



VANDA SYSTEMS & COMMUNICATIONS HOLDINGS LIMITED

中聯系統控股有限公司

(incorporated in Bermuda with limited liability)

ANNOUNCEMENT OF RESULTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2003

FINAL RESULTS

The Board of Directors (the "Directors") of Vanda Systems & Communications Holdings Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the nine months from 1 April 2003 to 31 December 2003 together with the comparative figures for the year ended 31 March 2003 as follows:-

		Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
Turnover		688,786	1,024,638
Cost of sales		<u>(590,128)</u>	<u>(854,664)</u>
Gross profit		98,658	169,974
Other revenue		5,865	11,368
Selling and distribution costs		<u>(19,042)</u>	<u>(29,555)</u>
Administrative expenses		(104,018)	(139,019)
Other operating expenses:			
Impairment of leasehold land and buildings		(12,161)	-
Revaluation deficit of investment properties		(1,500)	(8,157)
Impairment of a long term investment		(3,700)	(76,361)
Unrealised holding losses on other investments		(3,266)	(57,202)
Provision for loss on put option		(1,500)	-
Provisions for and write-off of bad and doubtful debts		(8,244)	(9,197)
Surrender fee paid for termination of a tenancy agreement		-	(3,469)
Loss on disposal of subsidiaries		-	(4,690)
Gain on disposal of discontinued operation		-	2,747
Compensation for loss of office to directors		-	(2,691)
Other expenses		<u>(3,164)</u>	<u>(3,200)</u>
LOSS FROM OPERATING ACTIVITIES	1	<u>(52,072)</u>	(149,452)
Finance costs		(8,675)	(18,757)
Share of profits and losses of associates		<u>(109)</u>	<u>417</u>
LOSS BEFORE TAX			
Continuing operations		(60,856)	(169,889)
Discontinued operation	5	-	2,097
		<u>(60,856)</u>	<u>(167,792)</u>
Tax	2	<u>(14,569)</u>	<u>(4,713)</u>
Loss before minority interests		<u>(75,425)</u>	(172,505)
Minority interests		<u>(760)</u>	<u>(1,310)</u>

VANDA SYSTEMS & COMMUNICATIONS HOLDINGS LIMITED

NET LOSS FROM ORDINARY ACTIVITIES
ATTRIBUTABLE TO SHAREHOLDERS

LOSS PER SHARE

3

Basic

Diluted

(76,185)

(8.4 cents)

N/A

(173,815)

(41.2 cents)

N/A

CONSOLIDATED BALANCE SHEET

	31 December 2003 <i>HKS '000</i>	31 March 2003 <i>HKS '000</i>
NON-CURRENT ASSETS		
Fixed assets	40,007	54,858
Investment properties	28,800	30,300
Interests in associates	3,415	3,524
Long term investment	–	3,700
Other investments	–	3,511
	<u>72,222</u>	<u>95,893</u>
CURRENT ASSETS		
Accounts receivable	181,570	270,300
Inventories	27,433	39,847
Tax recoverable	3,233	3
Prepayments, deposits and other receivables	23,869	28,983
Pledged bank deposits	60,798	62,112
Cash and cash equivalents	133,572	108,160
	<u>430,475</u>	<u>509,405</u>
CURRENT LIABILITIES		
Accounts payable	123,501	171,736
Deposits received, accruals and other payables	182,970	167,741
Provisions for product warranty costs and loss on put option	25,571	22,697
Tax payable	14,458	3,242
Finance lease payables	37	36
Interest-bearing bank loans, overdrafts and supplier loans	81,122	88,254
	<u>427,659</u>	<u>453,706</u>
NET CURRENT ASSETS	<u>2,816</u>	<u>55,699</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>75,038</u>	<u>151,592</u>
NON-CURRENT LIABILITIES		
Provisions for product warranty costs	36	1,690
Finance lease payables	131	159
Interest-bearing bank loans	2,086	3,449
Deferred tax	632	261
	<u>2,885</u>	<u>5,559</u>
	<u>72,153</u>	<u>146,033</u>
CAPITAL AND RESERVES		
Issued capital	153,642	42,161
Reserves	(95,767)	(241,534)
	<u>57,875</u>	<u>(199,373)</u>
MINORITY INTERESTS	<u>14,278</u>	<u>10,974</u>
	<u>72,153</u>	<u>(188,399)</u>
CONVERTIBLE BONDS	–	334,432
	<u>72,153</u>	<u>146,033</u>

Notes:

