediate co-operation between the Company and HWL's 3G operation following the conversion of the 2002 Bonds did not materialize which no doubt had a dampening effect on the share price, reaching a low of HK$0.79 on 21st November 2003. Thereafter, the Vanda Shares recovered to the range of HK$0.81 to HK$1.14 up to the Last Trading Day, with the run-up due in our opinion to renewed speculation of co-operation with the HWL Group.

These market prices have, in our opinion, been chiefly influenced by expectations of the Company's role as a partner of HWL and are not, in our view, supported by the fundamentals of the Vanda Group. The Vanda Group has made continuous losses from the financial year ended 31 March 2001 and there was a net deficit per Vanda Share of HK$0.073 as at 31 March 2002 which deteriorated further to HK$0.473 per Vanda Share as at 31 March 2003. It might be expected that there would be a drop of share price after the Company announcing its net loss attributable to Shareholders of approximately HK$55.6 million for the six months ended 30 September 2003 and a net asset value per share of HK$0.051 (after accounting for the effect of the conversion of the 2002 Bonds) on 29th December 2003. In fact, the Vanda Share price increased by approximately 29.5% on 12 January 2004 to HK$1.14 and closed at HK$1.11 on the Last Trading Day, due, in our opinion, to market rumours of a potential transaction with the HWL Group.

The share price strengthened from HK$1.11 to HK$1.52 on resumption of trading after the release of the Announcement but fell to HK$1.05 after the release of the announcement of the Placing at HK$0.90 per Vanda Share. On the Latest Practicable Date, the share price closed at HK$1.05.

(ii) Comparison of the issue price for the Consideration Shares

The issue price per Consideration Share of HK$0.80 represents:

(a) a discount of approximately 27.9% to the closing price of the Vanda Shares of HK$1.11 on the Last Trading Day;

(b) a discount of approximately 11.1% to the price of HK$0.90 per Vanda Share at which the Placing was carried out;

(c) a discount of approximately 17.9% to the average closing price of the Vanda Shares of HK$0.975 for the 10 consecutive trading days up to and including the Last Trading Day;

(d) a discount of approximately 12.9% to the average closing price of the Vanda Shares of HK$0.9187 for the 30 consecutive trading days up to and including the Last Trading Day;

(e) a discount of approximately 14.8% to the average closing price of the Vanda Shares of HK$0.9387 for the 60 consecutive trading days up to and including the Last Trading Day;

(f) a premium of approximately 1.5% over the average closing price of the Vanda Shares of HK$0.7879 for the 150 consecutive trading days up to and including the Last Trading Day;

(g) a premium of approximately 10.8% over the average closing price of the Vanda Shares of HK$0.7223 for the 180 consecutive trading days up to and including the Last Trading Day;

(h) a premium of approximately 26.6% over the average closing price of the Vanda Shares of HK$0.632 for the Comparison Period; and

(i) a discount of approximately 23.8% to the closing price of the Vanda Shares of HK$1.05 on the Latest Practicable Date.

Because of the volatility of the share price in the period shortly before the Announcement, we are of the view that it is not appropriate to place much weight on a comparison of the issue price of the Consideration Shares to the prevailing short-term market price of the Vanda Shares. We consider that the assessment of the issue price by reference to the performance of the share price over say 150-180 day period would be more appropriate in order to decrease the effect of short-term volatility. For the period from July 2002 to August 2003, the Vanda Shares closed at below HK$0.80. In addition, as commented above, from August 2003 onwards we believe that market price of Vanda Share was set not chiefly by the fundamentals of Vanda's own financial position, but on the expectation of a significant transaction with the HWL Group.

(iii) Comparison of the initial conversion price for the Convertible Notes

The initial conversion price per Vanda Share of HK$0.96 represents:

(a) a discount of approximately 13.5% to the closing price of the Vanda Shares of HK$1.11 on the Last Trading Day;

(b) a premium of approximately 6.7% to the price of HK$0.90 per Vanda Share at which the Placing was carried out;

(c) a discount of approximately 1.5% to the average closing price of the Vanda Shares of HK$0.975 for the 10 consecutive trading days up to and including the Last Trading Day;

(d) a premium of approximately 4.5% over the average closing price of the Vanda Shares of HK$0.9187 for the 30 consecutive trading days up to and including the Last Trading Day;

(e) a premium of approximately 2.3% over the average closing price of the Vanda Shares of HK$0.9387 for the 60 consecutive trading days up to and including the Last Trading Day;

(f) a premium of approximately 21.8% over the average closing price of the Vanda Shares of HK$0.7879 for the 150 consecutive trading days up to and including the Last Trading Day;

(g) a premium of approximately 32.9% over the average closing price of the Vanda Shares of HK$0.7223 for the 180 consecutive trading days up to and including the Last Trading Day;

(h) a premium of approximately 51.9% over the average closing price of the Vanda Shares of HK$0.632 for the Comparison Period; and

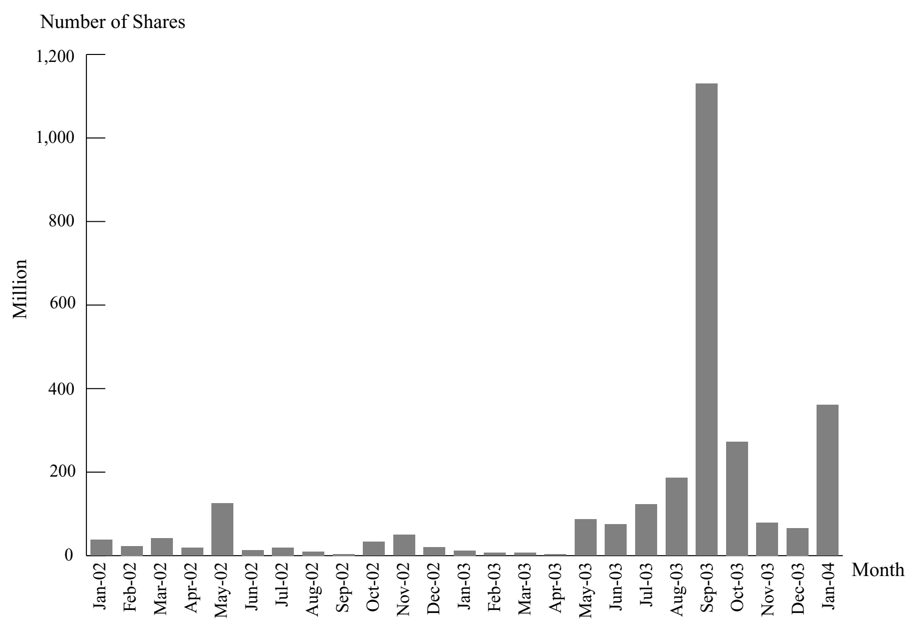
(i) a discount of approximately 8.6% to the closing price of the Vanda Shares of HK$1.05 on the Latest Practicable Date.

The initial conversion price of HK$0.96 per Vanda Share reflects a premium of 20% to the issue price of the Consideration Shares, which we would regard as a normal differential when shares and convertible securities are being issued as part of a package of consideration. It also reflects a premium of approximately 21.8% over the 150 days average closing price of the Vanda Shares.

(iv) Analysis of trading volume

The chart below shows the monthly trading volume of the Vanda Shares on the Stock Exchange for the period commencing from January 2002 to January 2004:

Monthly trading volume of Vanda



The following table sets out the total number of Vanda Shares traded on the Stock Exchange per month and the percentage of the monthly trading volume to the issued share capital of the Company for the period commencing from January 2002 to January 2004:

	Monthly trading volume	Monthly trading volume to issued Vanda Shares
	Number of Vanda Shares	*% (Note)*
2002		
January	37,900,000	9.01
February	23,100,000	5.49
March	41,400,000	9.83
April	18,900,000	4.49
May	125,000,000	29.65
June	13,400,000	3.18
July	19,400,000	4.60
August	9,720,000	2.31
September	3,810,000	0.90
October	32,900,000	7.80
November	50,000,000	11.86
December	19,900,000	4.72
2003		
January	12,200,000	2.89
February	6,700,000	1.59
March	6,890,000	1.63
April	3,590,000	0.85
May	86,900,000	20.61
June	75,100,000	17.81
July	123,000,000	29.17
August	186,000,000	44.12
September	1,130,000,000	73.55
October	273,000,000	17.77
November	79,000,000	5.14
December	65,900,000	4.29
2004		
January	361,000,000	23.47

Note:

Based on the number of issued Vanda Shares at end of each month (2002 January: 420,791,199; 2002 February to April: 420,977,199; 2002 May: 421,527,199; 2002 June to 2003 August: 421,607,199; 2003 September: 1,536,379,325; 2003 October to 2003 December: 1,536,421,325; 2004 January: 1,537,871,325)

Based on the above table, the Vanda Shares were in general thinly traded on the Stock Exchange during the period from 1 January 2002 up to and including 30 April 2003. The monthly trading volumes in the market represented between 0.85% and 11.86% of the Company's issued shares as at the end of each corresponding month, except in May 2002 (29.65%). The trading volume of the Vanda Shares increased significantly during the period from May 2003 to October 2003, ranging from 17.77% to 73.55% of the issued share capital of the Company. Save for the disposal of approximately 6.5 million Vanda Shares in May 2003 by Lam Ma & Wai Limited, of which Mr. Lam Hon Nam is the controlling shareholder, the Vanda Directors advised us that they were not aware of any reason for the increase in trading volume of the Vanda Shares in May and June 2003. The increase in monthly trading volume during July 2003 to August 2003 we believe is attributable to the market reaction to the Company's announcement on 23 July 2003 on the conversion of the 2002 Bonds. The trading volume of the Vanda Shares increased drastically and reached its peak of 1.13 billion in September 2003 (equivalent to 73.55% of the Company's issued share capital), including the public float placing of 150,000,000 Vanda Shares. We also consider the increase is attributable to market response to the Company's announcement on 3 September 2003 on the completion of the conversion of the 2002 Bonds and the appointment of Mr. Fok Kin-ning, Canning as an executive Vanda Director and the chairman of the Company. Taking into consideration the relatively thin trading volume over the Comparison Period as a whole, the more active trading of the Vanda Shares during the period from July 2003 to October 2003 is likely to be a result of HWL becoming the controlling shareholder of the Company.

Our conclusion is that trading in Vanda Shares has been relatively inactive except for periods when there is market speculation of potential transactions with the HWL Group and that completion of the Transactions will improve the prospects for greater and more consistent liquidity in the Vanda Shares.

7. Effect of the Transactions on the financial position of Vanda

(i) Profits

As set out in Appendix III to the Circular, Vanda has incurred substantial losses for recent years and for the six months ended 30 September 2003 and the timing of its return to profitability is uncertain. HGC made profits for the first time of approximately HK$52.8 million (HK$104 million if a one-off write-off of prepaid finance costs is added back) for the year ended 31st December 2003. Consequently, the HGC Transaction involves the acquisition of a business which has broken through to profitability. However, results of the Enlarged Vanda Group for 2004 and onwards will be affected by interest payments of HK$32 million annually on the HGC Consideration Convertible Note and depreciation of goodwill allocated to the underlying assets of the HGC Group and the PowerCom Group and amortisation of the remaining unallocated amount of goodwill.

(ii) Net assets

The audited balance sheet of Vanda as at 30 September 2003 is set out in Appendix III of the Circular. It shows net tangible assets of approximately HK$78.0 million, net current assets of approximately HK$19.5 million and long term liabilities of approximately HK$4.7 million.

Following conversion of the 2002 Bonds in September 2003, the net asset position of Vanda improved from a deficiency of approximately HK$199.4 million to a positive pro forma net assets of approximately HK$135.0 million. However, the losses for the first half of the financial year have resulted in a decline in net assets to approximately HK$78.0 million (approximately HK$0.051 per Vanda Share). Although this figure remains positive, it is in our opinion a rather slim net asset base to support total assets of some HK$500 million and turnover of around HK$1 billion.

The pro forma combined balance sheet of the Enlarged Vanda Group is set out in Appendix IV of the Circular. This balance sheet may be summarised as follows:

	Pro forma
	HK$ million
Net property and equipment	6,138
Goodwill	4,230
Other non-current assets	1,407
Current assets	666
	12,441
Less: Current liabilities	(1,401)
Less: HIL Loan	(3,424)
CKH Loan	(17)
Convertible Notes	(3,200)
Minority interests and others	(30)
Pro forma net assets	4,369
Less: Goodwill	(4,230)
Enlarged Vanda Group pro forma net tangible assets	139

At 31st December 2003, HGC had net assets of HK$3,292.0 million while PowerCom had net liabilities of HK$30.6 million. After completion of the Transactions but before conversion of the HGC Consideration Convertible Note, the Enlarged Vanda Group pro forma net assets will increase to approximately HK$0.633 per Vanda Share. However, as the consideration payable by Vanda substantially exceeds the combined net assets of HGC and PowerCom, approximately HK$4.2 billion of goodwill arises and there will only be a very small increase in net tangible assets.

(iii) Shareholder loans

(a) HGC

An interest bearing unsecured loan facility of up to HK$4,000,000,000 has been available from HIL to HGCL, of which a principal amount of approximately HK$3,400,000,000 was drawn and outstanding as at 31st December 2003. Such facility is subject to terms substantially the same as the Facility described below, except there will be no conversion right. If certain events of default occur, including a material adverse change in the financial condition of the Enlarged Vanda Group, these loan facilities could become repayable on demand, as discussed below.

(b) PowerCom

A loan of approximately HK$16,800,000 is owed by PowerCom to the CKH Group. At present, it is unsecured, interest-free and not repayable before August 2010. The loan will continue after the PowerCom Completion but the terms will be revised to normal commercial terms. We do not consider this loan to be material in the context of the Enlarged Vanda Group's long-term borrowings of over HK$6 billion.

(iv) HGC Consideration Convertible Note

We understand that the terms of the HGC Consideration Convertible Note are largely based on the terms of the 2002 Bonds previously held by HIL and DBS. The most important terms are summarised below:

Coupon: 1.0% per annum, payable every six month in arrears.

Maturity date: Unless previously converted, the outstanding principal amount (together with all unpaid and accrued interest) will be repaid on the fifth anniversary of the date of issue.

Security: There is no security over assets.

Noteholder Protection: The holder of the HGC Consideration Convertible Note (the "Noteholder") has the benefit of certain protections, among which are, without the prior written approval of the Noteholder: (a) Vanda will not change the nature of its business; (b) Vanda will not appoint or remove any senior executive, including but not limited to the chief executive officer, the chief operating officer and the chief financial officer; (c) Vanda shall at all times provide the Noteholder with access to such information and records of Vanda as it may reasonably require; (d) subject to compliance with the Listing Rules and other applicable laws and regulations, Vanda shall deliver to the Noteholder its monthly financial reports within 30 days of the end of each calendar month.

Events of default: These include if trading of Vanda Shares is suspended for a continuous period of 15 trading days due to the default of Vanda or any of its directors, officers, employees or agents.

Borrowing limit: The Enlarged Vanda Group may not borrow more than HK$600 million (other than certain facilities including those discussed in this letter).

Conversion rights: The outstanding principal amount of the HGC Consideration Convertible Note (or any part of it) may be converted into Vanda Shares at any time on or after the first anniversary of the date of issue up to the maturity date at the relevant conversion price (which is initially HK$0.96 per share, subject to adjustment).

(v) The Facility

HIL and Vanda will at HGC Completion enter into an agreement for the provision of an interest-bearing Facility by HIL to the Vanda Group. The principal terms of the Facility can be summarised as follows:

Principal amount: Up to HK$1,000,000,000

Interest: at a rate based on normal commercial terms with reference to inter-bank market lending rates

Availability: Within 2 years from the date of HGC Completion. Each drawdown is conditional, inter alia, on there being no material adverse change in the financial condition of the Enlarged Vanda Group from the date to which the latest audited accounts were drawn up.

Purpose: (a) to reduce the shareholder loan from HIL to HK$3,400 million (which outstanding balance as at 31 December 2003 was approximately HK$3,424 million); and (b) thereafter, for Vanda's general corporate funding requirements.

Conversion right: At each of the first and second anniversary of HGC Completion, the principal amount outstanding together with outstanding interest will be repaid by the issue of a Facility Convertible Note of the same amount. For example, if at the end of year 1, HK$600 million has been drawndown and remains outstanding, it will be replaced by a Facility Convertible Note of HK$600 million and only HK$400 million will remain available under the Facility. At the end of year 2, assuming the remaining amount of HK$400 million has been used and remains outstanding, a second Facility Convertible Note of HK$400 million will be issued and the Facility will expire (it will expire at the end of year 2 whether or not it has been drawndown in full).

The terms and conditions of the Facility Convertible Note are in all material respects identical to those of the HGC Consideration Convertible Note summarised above, except the conversion period of each Facility Convertible Note will be from the date of issue up to maturity, so in effect these funds will be available to Vanda for 6-7 years after HGC Completion. The initial conversion price under the Facility Convertible Note issued on the first anniversary of the date of the HGC Completion will be equal to the conversion price then in force under the HGC Consideration Convertible Note; and the initial conversion price issued on the second anniversary thereof will be equal to the conversion price then in force under the first Facility Convertible Note, subject to certain adjustments.

Negative pledge: No member of the Enlarged Vanda Group will give any security without the consent of HIL.

"Tickler": no disposal of any substantial part of the Enlarged Vanda Group's assets without HIL's consent.

Events of default: these include any material adverse change in the financial condition or operations of the Enlarged Vanda Group as a whole.

The availability of the Facility serves to ensure that the Enlarged Vanda Group will have sufficient working capital for its present requirements, including commitments for capital expenditure.

(vi) Analysis of Vanda's gearing and funding position

In addition to the existing shareholder loans, 45% of the HGC Consideration will be paid by Vanda in the form of debt. This results in a pro forma ratio of long-term debt to net assets as follows:

	HK$ million
Existing shareholder loans (from HIL and CKH Group)	3,441
HGC Consideration Convertible Note	3,200
Total	6,641
Net assets	4,369
Ratio of long-term debt to net assets	152%

We consider a ratio of 152% to be high by conventional standards, requiring careful financial management. We consider the position is sustainable because:

1. Vanda has agreed terms for the Facility of HK$1 billion from HIL;

2. The debt noted above may be considered medium to long term, with a 4-5 year maturity in normal circumstances and no repayment of principal in the meantime.

3. Based on the 5-year cash flow projections reviewed by us, the Enlarged Vanda Group would have sufficient accumulated cash to repay the shareholder loans on maturity with a prudent margin.

However, although the debt mentioned above can be fairly regarded as long-term, if the Enlarged Vanda Group suffered a serious financial set-back, such as incurring substantial operating losses or write-offs (both of which have happened in the last three years) or a prolonged period of suspension of trading in the Vanda Shares occurred, the debt could become "on demand" because of the events of default and other terms listed above. In addition, if the HGC Consideration Convertible Note is not converted and had to be repaid on maturity, because for example Vanda's share price was below HK$0.96 at the relevant time, some re-financing exercise might be required to supplement accumulated cash. One favourable feature is that although the HGC Consideration Convertible Note carries a low fixed coupon of 1%, there is no premium over par payable on redemption.

Refinancing from banks at a time of disappointing results could be difficult as the Enlarged Vanda Group's main assets are specialised for use in its business and not the type which banks conventionally regard as collateral security. Consequently, in such circumstances, the Enlarged Vanda Group might have to turn to its shareholders for support. HIL and DBS supported the Vanda Group in this way in 2003, but at the cost of a dilution in other shareholders' interests in Vanda from approximately 68% to approximately 19% due to the agreed reduction in conversion price from HK$0.85 to HK$0.30 per Vanda Share.

8. Dilution and potential dilution of existing shareholders' holdings

HWL, through its wholly-owned subsidiary HIL, currently holds approximately 37.1% of the issued share capital of Vanda. Neither the CKH Group nor the CLP Group held any Vanda Shares as at the Latest Practicable Date. Immediately after the issue of the HGC Consideration Shares at HGC Completion but before exercise of any conversion rights under the HGC Convertible Notes, the issue of the PowerCom Consideration Shares pursuant to PowerCom Completion and completion of the Placing, and on the assumption that there are no other changes in Vanda's issued share capital since the Latest Practicable Date, the aggregate shareholding of the HWL Group in Vanda is expected to increase to approximately 84.9% of the issued share capital of Vanda as enlarged by the issue of the HGC Consideration Shares. On the above basis and after further accounting for the issue of the PowerCom Consideration Shares at PowerCom Completion but before exercise of any conversion rights under the HGC Convertible Notes and completion of the Placing, the HWL Group will hold approximately 78.9% of the issued share capital of Vanda as enlarged by the issue of the HGC Consideration Shares and the PowerCom Consideration Shares. On 29 January 2004, the day after the Announcement, HGC Vendor, CKE and CLPT entered into conditional agreements for the Placing of a total of 2 billion Vanda Shares.

HGC Vendor has undertaken to the Placing Agent that, for a period of three months from the date of completion of the Placing (except for the Placing or any Vanda Shares acquired by it after the completion of the Placing or compliance with the requirements of the Listing Rules or with the undertaking to the Stock Exchange to maintain sufficient public float), HGC Vendor will not sell, transfer or otherwise dispose of any Vanda Shares or any interest therein beneficially owned by HGC Vendor or any securities convertible into any such Vanda Shares (including the HGC Convertible Notes) or interest therein without first having obtained the written consent of the Placing Agent. CKE and CLPT have given similar undertakings in respect of any Vanda Shares acquired by them pursuant to the PowerCom Transaction. However, HIL has given no such undertakings.

HGC Vendor has also undertaken to the Placing Agent to use its best endeavours to procure that, for a period of three months from the date of completion of the Placing (except for completion of the Transactions and certain other exceptions), Vanda will not allot or issue any Vanda Shares or any securities convertible into any Vanda Shares or interest therein without first having obtained the written consent of the Placing Agent. This places some constraints on Vanda's freedom of action but only for the comparatively short period of three months.

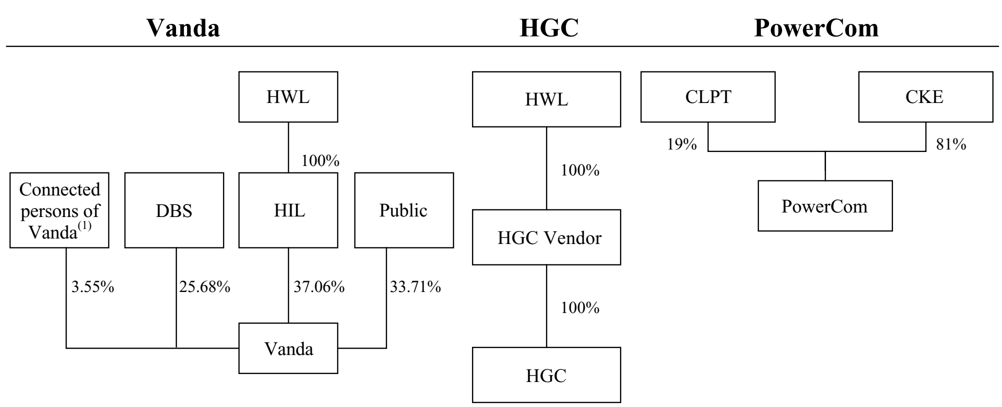
Below is a table setting out the issued share capital of Vanda at various relevant times:

	million shares
As at the Latest Practicable Date 1,537,871,325 Vanda Shares	1,538
Following the HGC Completion and the PowerCom Completion, but before exercise of any conversion rights under the HGC Consideration Convertible Note	6,901
Assuming in addition the HGC Consideration Convertible Note is fully converted at the initial conversion price of HK$0.96 per Vanda Share	10,235
Assuming in addition the HK$1 billion Facility Convertible Note is issued and fully converted at a price of HK$0.96 per Vanda Share	11,276

The shareholding structures of Vanda, HGC and PowerCom at present, after the HGC Completion, PowerCom Completion and the Placing and after full conversion of the HGC Consideration Convertible Note are as follows:

(i) At present

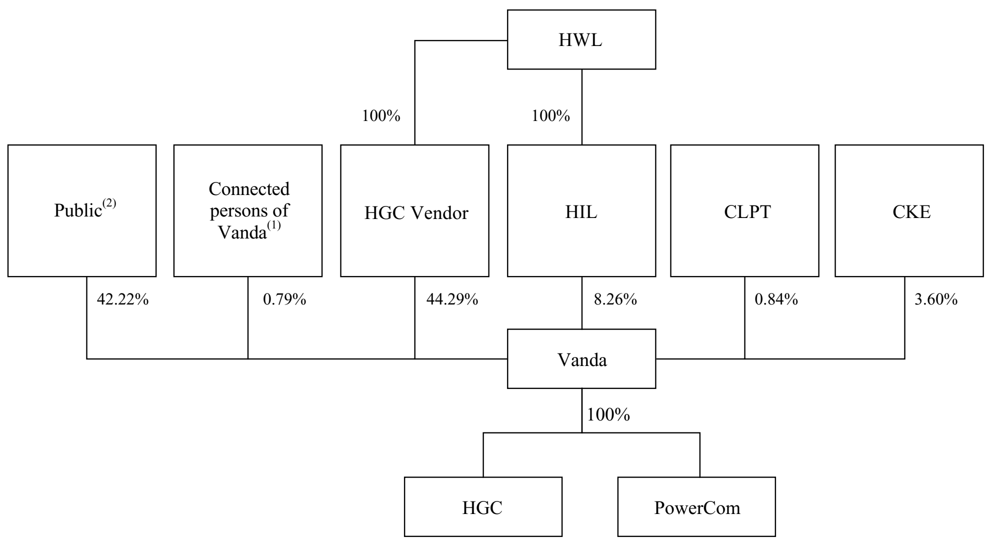
The following charts show the respective shareholding structures of HGC, Vanda and PowerCom as at the Latest Practicable Date:



(1) Includes Mr. Lam Hon Nam (an executive Vanda Director) and Lam Ma & Wai Limited. Lam Ma & Wai Limited is wholly-owned by Mr. Lam Hon Nam.