1. Loss from operating activities

	Period from 1 April 2003 to 31 December 2003 <i>HK\$'000</i>	Year ended 31 March 2003 <i>HK\$'000</i>
This is arrived at after (charging)/crediting:		
Interest income	1,230	2,944
Impairment of leasehold land and buildings	(12,161)	–
Revaluation deficit of investment properties	(1,500)	(8,157)
Impairment of a long term investment	(3,700)	(76,361)
Unrealised holding losses on other investments	(3,266)	(57,202)
Provision for loss on put option	(1,500)	–
Provisions for and write-off of bad and doubtful debts	(8,244)	(9,197)
Surrender fee paid for termination of a tenancy agreement	–	(3,469)
Loss on disposal of subsidiaries	–	(4,690)
Gain on disposal of discontinued operation	–	2,747
Compensation for loss of office to directors	–	(2,691)
Cost of inventories sold	(557,910)	(826,889)
Cost of services provided	(32,218)	(27,775)
Depreciation	<u>(6,526)</u>	<u>(12,871)</u>

2. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (year ended 31 March 2003: 16%) on the estimated assessable profits arising in Hong Kong during the period. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the period. Taxes 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 31 December 2003 <i>HK\$'000</i>	Year ended 31 March 2003 <i>HK\$'000</i>
Current period/year provision:		
Hong Kong	71	150
Outside Hong Kong	<u>4,295</u>	<u>2,959</u>
	<u>4,366</u>	<u>3,109</u>
Prior year under provision:		
Hong Kong	–	4
Outside Hong Kong	<u>9,836</u>	<u>1,426</u>
	<u>9,836</u>	<u>1,430</u>
Deferred tax	<u>367</u>	<u>174</u>
Tax charge for the period/year	<u><u>14,569</u></u>	<u><u>4,713</u></u>

3. Loss per share

The calculation of the basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$76,185,000 (year ended 31 March 2003: HK\$173,815,000) and the weighted average of 908,068,000 (year ended 31 March 2003: 421,535,000) ordinary shares in issue during the period.

Diluted loss per share amounts for the period and the prior year have not been disclosed as the share options, convertible bonds and options granted to the convertible bondholders outstanding during the period and the prior year had an anti-dilutive effect on the basic loss per share for the period and the prior year.

4. Segmental information

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

By geographical segments:

	Hong Kong and Macau		Mainland China		South East Asia		Corporate		Consolidated	
	Period from	Year ended	Period from	Year ended	Period from	Year ended	Period from	Year ended	Period from	Year ended
	1 April 2003 to	31 March	1 April 2003 to	31 March	1 April 2003 to	31 March	1 April 2003 to	31 March	1 April 2003 to	31 March
	31 December	2003	31 December	2003	31 December	2003	31 December	2003	31 December	2003
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Segment revenue:										
Sales to external customers	117,067	170,172	235,918	414,954	334,437	439,512	1,364	-	688,786	1,024,638
Other revenue	252	937	1,960	2,057	2,085	5,050	338	380	4,635	8,424
Total	117,319	171,109	237,878	417,011	336,522	444,562	1,702	380	693,421	1,033,062
Segment results	1,773	8,438	(14,362)	(9,308)	4,142	23,706	(24,228)	(39,361)	(32,675)	(16,525)
Unallocated interest income									1,230	2,944
Impairment of leasehold land and buildings			(5,161)	-			(7,000)	-	(12,161)	-
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 operation	-	2,747							-	2,747
Loss on disposal of an associate	-	(314)							-	(314)
Loss on disposal of other investments						(51)			-	(51)
LOSS FROM OPERATING ACTIVITIES									(52,072)	(149,452)
Finance costs									(8,675)	(18,757)
Share of profits and losses of associates									(109)	417
LOSS BEFORE TAX									(60,856)	(167,792)
Tax									(14,569)	(4,713)
Loss before minority interests									(75,425)	(172,505)
Minority interests									(760)	(1,310)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS									(76,185)	(173,815)

By business segments:

	Systems integration and Application solution services				(Discontinued operation note 5) e-business		Corporate		Consolidated	
	Period from	Year ended	Period from	Year ended	Period from	Year ended	Period from	Year ended	Period from	Year ended
	1 April 2003 to	31 March	1 April 2003 to	31 March	1 April 2003 to	31 March	1 April 2003 to	31 March	1 April 2003 to	31 March
	31 December	2003	31 December	2003	31 December	2003	31 December	2003	31 December	2003
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Segment revenue:										
Sales to external customers	397,917	670,186	290,869	354,284	-	168	-	-	688,786	1,024,638
Segment results	(16,210)	8,281	7,900	21,666	-	(336)	(24,365)	(46,136)	(32,675)	(16,525)

5. Discontinued operation

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

6. Share capital

During the period, holders of the Company’s convertible bonds served notices to the Company of their intention to exercise the full conversion of convertible bonds held by them, in a total principal amount of HK\$334,431,638 into new ordinary shares of the Company at an amended conversion price of HK\$0.30 each. As a result, a total of 1,114,772,126 ordinary shares of HK\$0.10 each were issued and allotted.