(ii) After completion

The following chart shows the shareholding structures of Vanda immediately following the issue of the Consideration Shares and completion of the Placing, but before exercise of any conversion rights under the HGC Convertible Notes (assuming no other changes in shareholding in Vanda after the Latest Practicable Date):



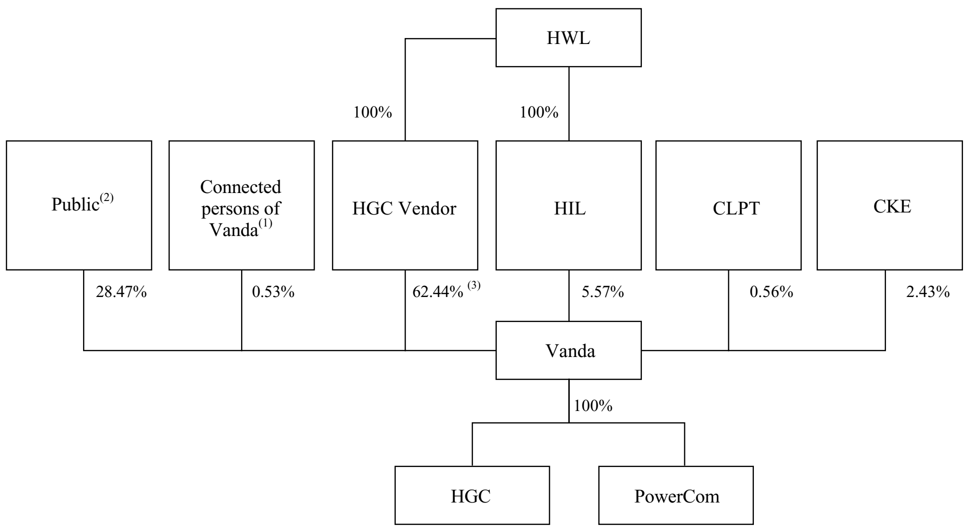
The HWL Group will in aggregate hold approximately 52.6% of the Enlarged Vanda Capital.

(1) Includes Mr. Lam Hon Nam (an executive Vanda Director) and Lam Ma & Wai Limited. Lam Ma & Wai Limited is wholly-owned by Mr. Lam Hon Nam.

(2) Includes DBS, which will hold approximately 5.72% of the Enlarged Vanda Capital.

(iii) After Conversion

The following chart shows the pro forma shareholding structure of Vanda immediately following the HGC Completion, the PowerCom Completion and the completion of the Placing and as if the HGC Consideration Convertible Note is fully converted at the initial conversion price of HK$0.96 per Vanda Share (assuming no other changes in shareholding in Vanda after the Latest Practicable Date):



(1) Includes Mr. Lam Hon Nam (an executive Vanda Director) and Lam Ma & Wai Limited. Lam Ma & Wai Limited is wholly-owned by Mr. Lam Hon Nam.

(2) Includes DBS, which will hold approximately 3.86% of the Enlarged Vanda Capital as further enlarged by the issue of Vanda Shares upon exercise in full of all conversion rights under the HGC Consideration Convertible Note at HK$0.96 per Vanda Share.

(3) This assumes that all the Vanda Shares on conversion of the HGC Consideration Convertible Note are issued, allotted and held by HGC Vendor.

The shareholding of the HWL Group in Vanda would increase from approximately 68.01% to approximately 70.96% if the principal amount of HK$1,000,000,000 is fully drawn down against the Facility and fully converted into Vanda Shares at the initial conversion price of HK$0.96 per Vanda Share and on the assumption there are no other changes in shareholdings in Vanda. The other parties' shareholding in Vanda will decrease accordingly.

9. Share Whitewash Waiver

An application for a whitewash waiver is a normal procedure where a business is injected into a listed company for the issue of a substantial number of new shares. An application for the Share Whitewash Waiver has been made to the Executive on behalf of HGC Vendor and its Concert Parties. The Executive has indicated his agreement to the granting of the Share Whitewash Waiver, subject to the independent Shareholders approving it by way of a poll on the relevant resolution to be proposed at the SGM.

Assuming no other changes in the shareholding in Vanda since the Latest Practicable Date, on completion of the Transactions and the Placing, the shareholding of HGC Vendor and its Concert Parties in Vanda will increase by over 2%, from the current level of approximately 37% to over 50% of the Enlarged Vanda Capital. As a result, under the Takeovers Code, HGC Vendor and its Concert Parties will have an obligation to make a mandatory general offer to acquire all the Vanda Shares other than those already owned or agreed to be acquired by HGC Vendor and its Concert Parties, unless the Share Whitewash Waiver is obtained.

It is one of the conditions precedent of the HGC Completion that the Share Whitewash Waiver be obtained. **If the Share Whitewash Waiver is not available for any reason, the HGC Transaction will not become unconditional and will not proceed. In that event the PowerCom Transaction will not become unconditional and will not proceed either. In the circumstances, a mandatory general offer for Vanda Shares will not be made by HGC Vendor or its Concert Parties.**

10. Risk factors

Both the Transactions will change the business risk profile of Vanda, while not necessarily increasing it, as Vanda itself has a volatile track record. Independent Shareholders may wish to bear the following risk factors in mind when considering the Transactions:

(i) Change in present principal operations

Presently, Vanda is principally engaged in the trading of computers and peripherals and provides systems integration, software development and other IT related services in Asia. Upon completion of the Transactions, the majority of Vanda's assets and business will be dominated by telecommunications. The Transactions will take Vanda into an entirely new sphere of operations, in which the present Vanda Board, when deciding to enter into the Transactions, has no direct experience. The proposed new Vanda Directors would, however, ensure the continuity of management and operations of HGC.

(ii) Regulatory consideration and competition

The Hong Kong telecommunications industry is subject to extensive regulation by OFTA. OFTA's primary responsibility is to regulate the telecommunications industry in Hong Kong and ensure that the widest ranges of quality telecommunications services are available at reasonable cost. The Hong Kong local FTNS market began to be deregulated in June 1995. Under the Hong Kong Government's full liberalisation policy for the FTNS market, since January 2003, there is no pre-set limit on the number of FTNS licenses to be issued. Various other sectors of the telecommunications market have also been opened up to stimulate competition. This policy has significantly increased the number of telecommunications services providers, thereby leading to more competition in the industry. Though HGC has the competitive advantage of having established a comprehensive telecommunications infrastructure with fibre optic backbone network in Hong Kong and access to international gateways, increasing competition in the market, both from the existing market players and new entrants, is inevitable. Future changes in Hong Kong telecommunications regulations or policies, including any change in policies on interconnection or competition, could have an adverse effect on the financial condition and results of operations of HGC and PowerCom.

(iii) Projections subject to uncertainty

The projections of future revenue and profits, which have been supplied to us, show significant growth in market share in all five major sectors of HGC's business and in PowerCom's business during the projection period. The future financial performance of HGC and PowerCom relies on their ability to capture market share efficiently from existing competitors and/or defend themselves from new entrants to the industry. Based on the projections that we have received, the data sector will be a major revenue contributor to HGC. The ownership of its own fibre optic network would provide some degree of competitive advantage for HGC over other competitors, particularly in the data sector.

(iv) High initial gearing of the Enlarged Vanda Group

As set out in section 7(vi) above, the ratio of debt to net assets of the Enlarged Vanda Group is over 150%. This is mitigated by strong forecast cash flow and the long-term nature of the debt in most circumstances but allows only a limited cushion if results improve less quickly than expected. In that case, independent Shareholders may be asked to contribute further capital or failing that may be diluted by fund raising from third parties or by an amendment of conversion terms, as happened in 2003.

(v) Highly capital intensive business nature and changes in technology

Though HGC has committed over HK$8 billion to establish its telecommunications infrastructure with fibre optic backbone network, the telecommunications industry is subject to rapid change in technology. There can be no guarantee of the length of the economic life of HGC's assets. To maintain its competitiveness, HGC must continuously maintain and upgrade its existing networks and equipment to adapt to the changing technology in a timely manner. Though HGC expects its high quality network would remain competitive in the medium to long term, it is possible that HGC might have to incur substantial capital investments in order to meet or exceed unexpected technology changes.

(vi) Short track record of HGC

HGC has undertaken its current businesses since 1995. For a telecommunications company, which is capital intensive and takes a significant time to grow to profitability, HGC may be considered as just emerging from its start-up stage. For the 12-month period ended December 2003, HGC recorded its first profit of approximately HK$52.8 million.

(vii) Short track record of PowerCom

PowerCom has less than four years of operating history. Consequently, the historical financial data is limited. Only the 12-month period ended 31st December 2003 shows any significant turnover and a loss was incurred. The deployment of PowerCom's power line communications technology is still at a relatively early stage and the level of general public awareness of the service at present is relatively low.

11. Non-exempt Ongoing Connected Transactions

In conducting their normal course of business, each of HGC Group and PowerCom Group have entered, and will continue to enter, into, among others, the following transactions with the Remaining HWL Group on an ongoing basis:

(i) Provision of telecommunications and Internet services to the Remaining HWL Group

The HGC Group and PowerCom have been providing local and international telecommunications and Internet services to the Remaining HWL Group, details of which are set out under the section headed "Non-exempt Ongoing Connected Transactions" in the "Letter from the Board". The aggregate revenue that the HGC Group and PowerCom Group received from the Remaining HWL Group in respect of such services amounted to approximately HK$259.0 million for the financial year ended 31 December 2003. It is proposed that the respective maximum amount ("Cap") of the value of this type of Non-exempt Ongoing Connected Transactions with the Remaining HWL Group would be approximately HK$382.8 million, HK$548.8 million and HK$669.0 million for each of the three years ending 31 December 2004, 2005 and 2006. As set out in the "Letter from the Board", these Caps are arrived at after taking into account the expected business growth and new revenue stream to be generated from the subsidiaries of HWL Group which are now not using HGC's services. Though the Caps represent a significant growth over the historical revenue of approximately HK$259.0 million, they are considered reasonable as the businesses of HGC Group and PowerCom are expected to continue to be in high growth until they reach a more mature stage in the medium term.

(ii) Provision of data centre services to the Remaining HWL Group

Hutchison GlobalCenter, a wholly-owned subsidiary of HGC, currently provides, and will continue to provide, data centre facilities to the Remaining HWL Group. Revenue received by Hutchison GlobalCenter for the year ended 31 December 2003 amounted to approximately HK$16.2 million. The Caps for this services for each of the three years ending 31 December 2004, 2005 and 2006 are proposed to be approximately HK$23.9 million, HK$26.3 million and HK$28.9 million respectively. The proposed Cap for the financial year ending 31 December 2004 represents a significant growth of approximately 47.5% over the revenue generated from this service in the previous financial year. According to the management of HGC, such Cap amount is necessary to enable Hutchison GlobalCenter to take up opportunities from the Remaining HWL Group for a new business area (namely, IT out-sourcing) that will come into service in 2004. The Caps for the years ending 31 December 2005 and 2006 represent a moderate year on year growth of about 10%. As the transactions with the Remaining HWL Group will be entered into on terms no less favourable to the Enlarged Vanda Group than those provided to independent third parties, the authorisation of the Enlarged Vanda Group to enter into these Non-exempt Ongoing Connected Transactions, thereby enabling it to earn revenue on normal commercial terms, is, in our view, in the interests of the independent Shareholders.

The above transactions will, or will continue to, constitute connected transactions for Vanda after the completion of the Transactions and would be subject to reporting, announcement and independent Shareholders' approval requirements under the Listing Rules in the absence of a waiver from such compliance being granted by the Stock Exchange. Strict compliance with the Listing Rule requirements each time a Non-exempt Ongoing Connected Transaction is entered into would limit the flexibility of the Enlarged Vanda Group in conducting its normal course of business. In the circumstances, Vanda has applied for, and the Stock Exchange has agreed to grant, a waiver (the "Waiver") to Vanda from strict compliance with these Listing Rule requirements in respect of these Non-exempt Ongoing Connected Transactions subject to conditions including, among others:

(i) that the annual aggregate values of each category of the Non-exempt Ongoing Connected Transactions do not exceed the Caps, details of which are set out in the section headed "Waiver Application" in the "Letter from the Board" in the Circular;

(ii) the independent non-executive Vanda Directors shall review the Non-exempt Ongoing Connected Transactions annually and confirm in Vanda's annual report and accounts for the relevant financial year that such transactions have been entered into:

(a) in the ordinary and usual course of business of the Enlarged Vanda Group;

(b) on arm's length basis and conducted either (1) on normal commercial terms or (2) where there is no available comparison, on terms no less favourable to the Enlarged Vanda Group than those available to or from (as appropriate) independent third parties; and

(c) either (1) in accordance with the terms of the agreements governing the relevant transactions or (2) where there are no such agreements, on terms that are fair and reasonable so far as the Shareholders are concerned;

(iii) the auditors of Vanda shall review the Non-exempt Ongoing Connected Transactions annually and confirm to the Vanda Board in writing (with a copy to the Stock Exchange) that:

(a) the Non-exempt Ongoing Connected Transactions have received the approval of the Vanda Board;

(b) if the Non-exempt Ongoing Connected Transactions involve provision of goods or services by Vanda, the transactions have been entered into in accordance with the pricing policies stated in the relevant agreements governing them or set by the Vanda Board from time to time;

(c) the Non-exempt Ongoing Connected Transactions have been entered into in accordance with the relevant agreements governing them or, if there are no such agreements, on terms that are fair and reasonable so far as the Shareholders are concerned; and

(d) the aggregate annual values of the Non-exempt Ongoing Connected Transactions have not exceeded the relevant Caps.

The Caps are principally set to allow the Enlarged Vanda Group reasonable flexibility in doing business. In addition, the conditions to which the Waiver are subject, in particular the annual review by independent non-executive Vanda Directors and Vanda's auditors, should serve to ensure that these Non-exempt Ongoing Connected Transactions are conducted on normal commercial terms or on terms that are no less favourable to the Enlarged Vanda Group than those provided to independent third parties, thereby safeguarding the interests of the independent Shareholders. On this basis, we are of the view that the entering into of the Non-exempt Ongoing Transaction subject to conditions of the Waiver including the Caps are fair and reasonable to the independent Shareholders and in the interests of the Company.

DISCUSSION AND CONCLUSIONS

Vanda's present position still reflects some commercial and financial difficulties. Its areas of business remain highly competitive. After net loss attributable to shareholders of approximately HK$173.8 million for the year ended 31 March 2003, conversion of the 2002 Bonds (which were out-of-the-money) was considered necessary to retain the confidence of the Vanda Group's customers and bankers. This was followed by further HK$55.6 million losses for the six months ended 30 September 2003, a period adversely affected by SARS and by weak economic conditions generally. There are some signs of improvement in Vanda's position and based on our discussion with management, we believe these improvements are continuing. Nevertheless, it will in our view be several years before the valuation placed on Vanda by the market (approximately HK$1.6 billion based on the closing market price on the Latest Practicable Date) could be justified by reference to its own business and financial position. Instead, we believe the market value reflects an expectation that Vanda will participate in the telecom business of the HWL Group. A role relating to the mobile side of the business was perhaps expected, but the HGC Transaction and the PowerCom Transaction nevertheless give Vanda the opportunity to acquire a very significant telecommunications business.

We believe HGC has considerable strengths:

- about HK$8.4 billion has been spent on telecom infrastructure;

- with its modern fibre optic network, HGC may have competitive advantages over PCCW's "legacy" network, particularly in data services, HGC's single largest business; and

- HGC was profitable and EBITDA positive for 2003. The period of heavy capital expenditure and net cash outflows is coming to an end.

The enterprise value for HGC of HK$10.5 billion (equivalent to an equity value of HK$7.1 billion) lies, in our opinion, within a reasonable range for the estimated fair value of HGC. In assessing value, we have used a range because of reliance on projections over a 5 year period which assume considerable growth will be achieved over actual 2003 results. Having discussed the assumptions with HGC management, we consider them reasonable but any current estimate of value of HGC is inevitably subject to a high degree of variability. In addition, we have considered that "fair value" does not include any specific premium for control, which Vanda is gaining, or for the non-cash method of payment, which we consider advantageous to Vanda.

As a cross-check, we have calculated the historical cost of establishing HGC's network to be about HK$8.4 billion. HGC's management considers current value would be higher. As HGC increases its market share, we consider HGC will be rated in a broadly similar way to other regional fixed-line telecom companies. We have not been able to find any closely comparable transactions where control of an Asia-Pacific fixed line telecom company of similar size was purchased in the last two years.

We consider the PowerCom Transaction is a useful commercial add-on at relatively little extra cost. In financial terms, PowerCom is at an early stage of development and has yet to make a profit. The projections we have been given show strong growth but to compensate for risk, we have applied a higher discount rate and a lower multiple for terminal value than in the case of HGC.

The consideration for the HGC Transaction takes the form of the issue of HGC Consideration Shares and HGC Consideration Convertible Note. The consideration for the PowerCom Transaction is all-share. The issue price for the Consideration Shares is at a discount of approximately 28% to the closing price of the Vanda Shares before the Announcement and approximately 11% to the price at which HGC Vendor and the PowerCom Vendors placed 2 billion new Vanda Shares. However, it is slightly over the 150 day and 180 day average price, which we believe is a fairer yardstick. We consider that the price of Vanda Shares has in any case been heavily influenced by the prospects of a deal such as the HGC Transaction being announced, and has not been based on Vanda's fundamentals. The conversion price for the HGC Consideration Convertible Note is set at a 20% premium to the issue price for the new Vanda Shares, which we consider standard in the circumstances.

We have some concern over the level of gearing of the Enlarged Vanda Group, with long term debt over 150% of net assets. Although the available facilities and the HGC Convertible Notes have a 4-5 year life, they include terms which would result in a maximum of over HK$6 billion of debt being effectively on demand in circumstances, such as poor financial performance, where re-financing from arm's length commercial sources would be difficult. Shareholders might in such circumstances be asked to contribute additional funds, failing which they might be further diluted, as happened in 2003.

One favourable feature of the geared structure of the consideration for the Transactions is that it decreases dilution for independent Shareholders. Nevertheless, the combined holding in Vanda of the public and DBS will decrease from approximately 59.4% to approximately 13.2% after the issue of the new Vanda Shares. Assuming full conversion of the HGC Consideration Convertible Note and up to a further HK$1 billion of the Facility Convertible Note is issued to repay the Facility, the holding of such Shareholders would only be approximately 8.1% of the maximum Enlarged Vanda Capital. While this is a significant reduction, we consider that the structure of the Transactions makes as much use of debt as is prudent.

At the time of the Announcement, the public float of Vanda Shares on completion of the Transactions would not have been sufficient to satisfy the public float requirements of the Stock Exchange. However, on completion of the Placing, which will take place if the Transactions complete, the public float will be sufficient. The HWL Group will hold approximately 52.6% of the Enlarged Vanda Capital.

The granting of the Share Whitewash Waiver is a condition of the completion of the Transactions. The HWL Group is currently a 37.1% shareholder of Vanda and has been the dominant force behind Vanda. On completion of the Transactions and the Placing assuming that there are no other changes in shareholdings in Vanda since the Latest Practicable Date, the HWL Group will hold over 50% of the issued share capital of Vanda and so will have statutory control, but we consider this is justified in the context of the Transactions as a whole. The HWL Group will also be free to convert the HGC Convertible Notes and increase its shareholding further without triggering any general offer obligations (unless the percentage holding of HWL Group and its Concert Parties subsequently drops to 50% or below). However, Vanda's market value in our opinion is dependent on a perception that it is a unit or a close partner of the HWL Group. Consequently, we consider that independent Shareholders should concentrate on the terms of the Transactions themselves and their effect on Vanda, rather than the increased percentage holding which the HWL Group will have on completion of the Transactions and which may be further increased by conversion of the HGC Convertible Notes.

The HGC Transaction and the PowerCom Transaction carry risks, particularly as regards potential variance in the estimates of future cash flow on which valuation depends and as regards the level of gearing of the Enlarged Vanda Group. However, we consider the potential rewards of the Transactions outweigh the risks and the existing Vanda Group is itself by no means risk-free.

OPINION AND ADVICE

On the above basis, we consider that the terms of the HGC Transaction, the PowerCom Transaction, the Share Whitewash Waiver and the Non-exempt Ongoing Connected Transactions are 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 resolutions to implement the HGC Transaction, the PowerCom Transaction and to approve the Share Whitewash Waiver and the Non-exempt Ongoing Connected Transactions.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
M.N. Sabine
Chairman

The following is the text of a report, prepared for the purpose of inclusion in this document, from the auditors and reporting accountants of HGC, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

18 February 2004

The Directors
Hutchison Global Communications Investments Limited
Vanda Systems & Communications Holdings Limited

Dear Sirs,

We set out below our report on the financial information relating to Hutchison Global Communications Investments Limited (formerly known as Wang Yuen Limited) (the "Company") and its subsidiaries and partnership (herein collectively referred to as the "Group") for each of the three years ended 31 December 2001, 2002 and 2003 (the "Relevant Periods") for inclusion in the circular of Vanda Systems & Communications Holdings Limited ("Vanda") dated 18 February 2004 (the "Circular"), in connection with the proposed acquisition of the entire share capital of the Company by Vanda pursuant to the conditional sale and purchase agreement dated 28 January 2004 among Hutchison Global Communications Holdings Limited, Hutchison International Limited and Vanda (the "Transaction").

The Company was incorporated in the British Virgin Islands on 26 April 2001 with limited liability. As at the date of this report, the Company has direct and indirect interests in the following principal subsidiaries, all of which are private companies, and partnership.

Subsidiaries/ Partnership	Place and date of incorporation/ establishment	Issued/ registered and fully paid share/partners' capital	Attributable equity interests	Principal activities
Subsidiaries				
Interests held directly:				
Eagle Reach Limited	Bahamas 19 December 2001	US$2 2 ordinary shares of US$1 each	100%	Telecommunications business
Hazelwood Green Limited	British Virgin Islands 6 June 2001	US$10,000 10,000 ordinary shares of US$1 each	100%	Investment holding

Subsidiaries/ Partnership	Place and date of incorporation/ establishment	Issued/ registered and fully paid share/partners' capital	Attributable equity interests	Principal activities
Subsidiaries (continued)				
Interests held directly (continued):				
Hutchison Global Communications Limited	Hong Kong 22 October 1992	HK$20 2 ordinary shares of HK$10 each	100%	Telecommunications business
International Mega Flow Limited	Bahamas 25 July 2001	US$2 2 ordinary shares of US$1 each	100%	Telecommunications business
Oppenheim Limited	British Virgin Islands 25 March 1996	US$1 1 ordinary share of US$1 each	100%	Investment holding
Robust Connection Limited	Bahamas 19 December 2001	US$2 2 ordinary shares of US$1 each	100%	Telecommunications business
World Diversity Limited	Bahamas 19 December 2001	US$2 2 ordinary shares of US$1 each	100%	Investment holding
Interests held indirectly:				
Debt Management Limited	British Virgin Islands 22 December 1999	US$1 1 ordinary share of US$1 each	100%	Collection agency
Hutchison Global Communications (Malaysia) Sdn. Bhd.	Malaysia 22 May 2003	RM2 2 ordinary shares of RM1 each	100%	Telecommunications business

Subsidiaries/ Partnership	Place and date of incorporation/ establishment	Issued/ registered and fully paid share/partners' capital	Attributable equity interests	Principal activities
Subsidiaries (continued)				
Interests held indirectly (continued):				
Hutchison Global Communications Pte Limited	Singapore 29 August 2002	S$2 2 ordinary shares of S$1 each	100%	Telecommunications business
Hutchison Global Communications (Taiwan) Limited	Taiwan 3 March 2003	NTD1,000,000 100,000 ordinary shares of NTD 10 each	100%	Telecommunications business
Hutchison Global Communications (US) Limited	United States of America 9 September 2002	US$30 3,000 ordinary shares of US$0.01 each	100%	Telecommunications business
Hutchison GlobalCenter Limited	Hong Kong 29 January 2001	HK$2 2 ordinary shares of HK$1 each	100%	Data center facilities services
Hutchison MultiMedia Services Limited	Hong Kong 15 February 1996	HK$20 2 ordinary shares of HK$10 each	100%	Provision of Internet services
HCL Partnership Holdings Limited	Hong Kong 15 January 1997	HK$2 2 ordinary shares of HK$1 each	100%	Investment holding
Partnership				
Interests held indirectly:				
HCL Network Partnership	Hong Kong 30 June 1994	HK$10,000	100%	Telephone network equipment leasing and provision of ancillary services

All companies and the partnership comprising the Group have adopted 31 December as their financial year end date.

We acted as the auditors of the Company, Hutchison Global Communications Limited, Hutchison GlobalCenter Limited, Hutchison MultiMedia Services Limited, HCL Network Partnership and HCL Partnership Holdings Limited for each of the three years ended 31 December 2001, 2002 and 2003, and Hutchison Global Communications Pte Limited for each of the two years ended 31 December 2002 and 2003.

No audited accounts have been prepared for Debt Management Limited, Eagle Reach Limited, Hazelwood Green Limited, International Mega Flow Limited, Oppenheim Limited, Robust Connection Limited and World Diversity Limited, since their respective dates of incorporation as there is no statutory requirement for these entities to prepare audited accounts. No audited accounts have been prepared for Hutchison Global Communications (Malaysia) Sdn. Bhd., Hutchison Global Communications (Taiwan) Limited and Hutchison Global Communications (US) Limited as they have not been involved in any significant business transactions since their respective dates of incorporation. For the purpose of this report, we have, however, reviewed all the relevant transactions of these companies for the Relevant Periods or since their respective dates of incorporation, whichever period is shorter.

For the purpose of this report, we have examined the audited accounts or, where appropriate, the unaudited management accounts of all companies and partnership comprising the Group for the Relevant Periods and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The financial information as set out in sections I to IV below (the "Financial Information") has been prepared based on the audited consolidated accounts of the Group for the Relevant Periods in accordance with the generally accepted accounting principles in Hong Kong, after making such adjustments as are appropriate. The directors of the respective companies and the partners of the partnership are responsible for preparing these companies' accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, and prepared on the basis set out in note 1 of section II below, gives a true and fair view of the consolidated state of affairs of the Group and state of affairs of the Company as at 31 December 2001, 2002 and 2003, and of the consolidated results and cash flows of the Group for the Relevant Periods.

I FINANCIAL INFORMATION

(a) Consolidated profit and loss accounts

		Year ended 31 December		
		2001	**2002**	**2003**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*3*	1,075,165	1,231,712	1,601,130
Costs of services, exclusive of depreciation and amortisation shown below		(874,642)	(828,841)	(805,341)
		200,523	402,871	795,789
Other revenues	*3*	21,573	10,248	7,407
Selling, general and administrative expenses		(143,934)	(167,186)	(212,917)
Depreciation of fixed assets		(220,736)	(296,534)	(376,700)
Amortisation of prepaid capacity		(6,693)	(20,672)	(35,568)
Prepaid capacity and maintenance written off	*11(a)*	–	(225,714)	–
Provision for doubtful accounts		(15,122)	(9,855)	(10,941)
Operating (loss)/profit	*4*	(164,389)	(306,842)	167,070
Finance costs	*5*	(60,273)	(87,736)	(114,230)
(Loss)/profit before taxation		(224,662)	(394,578)	52,840
Taxation	*6*	–	–	–
(Loss)/profit after taxation		(224,662)	(394,578)	52,840
Dividend		–	–	–
(Loss)/earnings per share (HK$)	*9*	(22,466)	(39,458)	5,284

(b) Consolidated balance sheets

		As at 31 December		
		2001	**2002**	**2003**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Fixed assets	*10*	4,057,057	5,098,734	6,045,145
Prepaid capacity and maintenance	*11*	1,541,509	1,287,633	1,277,627
Other prepayments		65,994	97,120	125,458
Pension asset	*20*	–	3,309	422
		5,664,560	6,486,796	7,448,652
Current assets				
Cash and cash equivalents		71,731	18,474	8,446
Trade accounts receivable	*13*	97,737	139,782	177,492
Other receivables and prepaid costs		28,571	31,765	22,087
Due from related companies	*14*	105,456	–	–
Due from fellow subsidiaries	*14*	–	27,793	37,554
Due from immediate holding company	*14*	–	–	193
		303,495	217,814	245,772
Current liabilities				
Trade accounts payable	*15*	(200,607)	(277,556)	(278,975)
Other payables and accrued liabilities		(410,393)	(368,704)	(311,159)
Deferred income		(160,555)	(276,749)	(355,790)
Due to related companies	*14*	(12,594)	–	–
Due to intermediate holding companies	*14*	–	(11,247)	(16,401)
Due to fellow subsidiaries	*14*	–	(1,026)	(232)
Other long term loan – current portion	*18*	–	–	(1,239)
		(784,149)	(935,282)	(963,796)
Net current liabilities		(480,654)	(717,468)	(718,024)

		As at 31 December		
		2001	**2002**	**2003**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities				
Long term loan from a fellow subsidiary		(174)	(174)	–
Long term bank loans, secured	*17*	(1,550,000)	(2,530,000)	–
Long term loan from an intermediate holding company	*16*	–	–	(3,423,981)
Other long term loan	*18*	–	–	(14,653)
		(1,550,174)	(2,530,174)	(3,438,634)
Net assets		3,633,732	3,239,154	3,291,994
Financed by:				
Share capital	*21*	78	78	78
Contributed surplus	*22*	5,278,286	5,278,286	5,278,286
Accumulated losses	*22*	(1,644,632)	(2,039,210)	(1,986,370)
Shareholders' funds		3,633,732	3,239,154	3,291,994

(c) Company balance sheets

		As at 31 December		
		2001	2002	2003
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Investment in subsidiaries	12	4,095,795	5,278,300	5,278,272
Prepaid capacity and maintenance		1,182,557	–	–
		5,278,352	5,278,300	5,278,272
Current liabilities				
Accruals		–	(20)	(20)
		–	(20)	(20)
Net assets		5,278,352	5,278,280	5,278,252
Financed by:				
Share capital	*21*	78	78	78
Contributed surplus	*22*	5,278,286	5,278,286	5,278,286
Accumulated losses	*22*	(12)	(84)	(112)
		5,278,352	5,278,280	5,278,252

(d) Consolidated cash flow statements

		Year ended 31 December		
		2001	**2002**	**2003**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Net cash inflow generated from operations	*23(a)*	16,630	424,107	551,888
Interest paid		(57,761)	(77,763)	(58,209)
Net cash (outflow)/inflow from operating activities		(41,131)	346,344	493,679
Investing activities				
Interest received		15,952	2,387	433
Purchase of fixed assets		(1,048,082)	(1,339,826)	(1,255,639)
Payment of prepaid network cost		–	(43,366)	(96,369)
Proceeds on disposal of fixed assets		5,905	1,204	164
Acquisition of subsidiaries	*23(b)*	–	–	(46,277)
Net cash outflow from investing activities		(1,026,225)	(1,379,601)	(1,397,688)
Net cash outflow before financing activities		(1,067,356)	(1,033,257)	(904,009)
Financing activities				
Repayment of short term bank loan, secured		(150,377)	–	–
Repayment of long term loan from shareholders		(293,651)	–	–
Long term loan from an intermediate holding company		–	–	3,423,981
Advances from/(Repayment of) long term bank loan, secured		1,550,000	980,000	(2,530,000)
Prepayment of finance costs		(68,506)	–	–
Net cash inflow from financing activities		1,037,466	980,000	893,981
Decrease in cash and cash equivalents		(29,890)	(53,257)	(10,028)
Cash and cash equivalents at beginning of year		101,621	71,731	18,474
Cash and cash equivalents at end of year		71,731	18,474	8,446
Analysis of balances of cash and cash equivalents:				
Bank balances		71,731	18,474	8,446

(e) Consolidated statement of changes in equities

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Total equity at beginning of year	3,858,394	3,633,732	3,239,154
(Loss)/profit for the year	(224,662)	(394,578)	52,840
Total equity at end of year	3,633,732	3,239,154	3,291,994

II NOTES TO THE FINANCIAL INFORMATION

1 Basis of preparation

The Company was incorporated in the British Virgin Islands on 26 April 2001. Pursuant to a group reorganisation (the "Reorganisation") during the year ended 31 December 2001, the Company acquired the entire issued share capital of Hutchison Global Communications Limited through a share swap and became the holding company of the Group.

The Reorganisation is accounted for using merger accounting as permitted by Statement of Standard Accounting Practice ("SSAP") 2.127 "Accounting for group reconstructions". The Financial Information of the Group for the year ended 31 December 2001 has been prepared as if the Company had been the holding company of Hutchison Global Communications Limited, its subsidiaries and its partnership since 1 January 2001.

The Financial Information has been prepared in accordance with generally accepted accounting principles in Hong Kong and complies with the SSAPs issued by the Hong Kong Society of Accountants. The Financial Information is prepared under the historical cost convention.

At 31 December 2003, the Group had net current liabilities of HK$718,024,000 and significant capital expenditure commitments of HK$1,128,950,000 as set out in note 25(a). During the year ended 31 December 2003 the Group has obtained a loan facility amounting to HK$4.0 billion from Hutchison International Limited, an intermediate holding company of the Company, of which approximately HK$3.4 billion has been utilised at 31 December 2003. In addition, upon completion of the Transaction, Hutchison International Limited will enter into an agreement with Vanda for the provision of an interest-bearing facility of up to HK$1.0 billion, whereas the existing loan facility will be revised to HK$3.4 billion and continued to be available to the Group to the maturity date of 17 July 2008. With these loan facilities, the directors are of the opinion that the Group will be able to meet its liabilities as they fall due and to continue in business for a period of at least twelve months from the date of this report. Consequently, the directors have prepared the Financial Information on a going concern basis.

2 Principal accounting policies

(a) Basis of consolidation

The consolidated accounts of the Group include the accounts of the Company and of all its direct and indirect subsidiaries and partnership made up to 31 December. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(b) Investment in subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

In the Company's balance sheet the investment in subsidiaries is stated at cost less provision for impairment losses.

(c) Investment in partnership

The partnership is an entity in which the Company has the decision-making powers to control or to obtain control of the partnership or its assets. The results of the partnership acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

(d) Fixed assets

Fixed assets other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment losses.

Leasehold land is amortised over the remaining period of the lease. Buildings are depreciated on the basis of an expected life of fifty years, or the remainder thereof, or over the remaining period of the lease, whichever is less.

Depreciation of telecommunication equipment and other assets is provided at rates calculated to write off their costs over their estimated useful lives on a straight line basis at annual rates from 4% to 33.33%.

Leasehold improvements which are included in telecommunication equipment and other assets, are depreciated over the unexpired period of the lease or 15%, whichever is the greater. The period of the lease includes the period of which a right of renewal is attached.

Construction in progress, which includes direct expenditure for construction of a network, is stated at cost. Capitalised costs include costs incurred during the construction phase which directly relate to the asset under construction. Once all the activities necessary to prepare an asset to be available for its use are substantially completed, the construction in progress is transferred to fixed assets. No depreciation is provided in respect of construction in progress.

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

(e) Prepaid capacity and maintenance

Telecommunications capacity leased on an indefeasible right of use ("IRU") basis and related maintenance services are amortised on a straight line basis from the date that the related capacity is activated over the shorter of the term of the IRU agreement or estimated useful life.

(f) Prepaid network cost

Incremental and directly attributable expenditures related to customer connections are deferred and amortised over the expected average lives of the respective customer groups from the date of connection.

(g) Impairment of non-current assets

Non-current tangible and intangible assets are tested for impairment when an event that might affect the asset values has occurred. A provision for impairment in value is recognised to the extent that the carrying amount cannot be recovered either by selling the asset or by discounting future earnings from operating the asset. Such provision is recognised in the profit and loss account.

(h) Borrowing costs

Borrowing costs are accounted for on the accrual basis and charged to the profit and loss account in the year incurred, except for costs related to funding of fixed assets which are capitalised as part of the cost of that asset up to the date when substantially all activities necessary to prepare the assets for its intended use are complete.

Prepaid finance costs represent the fees paid for the arrangement of syndicated loan facilities and are deferred and amortised on a straight line basis over the period of the loan. The prepaid finance costs are written off to the profit and loss account when the loan is fully repaid before the due date.

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(j) Trade accounts receivable

Provision is made against trade accounts receivable to the extent that they are considered to be doubtful. Trade accounts receivable in the balance sheet are stated net of such provision.

(k) Deferred income

Subscription income and income billed in advance are deferred and credited to the profit and loss account on a systematic basis over the related period when the service is provided.

(l) Deferred taxation

Deferred taxation is provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

(m) Pension plans

Pension plans are classified as either defined benefit or defined contribution plans.

Commencing 1 January 2002, pension accounting costs for defined benefit plans are assessed using the projected unit credit method in accordance with SSAP 34 "Employee Benefits". Under this method, the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the future service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans each year. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the balance sheet date based on high quality corporate bonds with currency and term similar to the estimated term of benefit obligations.

Cumulative unrecognised net actuarial gains and losses at the previous financial year end to the extent of the amount in excess of 10% of the greater of the present value of plan obligations and the fair value of plan assets at that date are recognised over the average remaining service lives of employees.

The Group's contributions to defined contribution plans are charged to the profit and loss account in the year incurred.

Pension costs are charged against the profit and loss account within staff costs.

The pension plans are funded by the relevant Group company taking into account the recommendations of independent qualified actuaries and by payments from employees for contributory plans.

(n) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases, net of any incentive received from the leasing company, are charged to the profit and loss account on a straight line basis over the lease term.

(o) Foreign exchange

Transactions in foreign currencies are converted at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are included in the determination of operating profit/(loss).

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(p) Revenues

Revenues in respect of international services, local fixed network services and multimedia services are recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

3 Turnover and revenues

With its terrestrial fibre optic network in Hong Kong which has links to major undersea cable networks and networks in Mainland China, the Group has turnover which comprises local fixed telecommunications network services, international services and multimedia services. Turnover and other revenues of the Group are as follows:

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
Network revenue	1,075,165	1,231,712	1,601,130
Other revenues			
Bank interest income	15,952	2,387	433
Roadwork design fee and maintenance income	3,483	4,588	3,926
Project income	2,138	3,273	3,048
	21,573	10,248	7,407
Total revenues	1,096,738	1,241,960	1,608,537

4 Operating (loss)/profit

Operating (loss)/profit is stated after charging the following:

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Charging			
Auditors' remuneration	1,764	1,234	1,389
Operating leases			
– land and buildings	30,820	35,224	39,628
– leased lines	59,558	90,350	140,332
Loss on disposal of fixed assets	538	411	279

5 Finance costs

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Finance costs on			
– short term bank loan	23,930	–	–
– long term bank loan	15,495	87,736	38,446
– loans from intermediate holding companies	20,848	–	24,634
– Unamortised prepaid finance costs written off	–	–	51,150
	60,273	87,736	114,230

6 Taxation

No provision for Hong Kong profits tax has been made in the Financial Information as the Group has no assessable profit for the Relevant Periods.

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
(Loss)/profit before taxation	(224,662)	(394,578)	52,840
Tax calculated at weighted average tax rate	(45,654)	(33,685)	8,640
Tax effect of non-deductible expenses/ (non-taxable revenue), net	1,520	(318)	24
Utilisation of previously unrecognised tax losses	–	–	(8,664)
Tax losses not recognised	44,134	34,003	–
Taxation charge	–	–	–

7 Staff costs– including directors' emoluments

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Wages and salaries	269,168	328,434	328,443
Termination benefits	61	432	1,318
Pension costs-defined contribution plans	1,574	4,005	4,696
Pension costs-defined benefits plans	10,392	10,854	15,964
Others	3,968	8,028	8,546
	285,163	351,753	358,967

8 Emoluments for directors and five highest paid individuals

(a) Directors' emoluments

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Fees	–	–	–
Other emoluments:			
Salaries and allowances	–	2,709	2,709
Discretionary bonuses	–	3,000	3,300
Pension scheme contributions	–	207	207
Other benefits	–	151	166
	–	6,067	6,382

The emolument of the directors fell within the following band:

	Number of individuals Year ended 31 December		
	2001	**2002**	**2003**
HK$6,000,000 to HK$6,500,000	–	1	1

(b) Five highest paid individuals

During the Relevant Periods, the five highest paid individuals included one (2002: one; 2001: Nil) director whose emolument is included in note 8(a) above. The aggregate amounts of emoluments of the remaining four individuals (2002: four; 2001: five) are as follows:

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and allowances	10,775	7,622	7,867
Discretionary bonuses	5,385	2,949	3,275
Pension scheme contributions	787	568	593
Other benefits	505	369	401
	17,452	11,508	12,136

The emoluments fell within the following bands:

	Number of individuals Year ended 31 December		
	2001	**2002**	**2003**
HK$2,000,001 to HK$2,500,000	1	1	–
HK$2,500,001 to HK$3,000,000	1	2	3
HK$3,500,001 to HK$4,000,000	2	1	1
HK$5,000,001 to HK$5,500,000	1	–	–
	5	4	4

(c) During the Relevant Periods, no emoluments were paid by the companies comprising the Group to any of the above directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

9 (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the Group's loss of HK$224,662,000 and HK$394,578,000 for the years ended 31 December 2001 and 2002 respectively and profit attributable to shareholders of HK$52,840,000 for the year ended 31 December 2003, and on the 10,000 shares in issue during the Relevant Periods.

10 Fixed assets – Group

	Land and buildings	Telecom-munication equipment and other assets	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1 January 2001	41,032	2,846,696	667,160	3,554,888
Additions	22,957	697,695	327,430	1,048,082
Disposals	–	(8,527)	–	(8,527)
Transfer from construction in progress	1,625	352,916	(354,541)	–
At 31 December 2001	65,614	3,888,780	640,049	4,594,443
Additions	–	834,035	505,791	1,339,826
Disposals	–	(4,449)	–	(4,449)
Transfer from construction in progress	594	209,996	(210,590)	–
At 31 December 2002	66,208	4,928,362	935,250	5,929,820
Additions	–	942,764	312,875	1,255,639
Disposals	–	(2,457)	–	(2,457)
Relating to subsidiaries acquired	–	106,847	106	106,953
Transfer from construction in progress	–	496,606	(496,606)	–
At 31 December 2003	66,208	6,472,122	751,625	7,289,955
Accumulated depreciation				
At 1 January 2001	1,978	316,756	–	318,734
Charge for the year	1,910	218,826	–	220,736
Disposals	–	(2,084)	–	(2,084)
At 31 December 2001	3,888	533,498	–	537,386
Charge for the year	2,056	294,478	–	296,534
Disposals	–	(2,834)	–	(2,834)
At 31 December 2002	5,944	825,142	–	831,086
Charge for the year	2,061	374,639	–	376,700
Disposals	–	(2,014)	–	(2,014)
Relating to subsidiaries acquired	–	39,038	–	39,038
At 31 December 2003	8,005	1,236,805	–	1,244,810
Net book value				
At 31 December 2001	61,726	3,355,282	640,049	4,057,057
At 31 December 2002	60,264	4,103,220	935,250	5,098,734
At 31 December 2003	58,203	5,235,317	751,625	6,045,145

The Group's interests in land and buildings at their net book values are analysed as follows:

	As at 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
In Hong Kong, held on:			
Leases of between 10 to 50 years	61,726	60,264	58,203

11 Prepaid capacity and maintenance

	Unactivated capacity	**Unactivated maintenance**	**Activated capacity**	**Activated maintenance**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 January 2001	1,057,144	498,456	–	–	1,555,600
Activation	(248,118)	(124,925)	248,118	124,925	–
At 31 December 2001	809,026	373,531	248,118	124,925	1,555,600
Activation	(256,129)	(120,065)	256,129	120,065	–
Write off (Note (a))	(158,646)	(67,068)	–	–	(225,714)
At 31 December 2002	394,251	186,398	504,247	244,990	1,329,886
Activation	(7,778)	(3,679)	7,778	3,679	–
Addition	17,339	–	24,739	–	42,078
At 31 December 2003	403,812	182,719	536,764	248,669	1,371,964
Accumulated amortisation					
At 1 January 2001	–	–	–	–	–
Amortisation	–	–	6,693	7,398	14,091
At 31 December 2001	–	–	6,693	7,398	14,091
Amortisation	–	–	20,672	7,490	28,162
At 31 December 2002	–	–	27,365	14,888	42,253
Amortisation	–	–	35,568	16,516	52,084
At 31 December 2003	–	–	62,933	31,404	94,337
Net book value					
At 31 December 2001	809,026	373,531	241,425	117,527	1,541,509
At 31 December 2002	394,251	186,398	476,882	230,102	1,287,633
At 31 December 2003	403,812	182,719	473,831	217,265	1,277,627

Note (a): Asia Global Grossing Limited ("AGCL"), the former shareholder of the immediate holding company of the Company, together with its subsidiaries (collectively the "AGCL Group") provided certain IRU capacity together with related maintenance services to the Group during the Relevant Periods. During the year ended 31 December 2002, AGCL filed for Chapter 11 protection in the United States of America and subsequently entered into a share and asset purchase agreement with Asia Netcom Corporation Limited ("ANC"), whereby ANC obtained the right to assume AGCL's rights and obligations under a capacity agreement. As a consequence, the Group entered into an agreement with ANC and AGCL whereby the Group agreed that it shall have no further claims against AGCL Group in respect of the provision of certain IRU capacity, together with the related maintenance services, totalling US$29 million (approximately HK$225,714,000). As a result, the Group wrote off this balance during the year ended 31 December 2002.

12 Investment in subsidiaries – Company

	As at 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Loan to a subsidiary	3,722,764	3,722,764	3,722,764
Amounts due from subsidiaries	373,043	1,555,600	1,555,600
Amount due to a subsidiary	(12)	(64)	(92)
	4,095,795	5,278,300	5,278,272

The loan to a subsidiary, amounts due from subsidiaries, and amount due to a subsidiary are unsecured, have no fixed repayment terms and bear interest at rates between zero and prevailing market rates as agreed between the parties on a periodic basis.

13 Trade accounts receivable

The Group's sales to corporate customers are entered into on credit terms ranging from 30 days to 60 days. The ageing analysis of trade accounts receivable at the respective balance sheet dates is as follows:

	As at 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
0 – 30 days	80,408	64,801	105,365
31 – 60 days	3,470	41,300	47,265
61 – 90 days	6,544	12,651	24,494
Over 90 days	7,315	21,030	368
	97,737	139,782	177,492

14 Due from/(to) fellow subsidiaries, related companies, the immediate holding company, and intermediate holding companies

Amounts due from/(to) fellow subsidiaries, related companies, the immediate holding company, and intermediate holding companies are unsecured and have no fixed repayment terms. During the years ended 31 December 2001, 2002 and 2003, interest was charged at rates between zero and prevailing market rates as agreed between the parties on a periodic basis.