During the period, 42,000 ordinary shares of HK\$0.10 each were issued pursuant to the exercise of the Company’s share options by an employee at an exercise price of HK\$0.81 per share.

7. Contingent liabilities

	31 December 2003 <i>HK\$'000</i>	31 March 2003 <i>HK\$'000</i>
Guarantees given to banks in connection with bank guarantees issued by banks	<u>10,438</u>	<u>25,842</u>

At the balance sheet date, the facilities of HK\$10,438,000 (31 March 2003: HK\$25,842,000) in respect of bank guarantees had been utilised by the Group.

8. Capital commitment

The Group had no significant capital commitments as at 31 December 2003 (31 March 2003: Nil).

9. Pledge of assets

As at 31 December 2003, certain leasehold land and buildings with a net book value of HK\$12,011,000 (31 March 2003: HK\$19,386,000), certain investment properties with carrying values of HK\$24,500,000 (31 March 2003: HK\$26,000,000) and certain bank deposits of HK\$60,798,000 (31 March 2003: HK\$62,112,000) were pledged to banks as security for banking facilities granted to the Group.

10. Change of financial year end date

On 31 December 2003, the Directors of the Company announced the change of the Company’s financial year end date from 31 March to 31 December. Accordingly, the consolidated profit and loss account and related notes covered a nine month period from 1 April 2003 to 31 December 2003.

11. Comparative amounts

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

12. Approval of the audited financial statements

The audited financial statements were approved and authorised for issue by the Directors on 8 March 2004.

DIVIDEND

No interim dividend was paid during the nine months ended 31 December 2003 (year ended 31 March 2003: Nil) and the directors do not recommend the payment of any final dividend in respect of the period (year ended 31 March 2003: Nil).

OPERATIONAL AND FINANCIAL PERFORMANCE REVIEW

This year’s annual report covers a nine-month period from 1 April 2003 to 31 December 2003 due to the change of our financial year end.

Amidst the challenging operating environment, the Group has taken a number of initiatives to boost our operational efficiency and financial soundness to make us stronger and more flexible to grasp new opportunities amid the recovering economy.

In line with the Group's continued efforts in adopting stringent accounting measure, the Group has made a number of non-cash provisions including provision for and write-off of bad and doubtful debts, provision for impairment of a long term investment and leasehold land and buildings, unrealised holding losses on other investments, provision for loss on put option and revaluation deficit of investment properties totaling HK\$30,371,000. Although such provisions adversely impacted our bottom line, the Group believes that all these are necessary actions to ensure our position for positive future growth.

For the nine-month period under review, the Group faced certain market challenges yet we also seized the opportunity to become more efficient and clearly focused on our core business.

Our business outside China has fared steadily and was profitable for the second consecutive year in a row with new contracts obtained in Hong Kong and Singapore for various industries. In view of the eroding profit margin as a result of competitive market, the Group managed to shift our business attention to focus more on direct client business in pursuit of return on higher margin.

Our operation in China was further rationalised with a view to align our costs with the level of business. During the period, the Group continued to clean out its operation by implementing stringent disciplines and making immense effort in the management of inventories, accounts receivable, taxation and working capital to improve operational efficiency and strengthen our liquidity position and profitability. However, as a company with major business activities in China, we are not immune to the negative effects of SARS on our revenue. Nonetheless, our business activities resumed soon afterwards as evidenced by many contracts that we successfully obtained in the latter part of the financial period.

To achieve the objective of margin improvement, the Group also accelerated its efforts of transforming into a service-driven company providing IT solutions and offering high value-added consultancy services.

All these have resulted in an operation that was optimally efficient, cost-effective and financially sound to gear towards revenue and profitability growth.

A major development of the Group during the period was the exercise of convertible bonds by Hutchison International Limited ("HIL") and DBS Nominees Private Limited ("DBS Private Equity"). This is a significant move underscoring their endorsement of our business and confidence in our prospects. After becoming the major shareholders of the Company, these two corporations will work with Vanda for long term business growth.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group recorded a turnover of HK\$688,786,000 for the nine months period ended 31 December 2003. Gross profit was HK\$98,658,000. The Group reported an operating loss of HK\$52,072,000 and net loss from ordinary activities attributable to shareholders was HK\$76,185,000.

Systems Integration and Application Solution Services

The turnover from systems integration and application solution services was HK\$397,917,000, accounting for 57.8% of the consolidated turnover. This business segment was adversely affected by the slowdown of IT projects in China due to the outbreak of SARS in the second quarter of 2003 and sluggish IT spending in general. The Group recorded a segment loss of HK\$16,210,000 from this segment.