15 Trade accounts payable

The ageing analysis of trade accounts payable at the respective balance sheet dates is as follows:

	As at 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
0 – 30 days	24,237	40,223	8,607
31 – 60 days	70,177	72,724	23,951
61 – 90 days	32,417	65,031	45,704
Over 90 days	73,776	99,578	200,713
	200,607	277,556	278,975

16 Long term loan from an intermediate holding company

Long term loan from an intermediate holding company of the Company is unsecured, bears interest at prevailing market rates and is repayable on 17 July 2008.

17 Long term bank loans, secured

On 26 September 2001, the Group was granted long term syndicated loan facilities amounting to HK$4.4 billion, secured by, inter alia, mortgages of the Company's shares, shares of its subsidiaries, debentures over the Company's and its subsidiaries' undertakings, and assets including real property, certain tangible movable properties and certain material contracts. Tranche A, HK$2.2 billion of the loan, bears interest at HIBOR plus 1.45% while Tranche B, the remaining HK$2.2 billion of the loan, bears interest at HIBOR plus 1.80%.

During the year ended 31 December 2003, the long term bank loan was repaid and replaced by advances from an intermediate holding company. On 30 July 2003, the bank loan facilities were cancelled.

	As at 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Repayable within 2 years	–	396,000	–
Repayable between 3 to 5 years	1,550,000	2,134,000	–
	1,550,000	2,530,000	–

18 Other long term loan

Other long term loan represents the loan facility, amounting to HK$16.8 million, granted by a restricted licence bank to a subsidiary acquired by the Group during the year ended 31 December 2003. The loan, which bears interest at 7.5% per annum, is repayable as follows:

	As at 31 December
	2003
	HK$'000
Repayable within 1 year	1,239
Repayable between 2 to 5 years	14,653
	15,892

19 Deferred taxation

(a) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheets, and the movements (after offsetting of balances within the same taxation jurisdiction) during the Relevant Periods are as follows:

Group	**Depreciation allowances in excess of depreciation**	**Amortisation of other prepayments**	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax arising from				
At 1 January 2001	(327,457)	568	326,889	–
(Charged)/credited to profit and loss account	(85,432)	–	85,432	–
(Over)/under provision in prior years	(9,995)	–	9,995	–
At 31 December 2001	(422,884)	568	422,316	–
At 1 January 2002	(422,884)	568	422,316	–
(Charged)/credited to profit and loss account	(109,268)	1,596	107,672	–
Under/(over) provision in prior years	2,207	(10,547)	8,340	–
At 31 December 2002	(529,945)	(8,383)	538,328	–
At 1 January 2003	(529,945)	(8,383)	538,328	–
Tax rate adjustment	(49,682)	(786)	50,468	–
	(579,627)	(9,169)	588,796	–
(Charged)/credited to profit and loss account	(101,284)	9,803	91,481	–
Under/(over) provision in prior years	1,053	(634)	(419)	–
At 31 December 2003	(679,858)	–	679,858	–

(b) Deferred tax assets not recognised

As at 31 December 2001, 2002 and 2003, the Group has not recognised deferred tax assets of HK$115,038,000, HK$148,605,000 and HK$180,826,000 in respect of the Group's tax losses of HK$718,988,000, HK$928,781,000 and HK$961,320,000 respectively and deferred tax assets of HK$12,595,000 (2002 and 2001: HK$ nil) relating to subsidiaries acquired. There is no limitation in Hong Kong on the period in which the Group's tax losses carried-forward can be utilised.

20 Pension asset

	As at 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Defined benefit plan asset	–	3,309	422

The Group's pension schemes are operated within the group pension plans of Hutchison Whampoa Limited.

The Group operates a number of defined benefit and defined contribution plans, the assets of which are held independently of the Group's assets in trustee administered funds.

(a) Defined benefit plans

The Group's major defined benefit plans are in Hong Kong. The plans are either contributory final salary pension plans or non contributory guaranteed return defined contribution plans.

The Group's major plans were valued by Watson Wyatt, qualified actuaries as at 31 December 2002 and 31 December 2003 using the projected unit credit method to account for the Group's pension accounting costs in accordance with SSAP 34 "Employee Benefits".

The principal actuarial assumptions used for accounting purposes are as follows:

	Year ended 31 December	
	2002	**2003**
Discount rate applied to defined benefit plan obligations	4.75% – 6.00%	4.50% – 4.75%
Expected return on plan assets	4.00% – 8.00%	8.00%
Future salary increases	3.00% – 5.00%	3.00% – 4.00%
Interest credited on plan accounts	5.00% – 6.00%	5.00% – 6.00%

The amount recognised in the consolidated profit and loss account is as follows:

	Year ended 31 December	
	2002	**2003**
	HK$'000	*HK$'000*
Current service cost	11,704	16,468
Interest cost	3,557	3,929
Expected return on plan assets	(4,886)	(5,462)
Amortisation of unrecognised liability on initial adoption of SSAP 34	479	–
Net actuarial losses recognised	–	1,258
	10,854	16,193
Less: pension costs capitalised	–	(229)
Total, included in staff costs (Note 7)	10,854	15,964

The amount recognised in the balance sheet is determined as follows:

	As at 31 December	
	2002	**2003**
	HK$'000	*HK$'000*
Present value of defined benefit obligations	81,850	90,082
Fair value of plan assets	61,287	77,952
Deficit	(20,563)	(12,130)
Unrecognised actuarial losses	23,872	12,429
	3,309	299
Relating to subsidiaries acquired	–	123
Defined benefit plan asset	3,309	422

The movements in the defined benefit plan asset are as follows:

	2002	**2003**
	HK$'000	*HK$'000*
At 1 January	–	3,309
Total expense before capitalisation	(10,854)	(16,193)
Contributions paid	14,163	13,183
	3,309	299
Relating to subsidiaries acquired	–	123
At 31 December	3,309	422

The actual return on plan assets for the year ended 31 December 2002 and 2003 amounted to a loss of approximately HK$5,197,000 and a profit of approximately HK$7,482,000 respectively.

The Group has adopted SSAP 34 with effect from 1 January 2002. At the date of transition, the Group determined the transitional liability for its defined benefit plan as HK$479,000 more than the liability that would have been recognised at the same date using the previous accounting policy. This amount has been recognised fully as an expense in 2002.

There is no immediate requirement for the Group to fund the deficit between the fair value of the defined benefit plan assets and the present value of the defined benefit plan obligations disclosed as at 31 December 2003. Contributions to fund the obligations are based upon the recommendations of independent qualified actuaries for each of the Group's pension plans to fully fund the relevant schemes on an ongoing basis. The realisation of the deficit is contingent upon the realisation of the actuarial assumptions made which is dependent upon a number of factors including the market performance of plan assets. Funding requirements of the Group's major defined benefit plans are detailed below.

The Group operates two principal plans in Hong Kong. One plan, which has been closed to new entrants since 1994, provides benefits based on the greater of the aggregate of the employee and employer vested contributions plus a minimum interest thereon of 6% per annum, and a benefit derived by a formula based on the final salary and years of service. A formal independent actuarial valuation, undertaken for funding purposes under the provision of Hong Kong's Occupational Retirement Schemes Ordinance ("ORSO"), at 30 June 2001 reported a funding level of 99% of the accrued actuarial liabilities on an ongoing basis. The employers' annual contributions were adjusted to fully fund the plan as advised by the independent actuaries. The valuation used the aggregate cost method and the main assumptions in the valuation are an investment return of 8.5% per annum and salary increases of 6.5%. The valuation was performed by Tian Keat Aun, a Fellow of The Institute of Actuaries, of Watson Wyatt Hong Kong Limited. The funding of the plan will be reassessed based upon the results of next formal actuarial valuation to be completed by 30 June 2004 in accordance with the requirements of ORSO.

The second plan provides benefits equal to the employer vested contributions plus a minimum interest thereon of 5% per annum. As at 31 December 2003 this plan is fully funded for the funding of vested benefits in accordance with the ORSO funding requirements. During the Relevant Periods, forfeited contributions totalling HK$4,026,000, HK$2,027,000 and HK$3,641,000 for the year ended 31 December 2001, 2002 and 2003 were used to reduce the current year's level of contributions.

(b) Defined contribution plans

The Group's costs in respect of defined contribution plans amounted to HK$1,574,000, HK$4,005,000 and HK$4,696,000 for the year ended 31 December 2001, 2002 and 2003.

21 Share capital

	As at 31 December		
	2001	2002	2003
	HK$'000	*HK$'000*	*HK$'000*
Authorised:			
50,000 ordinary shares of US$1.00 each	390	390	390
Issued and fully paid:			
10,000 ordinary shares of US$1.00 each	78	78	78

22 Reserves

Group	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2001	5,278,286	(1,419,970)	3,858,316
Loss for the year	–	(224,662)	(224,662)
At 31 December 2001 and 1 January 2002	5,278,286	(1,644,632)	3,633,654
Loss for the year	–	(394,578)	(394,578)
At 31 December 2002 and 1 January 2003	5,278,286	(2,039,210)	3,239,076
Profit for the year	–	52,840	52,840
At 31 December 2003	5,278,286	(1,986,370)	3,291,916

Company	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 26 April 2001 (date of incorporation)	5,278,286	–	5,278,286
Loss for the period	–	(12)	(12)
At 31 December 2001 and 1 January 2002	5,278,286	(12)	5,278,274
Loss for the year	–	(72)	(72)
At 31 December 2002 and 1 January 2003	5,278,286	(84)	5,278,202
Loss for the year	–	(28)	(28)
At 31 December 2003	5,278,286	(112)	5,278,174

23 Notes to the consolidated cash flow statements

(a) Reconciliation of (loss)/profit before tax for the year to net cash inflow generated from operations

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
(Loss)/profit before tax	(224,662)	(394,578)	52,840
Interest income	(15,952)	(2,387)	(433)
Interest paid	57,761	77,763	58,209
Depreciation of fixed assets	220,736	296,534	376,700
Loss on disposals of fixed assets	538	411	279
Amortisation of prepaid finance costs	2,512	9,973	4,871
Amortisation of prepaid network cost	–	2,267	12,010
Amortisation of prepaid capacity	6,693	20,672	35,568
Amortisation of prepaid maintenance	7,398	7,490	16,516
Unamortised prepaid finance costs written off	–	–	51,150
Prepaid capacity and maintenance written off	–	225,714	–
(Increase)/decrease in pension asset	–	(3,309)	3,010
Increase in trade accounts receivable	(36,916)	(42,045)	(58,681)
(Increase)/decrease in amounts due from fellow subsidiaries and related companies	(196,106)	77,663	(9,778)
Decrease/(increase) in other receivables and prepaid costs	10,248	(3,194)	12,100
Increase in amount due from the immediate holding company	–	–	(193)
Increase/(decrease) in trade accounts payable and accrued liabilities	58,263	35,260	(68,751)
Increase in deferred income	120,351	116,194	62,347
Increase/(decrease) in amounts due to fellow subsidiaries and related companies	5,766	(11,568)	(1,026)
Increase in amount due to an intermediate holding company	–	11,247	5,150
Net cash inflow generated from operations	16,630	424,107	551,888

(b) Acquisition of subsidiaries

	2003
	HK$'000
Net assets acquired:	
Fixed assets	67,915
Pension assets	123
Trade, other receivables & prepaid costs	6,835
Trade accounts payables and accrued liabilities	(12,625)
Bank balances and cash	3,382
Other long term loan	(15,892)
Amounts due to fellow subsidiaries	(75)
Amount due to an intermediate holding company	(4)
	49,659
Total consideration satisfied by:	
Cash consideration	49,659
Analysis of net cash outflow in respect of the subsidiaries acquired:	
Cash consideration	(49,659)
Bank balances and cash acquired	3,382
Net cash outflow in respect of the acquisition of subsidiaries	(46,277)

24 Contingent liabilities

At 31 December 2003, the Group has given performance guarantees to:

(a) Various parties in respect of the provision of services for approximately HK$4,167,000;

(b) CLP Power Hong Kong Limited in lieu of cash deposit for HK$9,400,000.

The directors anticipate that no material liabilities will arise from the above guarantees which arose in the ordinary course of business.

25 Commitments

(a) Capital commitments

	As at 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Contracted but not provided for	1,540,835	1,469,604	1,128,950

(b) The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	As at 31 December		
	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Land and buildings			
Not later than one year	25,148	32,416	41,316
Later than one year and not later than five years	49,998	65,306	77,294
Later than five years	21,299	14,791	21,447
	96,445	112,513	140,057
Leased lines			
Not later than one year	51,698	51,276	79,013
Later than one year and not later than five years	30,371	13,828	7,503
Later than five years	3,990	3,512	2,107
	86,059	68,616	88,623

26 Segmental information

Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

(a) Business segment

No business segment analysis is presented as the Group has been operating in a single business segment, which is the provision of telecommunications services, during the Relevant Periods.

(b) Geographical segment

No geographical segment analysis is presented as the Group conducts its business in one single geographical segment, which is Hong Kong, during the Relevant Periods.

27 Related party transactions

The Group conducted transactions in the normal course of business with related parties. As permitted by SSAP 2.120 "Related party disclosure" ("SSAP 20"), the Group has taken the exemption from disclosing information on such transactions in this Financial Information on the basis that it is a wholly owned subsidiary of Hutchison Whampoa Limited which prepares consolidated accounts including related party disclosures comparable to those required by SSAP 20.

28 Ultimate holding company

As at 31 December 2003, the directors regard Hutchison Whampoa Limited, a company incorporated and listed in Hong Kong, as being the ultimate holding company.

III SUBSEQUENT EVENTS

(a) On 28 January 2004, a conditional sales and purchase agreement was entered into between Hutchison Global Communications Holdings Limited, Hutchison International Limited and Vanda in respect of the sales of entire issue share capital of the Company by Hutchison Global Communications Holdings Limited to Vanda.

(b) Upon completion of the Transaction, loan facilities available by Hutchison International Limited to the Group will be changed as follows:

   (i) Hutchison International Limited will enter into an agreement with Vanda for the provision of an interest-bearing facility of up to HK$1.0 billion to Vanda. The interest rate will be based on normal commercial terms with reference to inter-bank market lending rates; and

   (ii) The interest bearing unsecured loan facility of up to HK$4,000,000,000 available by Hutchison International Limited to the Group, of which a principal amount of approximately HK$3,400,000,000 was drawn and outstanding as at 31 December 2003, will be revised to a facility up to HK$3,400,000,000 and continued to be available to the Group to the maturity date of 17 July 2008 on normal commercial terms.

IV SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or its subsidiaries in respect of any period subsequent to 31 December 2003. In addition, no dividend or distribution has been declared, made or paid by the Company or its subsidiaries in respect of any period subsequent to 31 December 2003.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

德勤•關黃陳方會計師行

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111 Connaught Road Central
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Deloitte Touche Tohmatsu

18 February 2004

The Directors
PowerCom Network Hong Kong Limited
Vanda Systems & Communications Holdings Limited

Dear Sirs,

We set out below our report on the financial information set out in sections I to IX regarding PowerCom Network Hong Kong Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2003 (the "Relevant Periods") for inclusion in the circular dated 18 February 2004 issued by Vanda Systems & Communications Holdings Limited in connection with the proposed acquisition of the entire issued share capital of the Company (the "Circular").

The Company was incorporated in the British Virgin Islands as a private limited liability company on 8 September 2000 under the name of Profit Ahead Limited and changed its name to PowerCom International Limited on 9 October 2000. On 12 January 2001, the Company changed its name to PowerCom Network Hong Kong Limited. As at the date of this report, the Company has 100% direct interests in the following subsidiaries, all of which were incorporated in Hong Kong.

Name of subsidiary	Date of incorporation
All In Profit International Limited	8 December 2000
Building Management Security Communication Limited	28 September 2001
Power Communications Limited	28 December 2000

The Company is engaged in the provision of Internet access and communication services whereas its subsidiaries are inactive.

We act as auditors of all the companies comprising the Group since their respective dates of incorporation.

The first audited financial statements of the Group covers the period from 8 September 2000 (date of the Company's incorporation) to 31 December 2001. No audited financial statements have been issued for the year ended 31 December 2001. As a basis for forming an opinion on the financial information of the Group for the purpose of this report, we have carried out independent audit procedures in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants ("HKSA") on the management accounts of the Group for the year ended 31 December 2001.

For the purpose of this report, we have examined the audited financial statements of the Group for each of the two years ended 31 December 2003 and the management accounts of the Group for the year ended 31 December 2001 (the "Financial Statements") in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKSA.

The Financial Statements are the responsibility of the Company's directors. It is our responsibilities to form an independent opinion, based on our examination, on the financial information and to report our opinion to you.

In our opinion, for the purpose of this report, the financial information set out in sections I to IX give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2001, 2002 and 2003 and of the results and cash flows of the Group for each of the Relevant Periods.

I. FINANCIAL INFORMATION

(a) CONSOLIDATED INCOME STATEMENTS

		Year ended 31 December		
	NOTE	**2001**	**2002**	**2003**
		HK$	*HK$*	*HK$*
Turnover	*(e)(3)*	47,425	853,917	6,741,675
Bank interest income		–	–	6,456
Other income		601	1,518,444	414,500
Depreciation		(132,761)	(513,777)	(3,038,219)
Staff costs		(7,566,747)	(8,221,383)	(8,402,874)
Other operating expenses		(6,735,637)	(12,380,165)	(4,490,981)
Loss from operations		(14,387,119)	(18,742,964)	(8,769,443)
Finance costs		–	–	(209,412)
Loss for the year	*(e)(4)*	(14,387,119)	(18,742,964)	(8,978,855)
Dividend	*(e)(6)*	–	–	–

(b) BALANCE SHEETS

	NOTE	GROUP At 31 December 2001 HK$	GROUP At 31 December 2002 HK$	GROUP At 31 December 2003 HK$	COMPANY At 31 December 2001 HK$	COMPANY At 31 December 2002 HK$	COMPANY At 31 December 2003 HK$
Non-current assets							
Fixed assets	*(e)(7)*	1,208,904	5,621,239	22,177,744	1,208,904	5,621,239	22,177,744
Subsidiaries	*(e)(8)*	–	–	–	6	6	6
		1,208,904	5,621,239	22,177,744	1,208,910	5,621,245	22,177,750
Current assets							
Amounts due from subsidiaries		–	–	–	33,372	52,860	78,643
Accounts receivable, deposits and prepayments	*(e)(9)*	26,121	2,619,465	8,285,969	26,121	2,619,465	8,285,969
Cash at bank		75,923	150,777	2,057,949	75,923	150,777	2,057,949
		102,044	2,770,242	10,343,918	135,416	2,823,102	10,422,561
Current liabilities							
Short-term bank loan		–	–	(32,500,000)	–	–	(32,500,000)
Amounts due to fellow subsidiaries		(196,711)	(640,069)	(9,833,742)	(196,711)	(640,069)	(9,833,742)
Amount due to immediate holding company		(14,967,269)	(14,074,784)	–	(14,967,269)	(14,074,784)	–
Creditors and accruals	*(e)(10)*	(2,249,025)	(3,053,717)	(4,014,432)	(2,237,575)	(3,040,217)	(4,000,932)
		(17,413,005)	(17,768,570)	(46,348,174)	(17,401,555)	(17,755,070)	(46,334,674)
Net current liabilities		(17,310,961)	(14,998,328)	(36,004,256)	(17,266,139)	(14,931,968)	(35,912,113)
Non-current liability							
Loan from immediate holding company		–	(12,278,717)	(16,808,149)	–	(12,278,717)	(16,808,149)
NET LIABILITIES		(16,102,057)	(21,655,806)	(30,634,661)	(16,057,229)	(21,589,440)	(30,542,512)
Represented by:							
Share capital	*(e)(11)*	8	1,560	1,560	8	1,560	1,560
Share premium		–	13,187,663	13,187,663	–	13,187,663	13,187,663
Accumulated losses		(16,102,065)	(34,845,029)	(43,823,884)	(16,057,237)	(34,778,663)	(43,731,735)
CAPITAL AND RESERVES		(16,102,057)	(21,655,806)	(30,634,661)	(16,057,229)	(21,589,440)	(30,542,512)

(c) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital *HK$*	Share premium *HK$*	Accumulated losses *HK$*	Total *HK$*
As at 1 January 2001	8	–	(1,714,946)	(1,714,938)
Loss for the year	–	–	(14,387,119)	(14,387,119)
As at 31 December 2001	8	–	(16,102,065)	(16,102,057)
Shares issued at a premium	1,552	13,187,663	–	13,189,215
Loss for the year	–	–	(18,742,964)	(18,742,964)
As at 31 December 2002	1,560	13,187,663	(34,845,029)	(21,655,806)
Loss for the year	–	–	(8,978,855)	(8,978,855)
As at 31 December 2003	1,560	13,187,663	(43,823,884)	(30,634,661)

(d) CASH FLOW STATEMENTS

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$	*HK$*	*HK$*
Operating activities			
Loss for the year	(14,387,119)	(18,742,964)	(8,978,855)
Adjustments for:			
Interest expenses	–	–	209,412
Interest income	–	–	(6,456)
Depreciation of fixed assets	132,761	513,777	3,038,219
Loss on disposal of fixed assets	–	279	9,336
Operating cash flows before movements in working capital	(14,254,358)	(18,228,908)	(5,728,344)
Decrease/(increase) in accounts receivables, deposits and prepayments	17,334	(2,593,344)	(5,666,504)
Increase in amounts due to fellow subsidiaries	96,174	223,860	4,596,837
Increase in creditors and accruals	1,518,776	804,692	953,260
Net cash used in operating activities	(12,622,074)	(19,793,700)	(5,844,751)
Investing activities			
Proceeds on disposal of fixed assets	–	4,500	31,968
Purchase of fixed assets	(1,180,682)	(4,711,393)	(15,039,192)
Interest received	–	–	6,456
Net cash used in investing activities	(1,180,682)	(4,706,893)	(15,000,768)
Financing activities			
New short-term bank loan	–	–	32,500,000
Advances from/(repayment to) immediate holding company	13,878,679	(892,485)	(14,074,784)
Loan from immediate holding company	–	12,278,717	4,529,432
Proceeds from issue of shares	–	13,189,215	–
Interest paid	–	–	(201,957)
Net cash from financing activities	13,878,679	24,575,447	22,752,691
Increase in cash and cash equivalents	75,923	74,854	1,907,172
Cash and cash equivalents at beginning of the year	–	75,923	150,777
Cash and cash equivalents at end of the year	75,923	150,777	2,057,949
Analysis of the balances of cash and cash equivalents			
Cash at bank	75,923	150,777	2,057,949

(e) NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared on a going concern basis as the shareholders have agreed to provide adequate funds for the Company to meet its liabilities as they fall due.

The financial statements have been prepared under the historical cost convention and in accordance with the accounting principles generally accepted in Hong Kong.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted are as follows:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year. Results of subsidiaries acquired during the year are included as from their effective dates of acquisition to the end of the year.

(b) Subsidiaries

A subsidiary is a company in which more than 50% of its issued voting capital is held long term by the Group. Investments in subsidiaries are carried at cost less provision for diminution in value where appropriate.

Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

(c) Fixed assets

Fixed assets are stated at cost less depreciation and provision for diminution in value where appropriate.

Depreciation is provided to write off the cost of items of fixed assets over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Powerline equipment and installation	10% – 20%
Computer equipment	$33^1/_3$%
Leasehold improvement	20%
Furniture and fixtures	20%

(d) Revenue recognition

Internet access service income and consultancy service income are recognised when services are provided.

(e) Operating leases charges

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessors are accounted for as operating leases. Operating lease charges are dealt with in the income statement over the terms of the respective leases.

(f) Deferred taxation

Deferred tax liabilities are provided in full on all temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their tax bases, while deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

3. TURNOVER

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$	*HK$*	*HK$*
Internet access service income	–	486,727	6,311,675
Consultancy service income	47,425	367,190	430,000
	47,425	853,917	6,741,675

4. LOSS FOR THE YEAR

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$	*HK$*	*HK$*
Loss for the year has been arrived at after charging:			
Auditors' remuneration	29,000	37,500	37,500
Operating lease charges in respect of renting of premises	971,510	1,249,547	935,693
Loss on disposal of fixed assets	–	279	9,336
Bank loan interest	–	–	209,412

Loss for each of the years ended 31 December 2001, 2002 and 2003 dealt with in the income statement of the Company amounted to HK$14,342,291, HK$18,721,426 and HK$8,953,072, respectively.

5. TAXATION

No provision for profits tax is required as the Group does not have any assessable profit for the Relevant Periods.

The taxation charge for the year can be reconciled to the loss for the year per the income statement as follows:

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$	*HK$*	*HK$*
Loss for the year	(14,387,119)	(18,742,964)	(8,978,855)
Tax credit at the domestic income tax of 16% for 2001 and 2002 and 17.5% for 2003	(2,301,939)	(2,998,874)	(1,571,300)
Tax effect of expenses that are not deductible in determining taxable profit	7,172	3,446	4,512
Tax effect of unrecognised tax losses arising during the year	2,294,767	2,995,428	1,566,788
	–	–	–

Deferred tax asset has not been recognised on the tax losses of approximately HK$16,100,000, HK$34,800,000 and HK$43,700,000 as at 31 December 2001, 31 December 2002 and 31 December 2003, respectively. The tax losses are available to be carried forward against future taxable profit.

6. DIVIDEND

No dividend was declared by the Company and its subsidiaries during the Relevant Periods.

7. FIXED ASSETS

GROUP AND COMPANY

	Powerline equipment and installation	Computer equipment	Leasehold improvement	Furniture and fixtures	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
COST					
As at 1 January 2001	–	27,176	–	35,369	62,545
Additions	501,029	407,868	108,637	263,685	1,281,219
As at 31 December 2001	501,029	435,044	108,637	299,054	1,343,764
Additions	3,570,274	1,305,837	–	54,780	4,930,891
Disposals	–	(5,550)	–	–	(5,550)
As at 31 December 2002	4,071,303	1,735,331	108,637	353,834	6,269,105
Additions	18,799,970	777,297	–	58,761	19,636,028
Disposals	(13,592)	(56,244)	–	–	(69,836)
As at 31 December 2003	22,857,681	2,456,384	108,637	412,595	25,835,297
ACCUMULATED DEPRECIATION					
As at 1 January 2001	–	1,510	–	589	2,099
Charge for the year	–	79,305	9,373	44,083	132,761
As at 31 December 2001	–	80,815	9,373	44,672	134,860
Charge for the year	141,969	284,300	21,728	65,780	513,777
Eliminated on disposals	–	(771)	–	–	(771)
As at 31 December 2002	141,969	364,344	31,101	110,452	647,866
Charge for the year	2,212,781	731,617	21,727	72,094	3,038,219
Eliminated on disposals	(584)	(27,948)	–	–	(28,532)
As at 31 December 2003	2,354,166	1,068,013	52,828	182,546	3,657,553
NET BOOK VALUE					
As at 31 December 2001	501,029	354,229	99,264	254,382	1,208,904
As at 31 December 2002	3,929,334	1,370,987	77,536	243,382	5,621,239
As at 31 December 2003	20,503,515	1,388,371	55,809	230,049	22,177,744

8. SUBSIDIARIES

	COMPANY		
	At 31 December		
	2001	**2002**	**2003**
	HK$	*HK$*	*HK$*
Unlisted shares, at cost	6	6	6

9. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

Included in accounts receivable, deposits and prepayments are trade debtors amounting to HK$ nil, HK$1,565,202 and HK$1,762,030 as at 31 December 2001, 2002 and 2003, respectively.

Credit period granted to trade debtors is normally 30 days.

	GROUP AND COMPANY		
	At 31 December		
	2001	**2002**	**2003**
	HK$	*HK$*	*HK$*
Ageing analysis of trade debtors at the balance sheet date is as follows:			
Within one month	–	1,565,202	1,717,030
Two to three months	–	–	45,000
	–	1,565,202	1,762,030

10. CREDITORS AND ACCRUALS

Included in creditors and accruals are trade creditors amounting to HK$110,100, HK$334,889 and HK$1,284,957 as at 31 December 2001, 2002 and 2003, respectively. These balances were due within one month.

11. SHARE CAPITAL

	Number of shares of US$1 each	Nominal value *HK$*
Authorised:		
As at 1 January 2001, 31 December 2001, 31 December 2002 and 31 December 2003	50,000	390,000
Issued and fully paid:		
As at 1 January 2001 and 31 December 2001	1	8
Allotted on 19 August 2002	99	772
Allotted on 21 October 2002	100	780
As at 31 December 2002 and 31 December 2003	200	1,560

Pursuant to an ordinary resolution passed on 19 August 2002, 99 ordinary shares of US$1 each were allotted at par for the purpose of providing additional capital to the Company.

Pursuant to an ordinary resolution passed on 21 October 2002, 19 ordinary shares of US$1 each were allotted at par and 81 ordinary shares of US$1 each were allotted at a premium giving a total consideration of HK$13,188,443 for the purpose of providing additional capital to the Company.

II. SEGMENT INFORMATION

All the Group's operations are located and carried out in Hong Kong, and the sole principal activity of the Group is the provision of Internet access and communication services. Accordingly, no segment information by business and geographical segment is presented.

III. RELATED PARTY TRANSACTIONS

During the Relevant Periods, the Company had the following transactions with related parties:

(a) The Company has entered into arrangements with members of Hutchison Global Communications Investments Limited ("HGC Group"), subsidiaries of an associate of the Company's ultimate holding company, for the provision of Internet access service using the Company's access technology. Under the said arrangements, the HGC Group and the Company have agreed to share the various revenues and expenses incurred in the provision of Internet access service.

(b) The Company paid management fee of HK$3,400,000, HK$4,780,000 and HK$994,000 to the ultimate holding company and HK$801,850, HK$3,465,175 and HK$589,000 to iBusiness Corporation Limited ("iBusiness"), an associate of the Company's ultimate holding company for the provision of technical and engineering supports, research and development, sales and marketing and administrative services to the Company during the years ended 31 December 2001, 2002 and 2003, respectively. The amount due to iBusiness as at 31 December 2001, 2002 and 2003 included in creditors and accruals amounted to HK$801,850, HK$784,000 and HK$ nil, respectively.

(c) The Company paid rental of HK$971,510, HK$1,249,547 and HK$935,693 to the ultimate holding company and a fellow subsidiary for the provision of office and warehouse premises during the years ended 31 December 2001, 2002 and 2003, respectively.

(d) The Company purchased fixed assets from a fellow subsidiary amounted to HK$501,029, HK$3,432,174 and HK$21,475,949 during the years ended 31 December 2001, 2002 and 2003. The amount due to the fellow subsidiary as at 31 December 2001, 2002 and 2003 amounted to HK$173,414, HK$640,069 and HK$9,833,742, respectively.

(e) The Company has obtained an unsecured, interest-free loan and advances from Cheung Kong Enterprises Limited, the Company's immediate holding company. Total amount due to the immediate holding company outstanding as at 31 December 2001, 2002 and 2003 amounted to HK$14,967,269, HK$26,353,501 and HK$16,808,149 respectively. As at 31 December 2002 and 2003, the loans of HK$12,278,717 and HK$16,808,149 were not repayable before August 2010. The other balances had no fixed terms of repayment.

IV. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

No remuneration was paid or is payable to any of the Company's directors by the Company or any of its subsidiaries in respect of the Relevant Periods.

Details of the emoluments paid by the Group to its five highest paid individuals were as follows:

	Year ended 31 December		
	2001	**2002**	**2003**
	HK$	*HK$*	*HK$*
Salaries and other benefits	4,008,230	3,853,236	3,256,870
Bonus	616,000	454,000	574,700
Retirement benefit scheme contributions	57,000	57,000	60,000
	4,681,230	4,364,236	3,891,570

The emoluments of the five highest paid individuals were within the following bands:

	Year ended 31 December		
	2001	**2002**	**2003**
Nil to HK$1,000,000	3	3	4
HK$1,000,001 to HK$1,500,000	1	2	1
HK$1,500,001 to HK$2,000,000	1	–	–

V. RETIREMENT BENEFIT SCHEMES

The retirement scheme of the Group is a defined contribution Mandatory Provident Fund scheme. Under the Mandatory Provident Fund scheme, individual contributions are made by both the Group and the employee at 5% on the relevant employee's salary with a maximum monthly contribution of HK$1,000. During the years ended 31 December 2001, 2002 and 2003, the Group's costs incurred on the scheme were HK$77,440, HK$187,107 and HK$227,620, respectively.

VI. COMMITMENTS

At the balance sheet dates, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of renting of premises which fall due as follows:

	At 31 December		
	2001	**2002**	**2003**
	HK$	*HK$*	*HK$*
Within one year	–	188,167	356,420

Leases are negotiated for terms up to fourteen months with fixed monthly rentals.

VII. ULTIMATE HOLDING COMPANY

As at 31 December 2003, the directors consider that the Company's ultimate holding company is Cheung Kong (Holdings) Limited, a public limited liability company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

VIII. SUBSEQUENT EVENT

On 28 January 2004, a conditional sale and purchase agreement was entered into for the sale of the entire issued share capital of the Company by Cheung Kong Enterprises Limited and CLP Telecommunications Limited to Vanda Systems & Communications Holdings Limited.

IX. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2003.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. SHARE CAPITAL

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

Authorised:		*HK$*
4,000,000,000	Vanda Shares	400,000,000
Issued and fully paid:		
1,537,871,325	Vanda Shares	153,787,133

All the existing Vanda Shares rank pari passu in all respects including all rights as to dividends, voting and return of capital.

Under the Share Option Scheme, the Vanda Directors may at their discretion grant option to eligible participants to take up options for Vanda Shares, subject to the terms and conditions stipulated therein, which in aggregate may not exceed 30% of the Vanda Shares from time to time. There were 42,830,000 outstanding options as at the Latest Practicable Date.

Save for the HGC Convertible Notes and save as disclosed in the paragraph above, Vanda has no options, warrants and conversion rights convertible into Vanda Shares.

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

Since 31 March 2003, being the last financial year end date of Vanda, 1,116,264,126 Vanda Shares have been issued by Vanda.

2. INDEBTEDNESS

At the close of business on 9 January 2004, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this document, the Vanda Group had outstanding borrowings of approximately HK$81,567,000 which comprised of long term secured bank borrowings of approximately HK$2,138,000, short term secured bank borrowings of approximately HK$44,158,000, short term unsecured bank and supplier borrowings of approximately HK$35,103,000 and obligations under finance leases of approximately HK$168,000 of which a total amount of approximately HK$37,000 was repayable within the next twelve months. The secured borrowings are secured by charges over certain properties of the Vanda Group with an aggregate carrying value of approximately HK$36,360,000 and pledged bank deposits of approximately HK$58,274,000.

At the close of business on 9 January 2004, the Vanda Group had contingent liabilities of approximately HK$8,028,000 in respect of guarantees given to banks in connection with guarantees issued by banks and approximately HK$3,545,000 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, the Vanda 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 9 January 2004.

3. WORKING CAPITAL

The Vanda Board is of the opinion that after taking into account the Vanda Group's internal resources and available borrowing facilities, the Vanda Group has sufficient working capital for its requirements.

The HGC Board is of the opinion that after taking into account the HGC Group's internal resources and available borrowing facilities (including the Facility and the HIL Loan), the HGC Group has sufficient working capital for its requirements.

The PowerCom Board is of the opinion that after taking into account the PowerCom Group's internal resources and available borrowing facilities (including the CKH Loan), the PowerCom Group has sufficient working capital for its requirements.

Based on the above, the Vanda Board is not aware of any matter or fact which will render the Enlarged Vanda Group not having sufficient working capital for its requirements after completion of the Transactions.

4. MATERIAL CHANGE

Save for entering into the HGC Acquisition Agreement and the PowerCom Acquisition Agreement, the Vanda Directors are not aware of any material changes in the financial or trading position or prospects of the Vanda Group since 30 September 2003, the date to which the latest audited financial statements of Vanda were made up.

5. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the audited consolidated profit and loss account of the Group for the six month period ended 30 September 2003 and year ended 31 March 2003, the audited consolidated balance sheet of the Group as at 30 September 2003 and 31 March 2003, the consolidated statement of changes in equity and consolidated cash flow statement for the six month period ended 30 September 2003 and year ended 31 March 2003 together with accompanying notes extracted from the audited accounts of the Company for the six month period ended 30 September 2003 and year ended 31 March 2003. There were no audit qualifications in any of such financial statements. Save as disclosed in notes 2 and 3 to the financial statements below, there were no material changes to the accounting policy of the Group for the six month period ended 30 September 2003 and year ended 31 March 2003.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Period from 1 April 2003 to 30 September 2003

	Notes	Period from 1 April 2003 to 30 September 2003 HK$'000	Year ended 31 March 2003 HK$'000
Turnover	7	420,990	1,024,638
Cost of sales		(353,563)	(854,664)
Gross profit		67,427	169,974
Other revenue and gains	7	3,417	11,368
Selling and distribution costs		(10,701)	(29,555)
Administrative expenses		(69,129)	(139,019)
Other operating expenses			
Impairment of leasehold land and buildings	12	(12,161)	–
Provisions for and write off of bad and doubtful debts		(4,027)	(9,197)
Impairment of a long term investment	16	(3,700)	(76,361)
Unrealised holding losses on other investments	17	(3,266)	(57,202)
Provision for loss on put option	19	(1,500)	–
Revaluation deficit of investment properties		–	(8,157)
Surrender fee paid for termination of a tenancy agreement		–	(3,469)
Loss on disposal of subsidiaries		–	(4,690)
Gain on disposal of discontinued operations		–	2,747
Compensation for loss of office to directors		–	(2,691)
Other expenses		(2,110)	(3,200)
LOSS FROM OPERATING ACTIVITIES	8	(35,750)	(149,452)
Finance costs	9	(7,744)	(18,757)
Share of profits and losses of associates		67	417
LOSS BEFORE TAX			
Continuing operations		(43,427)	(169,889)
Discontinued operations	5	–	2,097
		(43,427)	(167,792)
Tax	10	(12,013)	(4,713)
Loss before minority interests		(55,440)	(172,505)
Minority interests		(145)	(1,310)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(55,585)	(173,815)
LOSS PER SHARE	11		
Basic		(9.39 cents)	(41.2 cents)
Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET
30 September 2003

	Notes	30 September 2003 HK$'000	31 March 2003 HK$'000
NON-CURRENT ASSETS			
Fixed assets	12	40,487	54,858
Investment properties	13	30,300	30,300
Interests in associates	15	3,591	3,524
Long term investment	16	–	3,700
Other investments	17	–	3,511
		74,378	95,893
CURRENT ASSETS			
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	18	58,172	62,112
Cash and cash equivalents	18	88,231	108,160
		410,139	509,405
CURRENT LIABILITIES			
Accounts payable		124,223	171,736
Deposits received, accruals and other payables		171,293	167,741
Provisions	19	24,197	22,697
Tax payable		13,324	3,242
Finance lease payables	20	38	36
Interest-bearing bank loans, overdrafts and supplier loans	21	57,536	88,254
		390,611	453,706
NET CURRENT ASSETS		19,528	55,699
TOTAL ASSETS LESS CURRENT LIABILITIES		93,906	151,592
NON-CURRENT LIABILITIES			
Provisions	19	1,881	1,690
Finance lease payables	20	141	159
Interest-bearing bank loans	21	2,458	3,449
Deferred tax	22	261	261
		4,741	5,559
		89,165	146,033
CAPITAL AND RESERVES			
Issued capital	23	153,638	42,161
Reserves	25	(75,592)	(241,534)
		78,046	(199,373)
MINORITY INTERESTS		11,119	10,974
		89,165	(188,399)
CONVERTIBLE BONDS	26	–	334,432
		89,165	146,033

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Period from 1 April 2003 to 30 September 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 1 April 2002		42,098	307,586	2,040	2,828	(12,904)	(372,286)	(30,638)
Exercise of options		63	351	–	–	–	–	414
Goodwill released upon disposal of subsidiaries		–	–	–	–	–	4,936	4,936
Exchange realignment and net losses not recognised in the consolidated profit and loss account		–	–	–	–	(270)	–	(270)
Net loss for the year		–	–	–	–	–	(173,815)	(173,815)
At 31 March 2003 and 1 April 2003		42,161	307,937*	2,040*	2,828*	(13,174)*	(541,165)*	(199,373)
Issue of shares upon conversion of convertible bonds	23, 26	111,477	222,955	–	–	–	–	334,432
Share issue expenses in relation to the conversion of convertible bonds	23	–	(1,430)	–	–	–	–	(1,430)
Exchange realignment and net gains not recognised in the consolidated profit and loss account		–	–	–	–	2	–	2
Net loss for the period		–	–	–	–	–	(55,585)	(55,585)
At 30 September 2003		153,638	529,462*	2,040*	2,828*	(13,172)*	(596,750)*	78,046

	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
Retained by:							
Company and subsidiaries	153,638	529,462	2,040	2,828	(13,172)	(591,651)	83,145
Associates	–	–	–	–	–	(5,099)	(5,099)
At 30 September 2003	153,638	529,462*	2,040*	2,828*	(13,172)*	(596,750)*	78,046
Company and subsidiaries	42,161	307,937	2,040	2,828	(13,174)	(535,999)	(194,207)
Associates	–	–	–	–	–	(5,166)	(5,166)
At 31 March 2003	42,161	307,937*	2,040*	2,828*#	(13,174)*	(541,165)*	(199,373)

* At 30 September 2003, these reserve accounts comprise the consolidated reserves with a debit balance of HK$75,592,000 (31 March 2003: HK$241,534,000) in the consolidated balance sheet.

\# The relevant assets of this fixed asset revaluation reserve had been grouped under investment properties in prior years.

CONSOLIDATED CASH FLOW STATEMENT

Period from 1 April 2003 to 30 September 2003

	Notes	Period from 1 April 2003 to 30 September 2003 HK$'000	Year ended 31 March 2003 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(43,427)	(167,792)
Adjustments for:			
Provisions for and write off of bad and doubtful debts		4,027	9,197
Provision for loss on put option	*19*	1,500	–
Unrealised holding losses on other investments	*17*	3,266	57,202
Impairment of a long term investment	*16*	3,700	76,361
Impairment of leasehold land and buildings	*12*	12,161	–
Revaluation deficit of investments properties		–	8,157
Loss on disposal/write off of fixed assets		34	987
Loss on disposal of subsidiaries		–	4,690
Gain on disposal of discontinued operations		–	(2,747)
Loss on disposal of associates		–	314
Interest income	*7*	(690)	(2,944)
Depreciation	*8*	4,741	12,871
Loss on disposal of other investments	*8*	–	51
Write-back of provisions against inventories	*8*	(2,946)	(14,448)
Finance costs	*9*	7,744	18,757
Share of profits and losses of associates		(67)	(417)
Operating profit/(loss) before working capital changes		(9,957)	239
Decrease/(increase) in accounts receivable		79,484	(99,955)
Decrease in inventories		766	45,496
Increase in prepayments, deposits and other receivables		(2,550)	(3,056)
Increase/(decrease) in accounts payable		(47,513)	22,599
Increase/(decrease) in provisions		191	(2,867)
Increase in deposits received, accruals and other payables		10,112	46,247
Cash generated from operations		30,533	8,703
Interest element on finance lease rental payments		–	(37)
Overseas taxes refunded		–	161
Overseas taxes paid		(5,070)	(3,456)
Net cash inflow from operating activities:			
Continuing operations		25,463	5,683
Discontinued operations		–	(312)
		25,463	5,371

	Notes	Period from 1 April 2003 to 30 September 2003 HK$'000	Year ended 31 March 2003 HK$'000
Net cash inflow from operating activities		25,463	5,371
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		690	2,125
Purchases of fixed assets	*12*	(2,782)	(2,889)
Proceeds from disposal of fixed assets		217	365
Net outflow from disposal of subsidiaries	*27(b)*	–	(1,129)
Net outflow from disposal of an associate		–	(314)
Proceeds from disposal of other investments		–	72
Decrease/(increase) in pledged time deposits		3,940	(9,875)
Net cash inflow/(outflow) from investing activities:			
Continuing operations		2,065	(11,662)
Discontinued operations		–	17
		2,065	(11,645)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares on exercise of share options		–	414
Net proceeds from issue of convertible bonds		–	136,465
Share issue expenses in relation to conversion of convertible bonds	*23*	(1,430)	–
Repayment of convertible bonds		–	(79,187)
New loans		–	50,844
Repayment of bank loans and trust receipt loans		(29,348)	(86,739)
Repayment of supplier loans		(4,956)	(3,786)
Capital element of finance lease rental payments		(26)	(118)
Interest paid on bank, supplier and other loans		(2,017)	(5,214)
Interest paid on convertible bonds		(12,277)	(14,873)
Net cash outflow from financing activities		(50,054)	(2,194)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(22,526)	(8,468)
Cash and cash equivalents at beginning of period/year		108,160	116,856
Effect of foreign exchange rate changes, net		2	(228)
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR		85,636	108,160
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*18*	73,082	102,422
Non-pledged time deposits with original maturity of less than three months when acquired	*18*	15,149	5,738
Bank overdrafts	*21*	(2,595)	–
		85,636	108,160

NOTES TO FINANCIAL STATEMENTS

30 September 2003

1. CORPORATE INFORMATION

The registered office of the Company is located at Clarendon House, Church Street, Hamilton HM11, Bermuda and the principal place of business is located at Lincoln House 408, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

During the period, the Group was involved in the following principal activities:

- systems integration of mid-range computers;
- software development and the provision of related services; and
- distribution of computer products.

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

The following revised SSAP and Interpretation are effective for the first time for the current period's financial statements:

- SSAP 12 (Revised): "Income taxes"
- Interpretation 20: "Income taxes – Recovery of revalued non-depreciable assets"

The revised SSAP 12 and Interpretation 20 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 this SSAP and Interpretation are summarised as follows:

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current period's financial statements. This SSAP prescribes the accounting for income taxes payable or recoverable, 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. This SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 10 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the period.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment properties in the deferred tax calculated under SSAP 12.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice and accounting principles generally accepted in Hong Kong. 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 include the financial statements of the Company and its subsidiaries for the six month period from 1 April 2003 to 30 September 2003 and the year ended 31 March 2003. The results of subsidiaries acquired or disposed of during the period 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 outside 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.

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

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 is recognised in the consolidated balance sheet as an asset and 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.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, 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 the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP 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 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 can be measured reliably; 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 stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Long term investments

Long term investments in unlisted equity securities, intended to be held for a continuing strategic or long term purpose, 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 amount 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 long term investments in unlisted equity securities intended to be held on a long term basis 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.

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; and

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

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 period by the employees and carried forward.

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 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 schemes.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option 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 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 period, 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 period are translated into Hong Kong dollars at the weighted average exchange rates for the period.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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.

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 warranties 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.

Provisions for the expected future loss on the put options granted by the Group are made based on the present value of the future costs and loss expected to be incurred.

4. RELATED PARTY TRANSACTION

On 23 July 2002, BonVision Technology Limited, a 60% owned subsidiary of the Group, sold a 63% equity interest in BonVision Technology (HK) Limited ("BVHK") to a minority shareholder of BVHK, who is also a director of BVHK, at a consideration of HK$1, resulting in a gain on disposal of a subsidiary of HK$246,000.

5. DISCONTINUED OPERATIONS

On 29 April 2002, Empower International Limited ("Empower"), a wholly-owned subsidiary of the Company, entered into an agreement (the "DL Agreement") with an independent third party, Innovative Logistics Limited, (the "Purchaser"), to dispose of a 75.1% equity interest in DigiLogistics.com Limited ("DigiLogistics") at a consideration of HK$1. According to the DL Agreement, a call option was granted by the Purchaser to Empower under which Empower is entitled to buy back a 30% equity interest in DigiLogistics at a consideration of HK$1. The call option is exercisable within two years from 29 April 2002. After the disposal, Empower holds a remaining 19.9% equity interest in DigiLogistics as an other investment within the Group's non-current assets as at 31 March 2003 and 30 September 2003.

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 the non-core e-business from its core businesses.

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

	HK$'000
TURNOVER	168
Cost of sales	(150)
Gross profit	18
Administrative expenses	(332)
Other operating expenses	(336)
Gain on disposal of discontinued operations	2,747
PROFIT FROM OPERATING ACTIVITIES	2,097
Tax	–
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	2,097

There were no assets and liabilities relating to the discontinued operations as at 31 March 2003 and 30 September 2003.

6. 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 and the distribution of computer products, which are managed according to the geographical location of the customers. The Group discontinued its e-business during the year ended 31 March 2003.

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 East Asia (including only Singapore, Malaysia and Philippines); and

(d) Corporate.

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

(a) the systems integration and application solution 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 infrastructure solutions segment engages in the distribution of computer products and the provision of computer support services;

(c) the e-business (discontinued operations) segment was involved in the sub-licensing of web-based logistic software; and

(d) the corporate 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.

	Hong Kong and Macau		Mainland China		South Asia		Corporate		Consolidated	
	Period from 1 April 2003 to 30 September 2003	Year ended 31 March 2003	Period from 1 April 2003 to 30 September 2003	Year ended 31 March 2003	Period from 1 April 2003 to 30 September 2003	Year ended 31 March 2003	Period from 1 April 2003 to 30 September 2003	Year ended 31 March 2003	Period from 1 April 2003 to 30 September 2003	Year ended 31 March 2003
	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	62,038	170,172	152,631	414,954	205,887	439,512	434	–	420,990	1,024,638
Other revenue	245	937	1,365	2,057	867	5,050	250	380	2,727	8,424
Total	62,283	171,109	153,996	417,011	206,754	444,562	684	380	423,717	1,033,062
Segment results	1,542	8,438	(10,102)	(9,308)	3,453	23,706	(22,867)	(39,361)	(27,974)	(16,525)
Unallocated interest and other gains	–	–	–	–	–	–	–	–	690	2,944
Impairment of a long term investment	–	–	–	–	–	–	(3,700)	(76,361)	(3,700)	(76,361)
Unrealised holding losses on other investments	–	–	–	–	–	–	(3,266)	(57,202)	(3,266)	(57,202)
Provision for loss on put option	–	–	–	–	–	–	(1,500)	–	(1,500)	–
Gain/(loss) on disposal of subsidiaries	–	246	–	–	–	–	–	(4,936)	–	(4,690)
Gain on disposal of discontinued operations	–	2,747	–	–	–	–	–	–	–	2,747
Loss on disposal of associates	–	(314)	–	–	–	–	–	–	–	(314)
Loss on disposal of other investments	–	–	–	–	–	(51)	–	–	–	(51)
LOSS FROM OPERATING ACTIVITIES									(35,750)	(149,452)
Finance costs									(7,744)	(18,757)
Share of profit and losses of associates									67	417
LOSS BEFORE TAX									(43,427)	(167,792)
TAX									(12,013)	(4,713)
Loss before minority interests									(55,440)	(172,505)
Minority interests									(145)	(1,310)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS									(55,585)	(173,815)

	Hong Kong and Macau		Mainland China		South East Asia		Corporate		Consolidated	
	Period from 1 April 2003 to 30 September 2003	Year ended 31 March 2003	Period from 1 April 2003 to 30 September 2003	Year ended 31 March 2003	Period from 1 April 2003 to 30 September 2003	Year ended 31 March 2003	Period from 1 April 2003 to 30 September 2003	Year ended 31 March 2003	Period from 1 April 2003 to 30 September 2003	Year ended 31 March 2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	142,056	140,256	175,974	253,069	139,619	159,662	–	–	457,649	552,987
Interests in associates	–	–	3,591	3,524	–	–	–	–	3,591	3,524
Unallocated assets	–	–	–	–	–	–	23,277	48,787	23,277	48,787
Total assets									484,517	605,298
Segment liabilities	74,692	79,678	155,671	170,381	74,664	85,090	–	–	305,027	335,149
Unallocated liabilities	–	–	–	–	–	–	90,325	458,548	90,325	458,548
Total liabilities									395,352	793,697
Other segment information:										
Depreciation and amortisation	306	707	2,305	7,326	1,354	3,335	776	1,503	4,741	12,871
Provisions/(write-back of provisions) for bad and doubtful debts	(1,001)	1,334	2,809	6,386	2,219	2,242	–	(765)	4,027	9,197
Provisions/(write-back of provisions) for inventories	23	(4,996)	(3,485)	(1,151)	1,157	(8,301)	–	–	(2,305)	(14,448)
Capital expenditure	508	536	1,470	1,682	682	218	122	648	2,782	3,084

(b) Business segments

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

	Systems integration and application solution services		Infrastructure solutions		(Discontinued operations – note 5) e-business		Corporate		Consolidated	
	Period from 1 April 2003 to 30 September 2003	Year ended 31 March 2003	Period from 1 April 2003 to 30 September 2003	Year ended 31 March 2003	Period from 1 April 2003 to 30 September 2003	Year ended 31 March 2003	Period from 1 April 2003 to 30 September 2003	Year ended 31 March 2003	Period from 1 April 2003 to 30 September 2003	Year ended 31 March 2003
	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	247,973	670,186	173,017	354,284	–	168	–	–	420,990	1,024,638
Segment results	(11,542)	8,281	6,071	21,666	–	(336)	(22,503)	(46,136)	(27,974)	(16,525)
Other segment information:										
Segment assets	314,771	388,871	116,169	137,340	–	–	–	–	430,940	526,211
Unallocated assets	–	–	–	–	–	–	53,577	79,087	53,577	79,087
Total assets									484,517	605,298
Capital expenditure	2,114	2,218	546	218	–	–	122	648	2,782	3,084

7. TURNOVER AND OTHER REVENUE

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 the Group's turnover and other revenue is as follows:

	Period from 1 April 2003 to 30 September 2003	Year ended 31 March 2003
	HK$'000	*HK$'000*
Turnover	420,990	1,024,638
Other revenue:		
Interest income	690	2,944
Gross rental income	1,090	1,569
Other	1,637	6,855
	3,417	11,368

8. LOSS FROM OPERATING ACTIVITIES

This is arrived at after charging/(crediting):

	Notes	Period from 1 April 2003 to 30 September 2003 HK$'000	Year ended 31 March 2003 HK$'000
Cost of inventories sold*		332,394	826,889
Cost of services provided		21,169	27,775
Depreciation	*12*	4,741	12,871
Directors' remuneration:			
Fees		–	–
Other emoluments		6,874	18,576
Staff costs (including directors' remuneration above):			
Wages and salaries		51,830	108,901
Redundancy costs		215	1,848
MPF scheme contributions		480	747
Central pension scheme contributions		1,496	3,025
		54,021	114,521
Minimum lease payments under operating lease rentals in respect of land and buildings		3,863	8,658
Auditors' remuneration		1,744	1,917
Exchange losses, net		300	530
Loss on disposal of other investments		–	51
Loss on disposal/write-off of fixed assets		34	987
Loss on disposal of associates		–	314
Provisions	*19*	191	8,580
Gross rental income		(1,090)	(1,569)
Less: Outgoings		18	272
Net rental income		(1,072)	(1,297)

* *The write-back of provisions against inventories for the period included as part of "Cost of inventories sold" amounted to HK$2,305,000 (year ended 31 March 2003: HK$14,448,000).*

9. FINANCE COSTS

	Period from 1 April 2003 to 30 September 2003	Year ended 31 March 2003
	HK$'000	*HK$'000*
Interest on:		
Bank loans and overdrafts and supplier loans wholly repayable within five years	2,017	5,214
Finance leases	10	37
Convertible bonds	5,717	13,506
	7,744	18,757

10. TAX

No provision for Hong Kong profits tax has been made for the period because the Group had no assessable profits arising in Hong Kong during the period. An increased Hong Kong profits tax rate of 17.5% (year ended 31 March 2003: 16%) became effective from the year of assessment 2003/2004, and so would have been applicable to any assessable profits arising in Hong Kong for the period from 1 April 2003 to 30 September 2003. Tax on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Period from 1 April 2003 to 30 September 2003	Year ended 31 March 2003
	HK$'000	*HK$'000*
Current period/year provision:		
Hong Kong	–	150
Outside Hong Kong	2,177	2,959
	2,177	3,109
Prior year under provision:		
Hong Kong	–	4
Outside Hong Kong	9,836	1,426
	9,836	1,430
Deferred tax – note 22	–	174
Tax charge for the period/year	12,013	4,713

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and reconciliation of the applicable rates (i.e., the statutory rates) to the effective tax rates, are as follows:

	Period from 1 April 2003 to 30 September 2003		Year ended 31 March 2003	
	HK$'000	*%*	*HK$'000*	*%*
Loss before tax	(43,427)		(167,792)	
Tax at the statutory rate of 17.5% (year ended 31 March 2003: 16%)	(7,600)	(17.5)	(26,847)	(16.0)
Higher tax rates of other countries	(2,476)	(5.7)	(456)	(0.3)
Income not subject to tax	(14)	–	(408)	(0.2)
Expenses not deductible for tax	9,603	22.1	29,201	17.4
Effect on opening deferred tax of increase in tax rate	412	0.9	–	–
Adjustments in respect of current tax of previous periods	9,836	22.7	1,430	0.9
Tax losses not recognised	2,823	6.5	7,449	4.4
Tax losses utilised from previous period	(571)	(1.3)	(5,656)	(3.4)
Tax charge at the group's effective rate of 27.7% (year ended 31 March 2003: 2.8%)	12,013	27.7	4,713	2.8

11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK$55,585,000 (year ended 31 March 2003: HK$173,815,000) and the weighted average of 592,173,426 (year ended 31 March 2003: 421,535,000) ordinary shares in issue during the period.

Diluted loss per share amounts for the current period and the prior year have not been shown because the share options, convertible bonds and options granted to the convertible bondholders outstanding during the current period and the prior year had an anti-dilutive effect on the basic loss per share for the period and the prior year.

12. FIXED ASSETS

	Leasehold land and buildings			Furniture, fixtures, equipment and motor vehicles	
	Hong Kong	Mainland China	Leasehold improvements		Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost:					
At 1 April 2003	17,602	31,696	8,695	64,044	122,037
Additions	–	–	241	2,541	2,782
Disposals	–	–	(119)	(417)	(536)
Exchange realignment	–	–	(28)	(281)	(309)
At 30 September 2003	17,602	31,696	8,789	65,887	123,974
Accumulated depreciation and impairment:					
At 1 April 2003	4,123	3,994	8,126	50,936	67,179
Provided for the period	264	413	386	3,678	4,741
Disposals	–	–	(86)	(199)	(285)
Impairment during the period recognised in the consolidated profit and loss account	7,000	5,161	–	–	12,161
Exchange realignment	–	–	(16)	(293)	(309)
At 30 September 2003	11,387	9,568	8,410	54,122	83,487
Net book value:					
At 30 September 2003	6,215	22,128	379	11,765	40,487
At 31 March 2003	13,479	27,702	569	13,108	54,858

The Group's leasehold land and buildings are all held under medium term leases.

Certain of the Group's leasehold land and buildings with a net book value of HK$12,052,000 as at the balance sheet date (31 March 2003: HK$19,386,000) were pledged as security for banking facilities granted to the Group (note 21). The net book value of the Group's fixed assets held under finance leases included in the total amount of furniture, fixtures, equipment and motor vehicles at 30 September 2003 amounted to HK$184,000 (31 March 2003: HK$205,000).

13. INVESTMENT PROPERTIES

	30 September 2003	31 March 2003
	HK$'000	*HK$'000*
At beginning of period/year	30,300	11,990
Reclassified from fixed assets	–	26,467
Revaluation deficits	–	(8,157)
At end of period/year	30,300	30,300

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

At 30 September 2003, certain investment properties with carrying values of HK$6,000,000 (31 March 2003: HK$26,000,000) were pledged to banks as security for banking facilities granted to the Group (note 21).

At 30 September 2003, DTZ Debenham Tie Leung, an independent firm of professionally qualified valuers, performed a valuation on the investment properties on an open market, existing use basis. The valuation confirmed that the aggregate value of the investment properties at 30 September 2003 had not changed significantly from that at 31 March 2003.

14. INTERESTS IN SUBSIDIARIES

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 30 September 2003	31 March 2003	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	US$1	100	100	Investment holding
Honeycroft Holdings Ltd.	British Virgin Islands	Ordinary US$2	100	100	Investment holding
Automatic Associates Limited	British Virgin Islands	Ordinary US$1	100	100	Investment holding
BonVision Technology Limited	Hong Kong	Ordinary HK$100	60	60	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
Janeper Development Limited	Hong Kong	Ordinary HK$2 Deferred HK$300,000	100	100	Property investment
Vanda Software Engineering Company Limited	Hong Kong	Ordinary HK$1,000,000	100	100	Development of software
Vanda Information Technology Limited	Hong Kong	Ordinary HK$1,000,000	100	100	Development of software
WiseAsia.com Ltd.	Hong Kong	Ordinary HK$100,000	100	100	Systems integration and provision of related technical services and trading of computer products

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered and paid-up capital	Percentage of equity attributable to the Company 30 September 2003	31 March 2003	Principal activities
Vanda Computer Service (Hong Kong) Company Limited	Hong Kong	Ordinary HK$10,000	100	100	Systems integration and distribution of computers
Vanda Computer Service (Macau) Company Limited#	Macau	Ordinary MOP$500,000	100	100	Systems integration and distribution of computers
Beijing Vanda Yunda IT Services Co., Ltd.#*	PRC	RMB31,000,000	–	–	Systems integration and trading of computers
Beijing Vanda Suntech Software Engineering Co., Ltd. #	PRC	US$500,000	100	100	Manufacture and sale of computer software and the provision of related technical consultancy services
Changchun Changlian Software Engineering Co., Ltd. #	PRC	RMB2,750,000	60	60	Development, design and installation of computer software systems, provision of consultancy and training services and trading of computers
Dalian Vanda Software Engineering Co., Ltd. #	PRC	RMB996,120	60	60	Design and installation of computer software communications networks and industrial control 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 30 September 2003	Percentage of equity attributable to the Company 31 March 2003	Principal activities
Vanda Computer System Integration (Shenzhen) Co., Ltd. #	PRC	US$2,100,000	100	100	Development, design and installation of computer software systems
Changchun Vanda Software Engineering Co., Ltd. #	PRC	US$500,000	100	100	Development, design and installation of computer software systems, provision of consultancy and training services and trading of computers
Vanda Computer System Integration (Shanghai) Co., Ltd. #	PRC	US$1,050,000	100	100	Systems integration and trading of computers
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$1,000,000	91.7	91.7	Distribution of computer products and provision of information technology consultancy services

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered and paid-up capital	Percentage of equity attributable to the Company 30 September 2003	31 March 2003	Principal activities
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$3,000,000	91.7	91.7	Distribution of computer products and the provision of computer support services
Azure Technologies Phils., Inc. #	The Philippines	Peso9,250,000	91.7	91.7	Distribution of computer hardware, software and the provision of computer support services

Audited by public accountants other than Ernst & Young.

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

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.

15. INTERESTS IN ASSOCIATES

	30 September 2003	31 March 2003
	HK$'000	*HK$'000*
Share of net assets	3,486	3,419
Amounts due from associates	105	105
	3,591	3,524

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 30 September 2003	31 March 2003	Principal activities
Beijing Datong Vanda Systems & Communications Co., Ltd. ("Datong") #	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.

16. LONG TERM INVESTMENT

	30 September 2003	31 March 2003
	HK$'000	*HK$'000*
Unlisted equity investment, at cost	115,330	115,330
Provisions for impairment	(115,330)	(111,630)
	–	3,700

Long term investment represented a 4.96% equity interest in Netstar International Holdings (BVI) Limited, which engaged in the trading of networking equipment and the provision of network integration services. In view of the continuous non-performance and dissatisfactory results of this long term investment, a further provision for impairment has been made during the period ended 30 September 2003 and charged to the consolidated profit and loss account for the period.

17. OTHER INVESTMENTS

	30 September 2003 HK$'000	31 March 2003 HK$'000
Unlisted equity investment, at fair value	–	3,511

18. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Note	30 September 2003 HK$'000	31 March 2003 HK$'000
Cash and bank balances		73,082	102,422
Time deposits		73,321	67,850
		146,403	170,272
Less: Time deposits pledged for bank facilities	*21*	(58,172)	(62,112)
Cash and cash equivalents		88,231	108,160

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$12,841,000 (31 March 2003: HK$30,423,000). 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.

19. PROVISIONS

	Product warranty costs HK$'000	Loss on put option HK$'000	Total HK$'000
At 1 April 2003	14,387	10,000	24,387
Additional provision during the period	191	1,500	1,691
At 30 September 2003	14,578	11,500	26,078
Portion classified as current liabilities	(12,697)	(11,500)	(24,197)
Long term portion	1,881	–	1,881

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.

On 6 April 2001, the Group entered into an agreement (the "Agreement") with First Shanghai Investment Limited ("First Shanghai") to acquire a 60% equity interest and a certain amount of the shareholder's loan in BonVision Technology Limited ("BonVision"), which became a subsidiary of the Group since that date. A provision of HK$10 million was made during the year ended 31 March 2002 and an additional provision of HK$1.5 million was made during the current period for the estimated loss on a put option granted to First Shanghai pursuant to the Agreement, which enables First Shanghai to put its then 40% equity interest and relevant shareholder's loan of HK$8 million in BonVision to the Group, at the earlier of 31 December 2003 or upon the occurrence of any events as specified by the Agreement.

20. FINANCE LEASE PAYABLES

The Group leases certain of its equipment for its systems integration business and general operations. 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:

	Minimum lease payments 30 September 2003	**Minimum lease payments 31 March 2003**	**Present value of minimum lease payments 30 September 2003**	**Present value of minimum lease payments 31 March 2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable:				
Within one year	51	56	38	36
In the second to fifth years, inclusive	167	188	141	159
Total minimum finance lease payments	218	244	179	195
Future finance charges	(39)	(49)		
Total net finance lease payables	179	195		
Portion classified as current liabilities	(38)	(36)		
Long term portion	141	159		

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

	30 September 2003 HK$'000	31 March 2003 HK$'000
Secured bank overdrafts	2,595	–
Trust receipt loans:		
Secured	24,109	32,837
Unsecured	25,907	27,860
Bank loans:		
Secured	4,406	20,969
Unsecured	–	2,104
Unsecured supplier loans	2,977	7,933
	59,994	91,703

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

	30 September 2003 HK$'000	31 March 2003 HK$'000
Within one year:		
Overdrafts	2,595	–
Trust receipt loans	50,016	60,697
Bank loans	1,948	19,624
Supplier loans	2,977	7,933
	57,536	88,254
In the second year:		
Bank loans	1,148	1,573
In the third to fifth years, inclusive:		
Bank loans	1,310	1,876
	59,994	91,703
Portion classified as current liabilities	(57,536)	(88,254)
Long term portion	2,458	3,449

The bank loans and overdrafts and certain trust receipt loans are secured by fixed charges over certain leasehold land and buildings (note 12), investment properties (note 13) and time deposits of the Group (note 18). The supplier loans are unsecured and bear interest at rates ranging from 7.0% to 12.5% (year ended 31 March 2003: 4.5% to 10.5%) per annum.

22. DEFERRED TAX

	30 September 2003 *HK$'000*	31 March 2003 *HK$'000*
At beginning of year	261	87
Deferred tax charge for the period/year, including a charge of HK$15,000 in the prior year due to the effect of the change in tax rate – note 10	–	174
At end of period/year	261	261

The Group's deferred tax provision comprises mainly the effect of accelerated tax depreciation.

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

The Group has tax losses arising in Hong Kong of HK$28,862,000 (31 March 2003: HK$27,438,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. A deferred tax asset has not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

23. SHARE CAPITAL

Shares

	30 September 2003 *HK$'000*	31 March 2003 *HK$'000*
Authorised:		
4,000,000,000 (31 March 2003: 2,000,000,000) ordinary shares of HK$0.10 each	400,000	200,000
Issued and fully paid:		
1,536,379,325 (31 March 2003: 421,607,199) ordinary shares of HK$0.10 each	153,638	42,161

Pursuant to an ordinary resolution passed on 29 August 2003, the authorised share capital of the Company was 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.

On 3 September 2003, Hutchison International Limited ("Hutchison") and DBS Nominees Private Limited ("DBS") served notice to the Company exercising the full conversion of the convertible bonds held by them, in a total principal amount of HK$334,431,638 (note 26), into new ordinary shares of the Company at an amended conversion price of HK$0.30 each (note 26). As a result of such conversion, a total of 1,114,772,126 ordinary shares of HK$0.10 each were issued and allotted to Hutchison and DBS with a total share premium of HK$222,955,000, before share issue expenses of HK$1,430,000.

A summary of the transactions during the period with reference to the above movements in the Company's issued share capital is as follows:

	Number of ordinary shares in issue	Issued share capital	Share premium account	Total
		HK$'000	*HK$'000*	*HK$'000*
At 1 April 2003	421,607,199	42,161	307,937	350,098
Issue of shares upon conversion of 2005 Convertible Bonds – note 26	1,114,772,126	111,477	222,955	334,432
Share issue expenses	–	–	(1,430)	(1,430)
At 30 September 2003	1,536,379,325	153,638	529,462	683,100

Share options

Details of the Company's share option schemes and the share options granted under the schemes are included in note 24 to the financial statements.

24. SHARE OPTION SCHEMES

The Group operates certain option schemes, which were detailed below.

(i) Existing Scheme of the Company

Pursuant to an ordinary resolution passed on 22 March 1995, the Company adopted a share option scheme (the "Existing Scheme") for the purpose of providing incentives and rewards to eligible participants. On 2 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 may 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 may 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 may be exercised after 21 March 2005. Unless otherwise cancelled or amended, the Existing Scheme will remain in force for a period of 10 years commencing on 22 March 1995.

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

Name or category of participant	Date of grant of share options	Number of share options at 1 April 2003	Expired during the period	Number of share options at 30 September 2003	Exercise period of share options	Exercise price of share options**	Price of Company's shares at grant date of options***
						HK$	*HK$*
Directors							
Lam Hon Nam	23.11.1999	1,500,000	(1,500,000)	–	23.2.2000 to 22.5.2003	0.87	1.21
	12.7.2000	1,000,000	–	1,000,000	13.1.2001 to 12.1.2004	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 *(Note 1)*	23.11.1999	750,000	(750,000)	–	23.2.2000 to 22.5.2003	0.87	1.21
	12.7.2000	1,000,000	–	1,000,000	13.1.2001 to 12.1.2004	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 *(Note 1)*	23.11.1999	750,000	(750,000)	–	23.2.2000 to 22.5.2003	0.87	1.21
	12.7.2000	1,000,000	–	1,000,000	13.1.2001 to 12.1.2004	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 *(Note 1)*	23.11.1999	650,000	(650,000)	–	23.2.2000 to 22.5.2003	0.87	1.21
	12.7.2000	500,000	–	500,000	17.1.2001 to 16.1.2004	2.20	2.75
	2.5.2001	400,000	–	400,000	2.11.2001 to 1.11.2004	0.81	1.02
		9,750,000	(3,650,000)	6,100,000			
Other employees							
In aggregate	23.11.1999	1,350,000	(1,350,000)	–	23.2.2000 to 22.5.2003	0.87	1.21
	23.2.2000	140,000	(140,000)	–	23.8.2000 to 22.8.2003	4.05	7.95
	12.7.2000	1,620,000	(500,000)	1,120,000	12.1.2001 to 11.1.2004	2.20	2.75
	2.5.2001	1,964,000	(442,000)	1,522,000	2.11.2001 to 1.11.2004	0.81	1.02
		5,074,000	(2,432,000)	2,642,000			
Total:		14,824,000	(6,082,000)	8,742,000			

Note 1 : Mr. Ma Chun Kwong, Edmund, Mr. Wai Yee Jan and Ms. Ching Wan Kwan resigned as directors of the Company with effect from 3 September 2003. They are still the directors of certain subsidiaries of the Group. The number of outstanding share options held by them has not lapsed.

The options are exercisable for 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 may be exercised after 21 March 2005.

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 may 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 provisions of the share option 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.

At the balance sheet date, the Company had 8,742,000 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 8,742,000 additional ordinary shares of the Company and additional share capital of HK$874,200 and share premium of HK$12,629,000 (before issue expenses).

(ii) Share Option Schemes of Subsidiaries

On 21 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 incentives 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 21 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.

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

(iii) New Option Scheme of the Company

A new option scheme (the "New Option Scheme") was adopted by the Company on 2 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 2 April 2002.

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

Name or category of participant	Date of grant of share options	Number of share options held at 1 April 2003	Granted during the period	Expired during the period	Number of share options held at 30 September 2003	Exercise period of share options	Exercise price of share options**	Price of Company's shares at grant date of options***
							HK$	*HK$*
Directors								
Loh Tiak Koon	2.4.2002	20,000,000	–	–	20,000,000	3.4.2003 to 2.4.2006	0.886	0.88
Ching Wan Kwan *(Note 1)*	2.5.2002	3,000,000	–	–	3,000,000	2.5.2003 to 1.5.2006	0.94	0.93
		23,000,000	–	–	23,000,000			
Other employees								
In aggregate	2.5.2002	9,600,000	–	(2,000,000)	7,600,000	2.5.2003 to 1.5.2006	0.94	0.93
	2.5.2003	–	7,250,000	–	7,250,000	2.5.2004 to 1.5.2007	0.34	0.315
	16.5.2003	–	5,500,000	–	5,500,000	16.5.2004 to 15.5.2007	0.41	0.41
		9,600,000	12,750,000	(2,000,000)	20,350,000			
Total:		32,600,000	12,750,000	(2,000,000)	43,350,000			

Note 1 : Ms. Ching Wan Kwan resigned as Director of the Company with effect from 3 September 2003. She is still the director of certain subsidiaries of the Group. The number of outstanding share options held by her has not lapsed.

The options are exercisable, subject to the vesting scale, commencing on the date on which the options are accepted to the earlier of the date when the options lapse or the date falling four years from the date of grant of the options. One third of the options become vested on the first anniversary of the date of grant and a further one thirty – sixth of the options become vested equally on a monthly basis thereafter.

No value in respect of the share options granted during the period has been charged to the profit and loss account.

At the balance sheet date, the Company had 43,350,000 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 43,350,000 additional ordinary shares of the Company and additional share capital of HK$4,335,000 and share premium of HK$28,069,000 (before issue expenses).

25. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current period and prior year are presented in the consolidated statement of changes in equity on pages 6 to 7 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 fixed assets of the Group were revalued prior to 30 September 1995 of which they were now grouped under investment properties of the Group in prior years. The fixed asset revaluation reserve so arising would be transferred to retained profits/(accumulated losses) as movement in reserves upon disposal.

26. CONVERTIBLE BONDS

	HK$'000
At 1 April 2003	334,432
Converted during the period – *note 23*	(334,432)
At 30 September 2003	–

On 15 February 2002, the Group entered into two several investor agreements (the "Investor Agreements") with Hutchison and DBS, respectively. Under the respective Investor Agreements, the Group 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 ordinary shares of the Company to each of Hutchison (the "HIL Option") and DBS (the "DBS Option").

The HIL Bond and the DBS Bond (collectively the "2005 Convertible Bonds") each bore interest at a rate of 4% per annum payable every six months in arrears. The outstanding principal amounts of the HIL Bond and DBS Bond were repayable by the Group upon their maturity on the third anniversary of the date of issue, subject to the extension by the respective holders for up to two further periods of one year each, if not previously converted by the holders. The 2005 Convertible Bonds were convertible into ordinary 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 ordinary shares would have been issued to Hutchison and DBS, respectively.

Upon completion of the issue of the 2005 Convertible Bonds, the HIL Option and the DBS Option were 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 was HK$0.86 per share, subject to adjustment.

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

On 23 July 2003, the Group entered into two several amendment agreements (the "Amendment Agreements") with Hutchison and DBS, respectively. Pursuant to the Amendment Agreements:

(a) the Group, subject to and with effect from the date of approval of the shareholders of the Company in a special general meeting, agreed to change the conversion price at which the 2005 Convertible Bonds were convertible into new ordinary 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 ordinary share of the Company on the Stock Exchange for the 10 Stock Exchange trading days immediately following 23 July 2003, the date of the announcement the Company made for this event (the "Amended Conversion Price");

(b) subject to the fulfillment or waiver of certain conditions contained therein, Hutchison and DBS would convert the whole of the principal amount outstanding under their respective 2005 Convertible Bonds at the Amended Conversion Price and the Company would allot and issue to Hutchison and DBS, respectively, the new conversion ordinary shares of the Company upon conversion of the 2005 Convertible Bonds; and

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

On 29 August 2003, the amended terms of the Amendment Agreements were approved in a special general meeting of the shareholders of the Company, as follows:

(a) the Group agreed to change the original conversion price of HK$0.85 per share determined under the Investor Agreements to an amended conversion price of HK$0.30 per share subject to adjustments as stipulated in the Amendment Agreements;

(b) Hutchison and DBS also agreed to convert the whole of the principal amount outstanding under their respective 2005 Convertible Bonds at the Amended Conversion Price; and

(c) the Company agreed to allot and issue to Hutchison and DBS the ordinary shares of the Company upon the conversion of the 2005 Convertible Bonds.

On 3 September 2003, the 2005 Convertible Bonds were fully converted into ordinary shares of the Company by Hutchison and DBS at the Amended Conversion Price. Upon the full conversion of the 2005 Convertible Bonds, the Company issued and allotted 659,888,793 and 454,883,333 ordinary shares of HK$0.10 each to Hutchison and DBS, respectively, (aggregating 1,114,772,126 ordinary shares), giving rise to an increase in the Company's share premium account of HK$222,955,000, before share issuing expenses of HK$1,430,000 (note 23).

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transaction

As detailed in note 26 to the financial statements, during the period, the 2005 Convertible Bonds were fully exercised by the bondholders. The exercise did not result in any cash flows to the Group.

(b) Disposal of subsidiaries

	Period from 1 April 2003 to 30 September 2003 *HK$'000*	Year ended 31 March 2003 *HK$'000*
Net liabilities disposed of:		
Fixed assets	–	1,212
Accounts receivable	–	377
Prepayments, deposits and other receivables	–	439
Cash and cash equivalents	–	1,048
Accounts payable	–	(1,285)
Deposits received, accruals and other payables	–	(4,865)
	–	(3,074)
Goodwill released on disposal of subsidiaries	–	(1,943)
Loss on disposal of subsidiaries	–	4,936
	–	(81)
Satisfied by:		
Cash received from the purchaser	–	
Disposal expenses paid by the Group	–	(81)
Net cash consideration	–	(81)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	Period from 1 April 2003 to 30 September 2003 *HK$'000*	Year ended 31 March 2003 *HK$'000*
Net cash consideration paid	–	(81)
Cash and cash equivalents disposed of	–	(1,048)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	(1,129)

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

28. CONTINGENT LIABILITIES

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

	Group		Company	
	30 September 2003	**31 March 2003**	**30 September 2003**	**31 March 2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Guarantees given to banks in connection with:				
facilities granted to subsidiaries	–	–	547,902	545,402
bank guarantees issued by banks	10,438	25,842	–	–
	10,438	25,842	547,902	545,402

At the balance sheet date, facilities amounting to HK$10,438,000 (31 March 2003: HK$25,842,000) in respect of bank guarantees had been utilised by the Group.

(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$3,442,000 as at 30 September 2003 (31 March 2003: HK$3,832,000) as further explained under the heading "Employee benefits" in note 3 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 it is not considered probable that the situation will result in a material future outflow of resources to the Group.

29. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 13 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 30 September 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 September 2003	31 March 2003
	HK$'000	*HK$'000*
Within one year	1,372	1,060
In the second to fifth years, inclusive	1,666	1,264
	3,038	2,324

(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 30 September 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2003	31 March 2003
	HK$'000	*HK$'000*
Within one year	5,715	4,211
In the second to fifth years, inclusive	5,232	3,365
	10,947	7,576

30. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 17 December 2003, the board of directors of the Company approved to change the financial year end date of the Company from 31 March to 31 December. The reason for the change is to align the financial year end of the Company with that of Hutchison, one of its substantial shareholders.

31. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 12 during the period, the accounting treatment and presentation of certain items 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 period's presentation.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 December 2003.

1. PROFORMA CAPITALISATION TABLE

(As of 9 January 2004 except for reserves - see notes below)

	Vanda unaudited *HK$'000*	HGC unaudited *HK$'000*	PowerCom unaudited *HK$'000*	HGC Transaction Adjustments Notes (2), (4) *HK$'000*	PowerCom Transaction Adjustments Notes (3), (4) *HK$'000*	Proforma *HK$'000*
Short-term debts	79,298	1,239	42,334	–	–	122,871
Long-term debts	2,269	3,423,834	16,808	–	–	3,442,911
Convertible note	–	–	–	3,200,000	–	3,200,000
Shareholders' equity						
Issued capital	153,702	78	2	487,422	48,855	690,059
Reserves – *Note (1)*	(75,136)	3,291,916	(30,636)	120,584	372,637	3,679,365
Total shareholders' equity	**78,566**	**3,291,994**	**(30,634)**	**608,006**	**421,492**	**4,369,424**
Total Capitalisation	**160,133**	**6,717,067**	**28,508**	**3,808,006**	**421,492**	**11,135,206**

Notes:

(1) Vanda's reserves are stated as at 30 September 2003 adjusted for the increase in share premium of HK$456,000 arising upon the exercise of certain share options by option holders during the period between 1 October 2003 and 9 January 2004. The reserves of the HGC Group and PowerCom are stated as at 31 December 2003.

(2) The HGC Transaction adjustments reflect:

(i) the issue of 4,875,000,000 Vanda Shares with par value of HK$0.10 at HK$0.80 per share;

(ii) the issue of the HK$3,200 million HGC Consideration Convertible Note to acquire all the issued shares in HGC; and

(iii) consolidation adjustments for the proposed acquisition of HGC by Vanda.

(3) The PowerCom Transaction adjustments reflect:

(i) the issue of 488,572,636 Vanda Shares with par value of HK$0.10 at HK$0.80 per share to acquire all the issued shares in PowerCom; and

(ii) consolidation adjustments for the proposed acquisition of PowerCom by Vanda.

(4) Adjustments to reserves are stated before share issue expenses.

2. PROFORMA FINANCIAL INFORMATION

Proforma Balance Sheet of the Enlarged Vanda Group After Completion of the Transactions

The following table is a statement of the proforma balance sheet of the Enlarged Vanda Group after completion of the Transactions based on the audited consolidated balance sheet of Vanda as at 30 September 2003, the audited consolidated balance sheet of the HGC Group as at 31 December 2003 and the audited consolidated balance sheet of PowerCom as at 31 December 2003 as extracted from the accountants' reports of HGC and PowerCom and the financial statements for the six month period ended 30 September 2003 of Vanda.

	Vanda as at 30 September 2003	HGC as at 31 December 2003	PowerCom as at 31 December 2003	Adjustments (Note)	Proforma Combined Balance Sheet
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash and cash equivalents	75,390	8,446	2,058	–	85,894
Restricted cash	12,841	–	–	–	12,841
Pledged time deposits	58,172	–	–	–	58,172
Other current assets	263,736	237,326	8,286	–	509,348
Net property and equipment	70,787	6,045,145	22,178	–	6,138,110
Goodwill	–	–	–	4,229,498	4,229,498
Other assets	3,591	1,403,507	–	–	1,407,098
Total assets	484,517	7,694,424	32,522	4,229,498	12,440,961
Current liabilities	(390,611)	(963,796)	(46,348)	–	(1,400,755)
Long-term liabilities	(4,741)	(3,438,634)	(16,808)	(3,200,000)	(6,660,183)
Total liabilities	(395,352)	(4,402,430)	(63,156)	(3,200,000)	(8,060,938)
Minority interests	(11,119)	–	–	–	(11,119)
	(406,471)	(4,402,430)	(63,156)	(3,200,000)	(8,072,057)
Proforma Net Assets/(Liabilities)	**78,046**	**3,291,994**	**(30,634)**	**1,029,498**	**4,368,904**
Shareholders' equity					
Issued capital	153,638	78	2	536,277	689,995
Reserves	(75,592)	3,291,916	(30,636)	493,221	3,678,909
	78,046	3,291,994	(30,634)	1,029,498	4,368,904

Note:

The adjustments reflect aggregate consideration for all the issued shares in HGC and PowerCom, which amounts to approximately HK$7,491 million satisfied:

i) as to HK$4,291 million by the issuance of 5,364 million new Vanda Shares, par value HK$0.10, at an issue price of HK$0.80 per share; and

ii) as to the remaining HK$3,200 million by the issuance of the HGC Consideration Convertible Note.

Proforma Statement of Net Tangible Assets of the Enlarged Vanda Group After Completion of the Transactions

Set out below is a proforma statement of unaudited combined net tangible assets of the Enlarged Vanda Group after completion of the Transactions based on the audited consolidated balance sheet of Vanda Group at 30 September 2003:

	HK$'000
Audited consolidated net tangible assets of Vanda as at 30 September 2003	78,046
Value of 5,363,572,636 Vanda Shares at HK$0.80 per Vanda Share	4,290,858
	4,368,904
Less: estimated goodwill arising on consolidation of the HGC Group and the PowerCom Group *(Note)*	(4,229,498)
Adjusted unaudited combined net tangible assets of the Enlarged Vanda Group after the Transactions	139,406

Note: The amount of goodwill on consolidation will be determined on the date of completion of the Transactions and a further review of the value of the underlying assets of the HGC Group and the PowerCom Group. The adjusted unaudited combined net tangible assets of the Enlarged Vanda Group will be increased by the amount of goodwill so allocated to the underlying assets of the HGC Group and the PowerCom Group.

Goodwill

The Transactions will result in Vanda recognising a goodwill amount of HK$4,229 million on its balance sheet, assuming no allocation of the estimated goodwill to the underlying assets of the HGC Group and the PowerCom Group. The table below shows the calculation of goodwill:

	HGC	**PowerCom**	**Total**
	HK$ million	*HK$ million*	*HK$ million*
Aggregate Considerations	7,100	391	7,491
Less: net assets/(liabilities) as at 31 December 2003	3,292	(30)	3,262
Goodwill	3,808	421	4,229

Under HKGAAP, goodwill is amortised over its useful life, a period normally not exceeding 20 years.

Impact on earnings

The future earnings of Vanda will be impacted by the 1% interest on the HGC Consideration Convertible Note, depreciation on goodwill allocated to the underlying assets of the HGC Group and the PowerCom Group and amortisation of the remaining unallocated amount of goodwill.

The above statement should not be interpreted to mean that the future earnings per share of Vanda would necessarily be greater than those for the preceding financial periods.

(1) SHARE CAPITAL

As at the Latest Practicable Date, the issued share capital of Vanda comprised 1,537,871,325 Vanda Shares. On the basis that no further Vanda Shares are issued or repurchased prior to the date of the SGM and that the Consideration Shares have been issued, exercise in full of the proposed Repurchase Mandate can accordingly result in up to 690,144,396 fully paid Vanda Shares being repurchased by Vanda during the course of the period ending on the earliest of the date of the next annual general meeting, the date by which the next annual general meeting of Vanda is required to be held by law and the date upon which such authority is revoked or varied.

(2) REASONS FOR REPURCHASES

The Vanda Directors believe that it is in the best interests of Vanda and its Shareholders to seek a general authority from Shareholders to enable the Vanda Directors to repurchase Vanda Shares in the market. Such repurchases will only be made when the Vanda Directors consider that it will benefit Vanda and its Shareholders in terms of enhanced net asset value per Vanda Share and/or improved earnings per Vanda Share.

(3) FUNDING OF REPURCHASES

Pursuant to the Repurchase Mandate, repurchases would be funded entirely from Vanda's available cash flow or working capital facilities which will be funds legally available for the purpose in accordance with all applicable laws of Bermuda and the Memorandum of Association and Bye-laws of Vanda.

Based on the audited consolidated financial statements of Vanda as at 30 September 2003 (being the date to which the latest published audited financial statements of Vanda have been made up), the Vanda Directors consider that the exercise in full of the Repurchase Mandate to repurchase Vanda Shares might have a material adverse impact on the working capital position or gearing position of Vanda as compared with its financial position as at 30 September 2003. No repurchase would be made in circumstances that might have a material adverse impact on the working capital or gearing position of Vanda unless the Vanda Directors consider that such repurchases are in the best interests of Vanda notwithstanding such material adverse impact.

(4) SHARE PRICES

The highest and lowest prices at which the Vanda Shares were traded on the Stock Exchange in each of the previous twelve months prior to the Latest Practicable Date were as follows:

	Per Share	
	Highest	**Lowest**
	HK$	*HK$*
2003		
February	0.405	0.350
March	0.415	0.330
April	0.365	0.280
May	0.460	0.330
June	0.470	0.400
July	0.620	0.400
August	0.730	0.510
September	1.380	0.660
October	1.100	0.940
November	1.030	0.760
December	0.960	0.820
2004		
January	1.790	0.850

(5) EFFECT OF THE TAKEOVERS CODE

As at the Latest Practicable Date, HIL was a substantial shareholder of Vanda, holding 569,888,793 Vanda Shares, representing approximately 37.06% of the total issued capital of Vanda as at such date. Immediately after completion of the HGC Transaction, the PowerCom Transaction and the Placing, the collective percentage shareholding of HGC Vendor and its Concert Parties in Vanda will be above 50%, assuming no other changes in shareholding in Vanda since the Latest Practicable Date and no further transactions relating to Vanda Shares committed before the date of the SGM which would have the effect of reducing such shareholding to 50% or below. On such basis, if the Repurchase Mandate is fully exercised by Vanda, there will be an effect of increasing the aggregate percentage shareholding of HGC Vendor and its Concert Parties in Vanda without giving rise to any obligation under Rule 26 of the Takeovers Code to make a general offer unless, among other things, such aggregate percentage shareholding falls to 50% or below prior to the exercise of the Repurchase Mandate.

(6) VANDA DIRECTORS AND THEIR ASSOCIATES AND CONNECTED PERSONS

None of the Vanda Directors nor, to the best of their knowledge and having made all reasonable enquiries, any of their associates, have any present intention to sell any Vanda Shares to Vanda or its subsidiaries under the Repurchase Mandate if the Repurchase Mandate is approved by the Shareholders.

No connected persons (as defined in the Listing Rules) have notified Vanda that they have a present intention to sell Vanda Shares to Vanda, or have undertaken not to do so, if the Repurchase Mandate is approved by the Shareholders.

(7) UNDERTAKING OF THE VANDA DIRECTORS

The Vanda Directors have undertaken to the Stock Exchange that they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of Bermuda.

(8) REPURCHASES MADE BY VANDA

Vanda has not purchased any Vanda Shares (whether on the Stock Exchange or otherwise) in the six months preceding the date of this document.

1. RESPONSIBILITY STATEMENTS

This document includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to Vanda. The Vanda Directors collectively and individually 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 and belief there are no other facts the omission of which would make any statement herein misleading.

The information in this document has been supplied by the Vanda Directors. The issue of this document has been approved by the Vanda 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 Vanda and associated corporations

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

As at the Latest Practicable Date, the interests and short positions of the Vanda Directors in the equity or debt securities of Vanda and any associated corporations (within the meaning of Part XV of the SFO) which had been notified to Vanda 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 Vanda and the Stock Exchange were as follows:

(aa) Long positions in Vanda Shares

	Number of Vanda Shares held				
Name of Vanda Director	**Personal interest**	**Family interest**	**Corporate interest**	**Total**	**Approximate % to total issued share capital**
Lam Hon Nam	400,000	–	54,162,000(i)	54,562,000	3.55%

(i) The above 54,162,000 Vanda Shares are held by Lam Ma & Wai Limited, a company incorporated in the British Virgin Islands, which is wholly-owned by Mr. Lam Hon Nam.

(ii) Mr. Lam Hon Nam has indicated that he will abstain from voting on the resolution approving, among others, the Share Whitewash Waiver.

(bb) Long positions in the shares of associated corporations

Name of company	Name of Vanda Director	Number of non-voting deferred shares held – Personal interest	Approximate % to total issued share capital
Vanda Computer & Equipment Company Limited	Lam Hon Nam	918,800	45.94%
Vanda Instrument & Equipment Company Limited	Lam Hon Nam	229,700	45.94%
Janeper Development Limited	Lam Hon Nam	150,000	50%

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; one ordinary share of HK$1 in WiseAsia.com Limited in trust for Interactive Technology Limited; 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.

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

Save as disclosed herein, as at the Latest Practicable Date, none of the Vanda Directors had interests or short positions in any equity or debt securities of Vanda or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to Vanda 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 Vanda and the Stock Exchange.

(ii) Vanda Directors' rights to acquire Vanda Shares

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

Name of Vanda Director	Date of grant of share options	Number of share options held	Exercise period of share options	Exercise price	Approximate % to total issued share capital
				HK$	
Lam Hon Nam	2 May 2001	800,000	2.11.2001 to 1.11.2004	0.81	0.05%
Loh Tiak Koon	2 April 2002	20,000,000	3.4.2003 to 2.4.2006	0.886	1.30%
	Total:	20,800,000			

(iii) Substantial Shareholders

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Vanda Directors or chief executive of Vanda, the following persons had an interest or short position in the shares, underlying shares or debentures of Vanda and any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to Vanda under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were 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 Vanda or any other member of the Vanda Group or had any options in respect of such capital:

Long positions in the shares, underlying shares or debentures of Vanda

Name of Substantial Shareholder	Capacity	Number of Vanda Shares interested in	Approximate % to total issued share capital
HGC Vendor	Beneficial owner	6,390,333,333 *(Note 1)*	415.53%
HTL	Interest of a controlled corporation	6,390,333,333 *(Note 1)*	415.53%
HIL	Beneficial owner and interest of controlled corporations	8,001,888,792 *(Note 1)*	520.32%
HWL	Interest of controlled corporations	8,001,888,792 *(Note 1)*	520.32%
CKH	Interest of controlled corporations	8,250,632,627 *(Note 2)*	536.50%
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	8,250,632,627 *(Note 3)*	536.50%
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee and beneficiary of a trust	8,250,632,627 *(Note 4)*	536.50%
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee and beneficiary of a trust	8,250,632,627 *(Note 4)*	536.50%

Name of Substantial Shareholder	Capacity	Number of Vanda Shares interested in	Approximate % to total issued share capital
Li Ka-shing (“Mr. Li”)	Founder of discretionary trusts and interest of controlled corporations	8,250,632,627 *(Note 5)*	536.50%
DBS Bank Ltd.	Beneficial owner	394,883,333 *(Note 6)*	25.68%
DBS Group Holdings Limited	Interest of a controlled corporation	394,883,333 *(Note 6)*	25.68%
Citigroup Inc.	Interest of a controlled corporation	2,000,000,000 1,920,000 (lending pool)	130.05% 0.12%
Invesco Asia Limited in its capacity as manager/adviser of various accounts	Investment manager	250,000,000	16.26%

Notes:

(1) Such interests arose through (i) the 569,888,793 Vanda Shares currently held by HIL and (ii) the interests acquired by HGC Vendor under the HGC Acquisition Agreement and disposed of by HGC Vendor under the HGC Placing Agreement. HGC Vendor is a direct wholly-owned subsidiary of HTL which in turn is a direct wholly-owned subsidiary of HIL. HIL is a direct wholly-owned subsidiary of HWL. By virtue of the above, each of HTL, HIL and HWL is taken to have a duty of disclosure in relation to the interest in the relevant share capital of Vanda held by HGC Vendor as a substantial shareholder of Vanda under the SFO.

(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 Vanda held by HIL as a substantial shareholder of Vanda under the SFO. CKH is also interested in the share capital of Vanda through CKE, including the interests acquired by CKE under the PowerCom Acquisition Agreement and the interests disposed of by CKE under the PowerCom Placing Agreement.

(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 more than one-third of the issued share capital 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 Vanda held by HIL (together with CKH’s interest in the share capital of Vanda through CKE) as a substantial shareholder of Vanda under the SFO and by virtue of the disposal of interest pursuant to the PowerCom Placing Agreement.

(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 Vanda held by HIL (together with CKH's interest in the share capital of Vanda through CKE) as a substantial shareholder of Vanda under the SFO and by virtue of the disposal of interest pursuant to the PowerCom Placing Agreement.

(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 Vanda held by HIL (together with CKH's interest in the share capital of Vanda through CKE) as a substantial shareholder of Vanda under the SFO and by virtue of the disposal of interest pursuant to the PowerCom Placing Agreement.

(6) Such interests arose through the Vanda Shares held by DBS of which DBS Bank Ltd., a wholly-owned subsidiary of DBS Group Holdings Limited, is the beneficial owner.

Save as disclosed in paragraph 2(a)(iii) above, the Vanda Directors (including its chief executive officer) are not aware of any person who had an interest or short position in the shares, underlying shares or debentures of Vanda and any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to Vanda 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 Vanda or any other member of the Vanda Group or had any options in respect of such capital.

(iv) Others

As at the Latest Practicable Date,

(aa) save as disclosed in paragraph 2(a)(iii) above and in the section headed "Shareholding structures of Vanda, HGC and PowerCom prior to and after completion of the Transactions and of the Placing" in the Letter from the Board contained in this document, none of HGC Vendor or its Concert Parties was interested in any Vanda Shares other than through their holding of shares of and/or directorships in members of the HWL Group;

(bb) other than through their holding of shares of and/or directorships in members of the HWL Group, none of the directors of HGC Vendor had any interests in any Vanda Shares; and

(cc) none of the subsidiaries of Vanda, nor any pension funds of Vanda or of any of its subsidiaries, nor any adviser to Vanda as specified in class (2) of the definition of associate in the Takeovers Code but excluding exempt principal traders had any interests in any Vanda Shares.

(b) Dealings in Vanda Shares

(i) Directors

Disposals of Vanda Shares by Lam Ma & Wai Limited, a company wholly-owned by Mr. Lam Hon Nam from 28 July 2003:

Date	Number of Vanda Shares	Average price per Vanda Share *HK$*
4 September 2003	2,500,000	1.058
5 September 2003	274,000	1.058
13 October 2003	3,000,000	1.070
29 January 2004	6,326,000	1.587

On 5 February 2004, Lam Ma & Wai Limited disposed of 63,738,000 Vanda Shares to Mr. Ma Chun Kwong, Edmund ("Mr. Ma") and Mr. Wai Yee Jan ("Mr. Wai") who are ex-Vanda Directors at an aggregate consideration of US$4.00, and Mr. Ma and Mr. Wai transferred all their respective interests in Lam Ma & Wai Limited to Mr. Lam Hon Nam, after which he became the sole shareholder of Lam Ma & Wai Limited.

Save as disclosed above, none of the Vanda Directors had dealt for value in any Vanda Shares during the period commencing on 28 July 2003 (being the date six months prior to the date of the Announcement) and ended on the Latest Practicable Date (the "Relevant Period").

(ii) HGC Vendor and its directors and Concert Parties

During the Relevant Period, other than pursuant to the Transactions and as disclosed below, the Placing and the placement of Vanda Shares by HIL completed on 9 September 2003, none of HGC Vendor, its directors and its Concert Parties had dealt for value in any Vanda Shares.

During the Relevant Period, an associate of Citigroup effected the following dealings of Vanda Shares:

Disposals of Vanda Shares:

Date	Number of Vanda Shares	Average price per Vanda Share *HK$*
25 November 2003	300,000	0.84
11 December 2003	1,000,000	0.95
6 January 2004	300,000	0.90
6 January 2004	450,000	0.93
6 January 2004	500,000	0.93

Acquisitions of Vanda Shares:

Date	Number of Vanda Shares	Average price per Vanda Share *HK$*
13 October 2003 *(Note)*	2,000,000	1.09
14 October 2003 *(Note)*	200,000	1.06
21 November 2003 *(Note)*	150,000	0.79
21 November 2003 *(Note)*	200,000	0.80

Note: Based on the representations and information provided, the Executive has confirmed that these acquisitions will not be considered "disqualifying transactions" under paragraph 3(a) of Schedule VI to the Takeovers Code.

(iii) Miscellaneous

During the Relevant Period, none of the subsidiaries of Vanda, nor any pension funds of Vanda or of any of its subsidiaries, nor Somerley had dealt for value in any Vanda Shares.

(c) Interests and dealings in the securities issued by HGC Vendor

None of the Vanda Directors or Vanda had any interest in any securities issued by HGC Vendor 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, other than the HGC Placing Agreement and the PowerCom Placing Agreement, there was no agreement, arrangement or understanding between HGC Vendor or its Concert Parties and any other persons for the transfer of the beneficial interests in the HGC Consideration Shares or the PowerCom Consideration Shares.

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

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

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

3. MARKET PRICES

(a) The Vanda Shares are traded on the Stock Exchange. The table below shows the closing prices of the Vanda Shares on the Stock Exchange on (i) the last trading day of each of the six calendar months immediately preceding 28 January 2004, the date of the Announcement; (ii) 13 January 2004, being the day on which the trading of Vanda Shares was suspended pending the issue of the Announcement; and (iii) the Latest Practicable Date:

Date	**Closing Price**
	HK$
31 July 2003	0.57
29 August 2003	0.69
30 September 2003	1.04
31 October 2003	0.99
28 November 2003	0.86
31 December 2003	0.88
13 January 2004	1.11
Latest Practicable Date	1.05

(b) The highest and lowest closing prices for the Vanda Shares recorded on the Stock Exchange during the period between 28 July 2003 (being the date six months prior to the date of the Announcement) and the Latest Practicable Date were HK$1.79 on 29 January 2004 and HK$0.51 on 7, 8 and 11 January 2004 respectively.

4. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Enlarged Vanda Group) have been entered into by the Enlarged Vanda Group within the two years prior to 28 January 2004 and between 28 January 2004 and the Latest Practicable Date:

(a) the agreement dated 15 February 2002 between Vanda and HIL in respect of the issue of the convertible bond in the principal sum of HK$197,966,637.98 by Vanda to HIL;

(b) the agreement dated 15 February 2002 between Vanda and DBS in respect of the issue of the convertible bond in the principal sum of HK$136,465,000 by Vanda to DBS;

(c) the agreement dated 23 July 2003 between Vanda and HIL in respect of the amendments to the terms of the convertible bond in the principal sum of HK$197,966,637.98 issued by Vanda to HIL;

(d) the agreement dated 23 July 2003 between Vanda and DBS in respect of the amendments to the terms of the convertible bond in the principal sum of HK$136,465,000 issued by Vanda to DBS;

(e) a letter dated 20 September 2003 issued by HTL to Hutchison GlobalCenter pursuant to which HTL assigned to HIL with effect from 31 December 2002 a loan in the sum of HK$93,030,053.90 advanced to Hutchison GlobalCenter;

(f) a sale and purchase agreement dated as of 31 December 2003 between HTL and HGC pursuant to which HTL sold to HGC the entire issued share capital in MDC at a total consideration of US$10,000;

(g) a loan assignment deed dated as of 31 December 2003 given by HIL in favour of HGCL with the consent of Hutchison GlobalCenter pursuant to which HIL assigned unto HGCL absolutely all its rights, title and interest in (1) the loan in the amount of HK$195,436,143.28 indebted by Hutchison GlobalCenter to HIL (the "Loan") together with all rights therein after 31 December 2003 at a consideration of HK$48,756,343,59; and (2) the interest accrued in respect of the Loan for the month of December 2003 in the amount in the amount of HK$824,502.79 at a consideration of HK$824,502.79;

(h) a loan facility agreement dated 30 December 2003 between Vanda and First Shanghai Finance Limited for the grant of a loan of HK$19,500,000 to Vanda;

(i) the HGC Acquisition Agreement;

(j) the PowerCom Acquisition Agreement;

(k) the HGC Supplemental Acquisition Agreement; and

(l) the PowerCom Supplemental Acquisition Agreement.

5. SERVICE CONTRACTS

Save as disclosed below, none of the Vanda Directors had as at the Latest Practicable Date or proposes to have a service agreement with any member of the Vanda Group or associated companies of Vanda in force which has or will have more than 12 months to run:

(a) a service agreement dated 12 January 2004 entered into between Vanda and Mr. Lam Hon Nam, which is for a term of three years commencing from 12 January 2004 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 salary of HK$3,455,000 per year during the term of such service agreement; and

(b) a service agreement dated 18 February 2002 entered into between Vanda and Mr. Loh Tiak Koon, an executive Vanda Director, which is for a term of three years commencing from 3 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 3 April 2003 to 2 April 2004 and US$400,000 (or US$425,000 if certain performance targets of the Vanda Group in respect of its financial year 2003-2004 have been met) per year during the period from 3 April 2004 to 2 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 Vanda Group in respect of its financial years 2003 to 2004 and 2004 to 2005 respectively have been met. Vanda 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.

Save as described above, there were no other service contracts for Vanda Directors which have been entered into for the replacement of a prior contract or amended, within six months before the date of the Announcement.

Save as otherwise disclosed in this document, none of the directors or proposed directors of the Enlarged Vanda Group had as at the Latest Practicable Date or proposes to have any service contracts with any member of the Enlarged Vanda Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)):

6. VANDA DIRECTORS' INTEREST IN ASSETS/CONTRACTS AND OTHER INTEREST

Mr. Fok Kin-ning, Canning, Mrs. Chow Woo Mo Fong, Susan and Mr. Lai Kai Ming, Dominic, each of whom being a Vanda Director, are also directors and holders of shares of HWL and are directors of a number of members of the HWL Group. Mr. Fok Kin-ning, Canning is also a director of CKH. Ms. Chan Wen Mee, May, a Vanda Director, is an employee of HIL. HGC Vendor is an indirect wholly-owned subsidiary of HIL, and HIL is a wholly-owned subsidiary of HWL. CKE is a wholly-owned subsidiary of CKH. Each of HGC Vendor and HIL is a party to the HGC Acquisition Agreement, and each of CKE and CKH is a party to the PowerCom Acquisition Agreement. Details relating to those two agreements are summarised in this document.

Save as disclosed in this paragraph 6, none of the Vanda Directors has any direct or indirect interest in any assets which have, since 30 September 2003, being the date of the latest published audited accounts of the Vanda Group, been acquired or disposed of by or leased to any member of the Enlarged Vanda Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Vanda Group.

Save as disclosed in this paragraph 6, none of the Vanda Directors was materially interested in any contract which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Enlarged Vanda Group taken as a whole.

7. LITIGATION

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

8. QUALIFICATIONS OF EXPERTS

The following is the qualifications of the experts who have given opinions or advice which are contained in this document:

Name	Qualification
Somerley	A licensed corporation under the SFO
Deloitte Touche Tohmatsu	Certified public accountants
Ernst & Young	Certified public accountants
PricewaterhouseCoopers	Certified public accountants

Somerley is independent of and not connected with the chairman, directors, any substantial shareholder (as defined under the Listing Rules) or chief executive of Vanda or any of its subsidiaries or their respective associates. Each of Somerley and Ernst & Young (the reporting accountants of Vanda) is not interested beneficially in the share capital of any member of the Vanda Group and does not have any right to subscribe or to nominate persons to subscribe for securities in any member of the Vanda Group. Each of Somerley and Ernst & Young (the reporting accountants of Vanda) has no interest, either directly or indirectly, in the promotion of, or in the assets of, the Vanda Group which have been, since 30 September 2003 (being the date to which the latest published audited consolidated accounts of the Vanda Group were made up), acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to, any member of the Vanda Group.

9. CONSENT

Each of Somerley, Deloitte Touche Tohmatsu, Ernst & Young and PricewaterhouseCoopers, 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.

10. MISCELLANEOUS

(a) The secretary of Vanda is Ms. Lee Sung Kit, FCCA, AHKSA, ACIS.

(b) The registered office of HGC Vendor is at Trident Chambers, PO Box 146, Wickhams Cay, Road Town, Tortola, the British Virgin Islands.

(c) The ultimate controlling shareholder of HGC Vendor 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) In the event of inconsistency, the English text of this document and the form of proxy shall prevail over the Chinese text.

11. 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 5 March 2004:

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

(b) The memorandum and articles of association of HGC Vendor.

(c) The accountants' report of the HGC Group for each of the three years ended 31 December 2003, the text of which is set out in Appendix I to this document and the written statements setting out the adjustments in arriving at the figures shown in the report and giving the reasons therefor.

(d) The accountants' report of the PowerCom Group for each of the three years ended 31 December 2003, the text of which is set out in Appendix II to this document.

(e) The annual reports of the Vanda Group for each of the two years ended 31 March 2003 and the audited consolidated financial statements for the period from 1 April 2003 to 30 September 2003.

(f) The letter from the Independent Board Committee, the text of which is set out on pages 61 to 62 of this document.

(g) The letter from Somerley, the text of which is set out on pages 63 to 108 of this document.

(h) The letters of consent as referred to in paragraph 9 of this appendix.

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

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

(k) Share Option Scheme.

VANDA GROUP

VANDA SYSTEMS & COMMUNICATIONS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting (the "**Special General Meeting**") of the shareholders of Vanda Systems & Communications Holdings Limited (the "**Company**") will be held at 10:45 a.m. (or as soon thereafter as the First SGM (as the same is defined in the circular dated 18 February 2004 despatched to shareholders of the Company) has concluded or adjourned), on 5 March 2004 at Harbour Plaza North Point Hong Kong at 665 King's Road, North Point, Hong Kong for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT** the authorised share capital of the Company be and is hereby increased from HK$400,000,000 divided into 4,000,000,000 shares of HK$0.10 each in the capital of the Company (the "**Shares**") to HK$3,000,000,000 divided into 30,000,000,000 Shares by the creation of an additional 26,000,000,000 Shares."

2. "**THAT** conditional upon the passing of Ordinary Resolution No.1 set out in the notice convening the Special General Meeting at which this Resolution is proposed:

   (a) (i) the HGC Acquisition Agreement (as defined in the Circular dated 18 February 2004 despatched to the shareholders of the Company (the "**Circular**", a copy of which has been produced to the meeting and marked "A", and initialled by the chairman of the meeting for the purpose of identification) and a copy of which has been produced to the meeting and marked "B", and initialled by the chairman of the meeting for the purpose of identification) and the acquisition of the HGC Sale Shares (as defined in the Circular) pursuant to the HGC Acquisition Agreement be and are hereby approved, ratified and confirmed;

   (ii) the issue and allotment of the HGC Consideration Shares to the HGC Vendor (or as it may direct) (both as defined in the Circular), and the issue of the HGC Consideration Convertible Note (as defined in the Circular) to HGC Vendor (or another subsidiary of Hutchison Whampoa Limited ("**HWL**") as HGC Vendor may direct), in each case on the terms set out in the HGC Acquisition Agreement, be and are hereby approved;

   (iii) the issue of the Facility Convertible Notes (as defined in the Circular) to HIL (or to another subsidiary of HWL as HIL may direct) pursuant to the agreement between the Company and HIL for the Facility (as defined in the Circular) on the terms set out in the HGC Acquisition Agreement be and is hereby approved;

(iv) the issue and allotment by the Company of Shares from time to time upon exercise of conversion rights under the HGC Consideration Convertible Note, the Facility Convertible Notes or any of them be and are hereby approved;

(v) all other transactions contemplated under the HGC Acquisition Agreement be and are hereby approved; and

(vi) the directors of the Company (the "**Directors**") be and are hereby authorized for and on behalf of the Company to take all steps necessary or expedient in their opinion to implement and/or give effect to the terms of the HGC Acquisition Agreement, including (without limitation) the issue and allotment of the HGC Consideration Shares, the issue of the HGC Consideration Convertible Note, the issue of the Facility Convertible Notes, and the issue and allotment of new Shares from time to time upon exercise of conversion rights under the HGC Consideration Convertible Note, the Facility Convertible Notes or any of them;

(b) (i) the PowerCom Acquisition Agreement (as defined in the Circular, a copy of the PowerCom Acquisition Agreement has been produced to the meeting and marked "C", and initialled by the chairman of the meeting for the purpose of identification) and the acquisition of the PowerCom Sale Shares (as defined in the Circular) pursuant to the PowerCom Acquisition Agreement be and are hereby approved, ratified and confirmed;

(ii) the issue and allotment of the PowerCom Consideration Shares to CKE and CLPT (or as they may respectively direct) (each as defined in the Circular) on the terms set out in the PowerCom Acquisition Agreement be and are hereby approved;

(iii) all other transactions contemplated under the PowerCom Acquisition Agreement be and are hereby approved; and

(iv) the Directors be and are hereby authorised for and on behalf of the Company to take all steps necessary or expedient in their opinion to implement and/or give effect to the terms of the PowerCom Acquisition Agreement, including (without limitation) the issue and allotment of the PowerCom Consideration Shares;

(c) a waiver (the "**Share Whitewash Waiver**") in respect of any obligation of HGC Vendor (and any parties acting in concert with it (within the meaning of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**")) in relation to the holding of Shares) to make a mandatory offer for all the Shares not already owned or agreed to be acquired by HGC Vendor or any parties acting in concert with it (within the meaning of the Takeovers Code) which would (save for the waiver) otherwise arise under Rule 26 of the Takeovers Code as a result of the issue of the HGC Consideration Shares to HGC Vendor (or as it may direct) and/or the issue of the PowerCom Consideration Shares to CKE and CLPT (or as they may respectively direct) be and is hereby approved, and the Directors be and are hereby authorised for and on behalf of the Company to take all steps necessary or expedient in their opinion in connection with the Share Whitewash Waiver;

(d) unless the condition precedent relating to this waiver ceases to apply under the terms of the HGC Supplemental Acquisition Agreement and the PowerCom Supplemental Acquisition Agreement (both as defined in the Circular), in which case this part of the resolution is deemed to have been withdrawn, a waiver (the "**Convertible Notes Whitewash Waiver**") in respect of any obligations of HGC Vendor (and any parties acting in concert with it (within the meaning of the Takeovers Code) in relation to the holding of Shares) to make a mandatory offer for all the Shares which are not already owned or agreed to be acquired by HGC Vendor or any parties acting in concert with it (within the meaning of the Takeovers Code) which would (save for the waiver) otherwise arise under Rule 26 of the Takeovers Code as a result of the issue of Shares pursuant to any partial or full exercise of conversion rights under the HGC Consideration Convertible Note, the Facility Convertible Notes or any of them be and is hereby approved and the Directors be and are hereby authorised for and on behalf of the Company to take all steps necessary or expedient in their opinion in connection with the Convertible Notes Whitewash Waiver;

(e) (i) the Non-exempt Ongoing Connected Transactions (as defined in the Circular) be and are hereby approved, confirmed and ratified;

(ii) the fixing of the respective Cap Amounts (as defined in the Circular) of the Non-exempt Ongoing Connected Transactions be and is hereby approved;

(iii) the Connected Transactions Waiver Application (as defined in the Circular) and the terms and conditions thereof be and are hereby approved; and

(iv) the Directors be and are hereby authorised for and on behalf of the Company to do all such acts and take all necessary actions in connection with the Ongoing Connected Transactions; and

(f) any one Director, or any two Directors 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 or them to be incidental to, ancillary to or in connection with the matters contemplated under the HGC Acquisition Agreement, the PowerCom Acquisition Agreement, the Share Whitewash Waiver, the Convertible Notes Whitewash Waiver (if applicable) and/or the Ongoing Connected Transactions and to waive compliance from and agree to any amendment to any of the terms of the HGC Acquisition Agreement and/or the PowerCom Acquisition Agreement which in the opinion of such Director(s) is not of a material nature and is in the interests of the Company."

3. "**THAT** conditional upon the passing of Ordinary Resolutions No. 1 and No. 2 set out in the notice convening the Special General Meeting at which this Resolution is proposed:

(a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase the Shares on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or on any other stock exchange on which the shares of the Company may be listed and recognised by the Stock Exchange and the Securities and Futures Commission for this purpose, subject to and in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of the Shares to be repurchased pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of this Resolution as enlarged by the issue of the HGC Consideration Shares and the PowerCom Consideration Shares (each as defined in the Circular) and the said approval shall be limited accordingly;

(c) for the purpose of this Resolution, "**Relevant Period**" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the first annual general meeting of the Company following passing of this Resolution;

(ii) the expiration of the period within which the first annual general meeting of the Company following passing of this Resolution is required by law to be held; and

(iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting; and

(d) the general mandate granted to the Directors to exercise the powers of the Company to repurchase Shares pursuant to the ordinary resolution passed by the shareholders at the Annual General Meeting held on 10 September 2003 be and is hereby revoked."

4. "**THAT** conditional upon the passing of Ordinary Resolutions No. 1 and 2 set out in the notice convening the Special General Meeting at which this Resolution is proposed:

(a) a general mandate be and is hereby generally and unconditionally given to the Directors to exercise during the Relevant Period (as hereinafter defined) all the powers of the Company to allot, issue and deal with additional Shares and to make or grant offers, agreements or options which would or might require the exercise of such powers either during or after the Relevant Period, provided that the aggregate nominal amount of the share capital of the Company to be allotted, issued and dealt with pursuant to the general mandate herein, otherwise than pursuant to (1) a Rights Issue (as hereinafter defined); or (2) any option scheme or similar arrangement for the time being adopted for the grant or issue to the employees and directors of the Company and/or any of its subsidiaries and/or other eligible participants specified thereunder of shares or rights to acquire shares of the Company; or (3) an issue of Shares upon the exercise of the subscription rights attaching to any warrants which may be issued by the Company; or (4) any scrip dividend pursuant to the bye-laws of the Company from time to time, shall not exceed 20 per cent. of the aggregate nominal amount of share capital in issue as at the date of this Resolution as enlarged by the issue of the HGC Consideration Shares and the PowerCom Consideration Shares (each as defined in the Circular) and the said approval shall be limited accordingly; and

(b) for the purposes of this Resolution:

"**Relevant Period**" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the first annual general meeting of the Company following passing of this Resolution;

(ii) the expiration of the period within which the first annual general meeting of the Company following passing of this Resolution is required by law to be held;

(iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting; and

"**Rights Issue**" means an offer of shares in the capital of the Company open for a period fixed by the Directors to holders of Shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such Shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong)."

5. "**THAT** conditional upon the passing of Ordinary Resolutions No. 3 and 4 set out in the notice convening the Special General Meeting at which this Resolution is proposed, the general mandate granted to the Directors and for the time being in force to exercise the powers of the Company to allot, issue and deal with additional Shares pursuant to Ordinary Resolution No. 4 as set out in the notice convening the Special General Meeting at which this Resolution is proposed be and is hereby extended by the addition to the aggregate nominal amount of share capital which may be allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with by the Directors pursuant to such general mandate an amount representing the aggregate nominal amount of shares in the capital of the Company repurchased by the Company since the granting of the said general mandate pursuant to the exercise by the Directors of the powers of the Company to repurchase such shares under the authority granted pursuant to Ordinary Resolution No. 3 as set out in the notice convening the Special General Meeting at which this Resolution is proposed provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution as enlarged by the issue of the HGC Consideration Shares and the PowerCom Consideration Shares (each as defined in the Circular)."

6. "**THAT** conditional on the Stock Exchange granting the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of any options to be granted on or after the date of the Special General Meeting under the share option scheme of the Company adopted on 2 April 2002 or under any share option schemes to be adopted by the Company (the "**Options**"), the Directors be and are hereby authorised, at their absolute discretion, for and on behalf of the Company to grant Options and to allot and issue Shares pursuant to the exercise of any Options up to 5% of the issued share capital of the Company in issue as at the date of this Resolution as enlarged by the allotment and issue of the HGC Consideration Shares and the PowerCom Consideration Shares (each as defined in the Circular)."

By Order of the Board
LEE Sung Kit
Company Secretary

Hong Kong, 18 February 2004

Notes:

1. A form of proxy for use at the Special General 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 Special General 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 Special General 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 Special General 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 Special General 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.

7. In accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Code on Takeovers and Mergers, Ordinary Resolution No. 2 will be determined by way of a poll.