In line with the Group's strategic road map to transform into a solution-based IT service provider, during the period, the Group has made great efforts and investments in implementing various strategies and measures to provide high value-added services to our customers. The formation of "Vanda InnovAsia" which comprises a team of IT professionals with deep domain skill in banking applications is part of this strategic transformation. The team at Vanda InnovAsia provides business applications and a wide spectrum of IT services from consulting, software and application development to systems infrastructure and outsourcing.

Despite corporate IT spending was in general cautious, we see robust demand in segments such as storage, security and system management. The Group has therefore launched solutions and services for these segments to meet with the demand. The Group has seen the pay-off of the efforts as some of the segments have become the major source of income for annuity service.

In the meantime, the Group was also very active in establishing business relationship with international technology companies. This has helped the Group enrich its product offerings to customers and enter into new market segments. Our strategic alliances with Business Objects, the world's leading business intelligence tools provider, has allowed our PRC software team to develop high performance Business Intelligence solutions for clients in the PRC banking and taxation industries. A co-operation agreement was also reached with Misys International Banking System Limited, a renowned business solution provider to jointly develop international business solutions for the PRC domestic banking market. In addition, the exclusive agreement with KEBA, a leading automation machinery and solutions provider based in Austria, allowed the Group to market a full line of self service banking products in the PRC including ATM products, after sales services and application solutions services.

Notwithstanding the challenging market conditions, the Group has secured a great number of contracts in the PRC for system integrations projects. New contracts included Headquarter Payment System Project for the People's Bank of China, Beijing Data Back-up Centre for China Foreign Exchange Trade Centre; Data Centre Network Integration Project for China Union Pay; Provincial Data Consolidation Project for Rural Credit Cooperatives Bank in Jiangsu; Disaster Back Up Project for the Overseas Centre of Industrial and Commercial Bank of China in Shenzhen; Agricultural Bank of China Zhejiang Branch and Xinhua News Agency.

In Hong Kong, Macau and Singapore, the Group also obtained system infrastructure services contracts from a host of clients including Asia Television, Banco Commercial de Macau in Macau. CTS Cargo HK and China Travel Service Holdings Ltd in Hong Kong and United Overseas China Bank and Singapore Telecommunications (SingTel) in Singapore.

Testament to the quality work we deliver, the Group has been awarded a number of major industry awards. These include "Top Financial Solutions Promotion 2003" by IBM and "2003 China Fastest Growth Business Partner Award" by Cisco for the PRC. In Hong Kong, the division was awarded "IBM Business Partner of the Year" among others.

Infrastructure Solutions

During the period, the turnover from infrastructure solutions in Southeast Asia was HK\$290,869,000, representing 42.2% of the consolidated turnover. The business recorded a segment profit of HK\$7,900,000.

The infrastructure remained competitive in the period under review. Competition was further aggravated by the SARS, which slowed down IT procurement, creating downward pressure on margin. We managed to offset some of this pressure thanks to our strategy of shifting our business focus on direct client business to strengthen our relationship with customers and ultimately improve profit margin.

During the period, our distribution arm Azure Technologies in Singapore, Malaysia and the Philippines continued to report new wins in contracts including Unilever Singapore and Super Value Inc. and Pilipinas Shell in the Philippines.

Our sales team in Singapore continued to be recognised by key industry awards, including the "Top IBM Business Partner 2003" awarded by IBM.

LIQUIDITY AND CAPITAL RESOURCES

On 3 September 2003, HIL and DBS Private Equity fully exercised their conversion rights attaching to the convertible bonds issued by the Company at a conversion price of HK\$0.30 per share according to the amendment agreements approved in the special general meeting held on 29 August 2003.

As at 31 December 2003, the Group's total cash and bank balances and bank deposits (including pledged deposits) amounted to HK\$194,370,000 (31 March 2003: HK\$170,272,000) and the Group's interest-bearing loans was HK\$83,208,000 (31 March 2003: HK\$91,703,000). HK\$81,122,000 of the amounts of the interest-bearing bank loans were repayable within one year and the remaining portion were repayable within a period of two to five years.

As at 31 December 2003 and 31 March 2003, gearing ratio have not been shown as the Group is in a net cash position.

EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 658 employees as at 31 December 2003 (31 March 2003: 616 employees). Pay rates for employees are maintained at competitive level, salary and bonuses are rewarded on a performance related basis. Other staff benefits include a medical scheme, provident fund and share option schemes.

PROSPECTS

The management is of the view that following the uptake of economy in 2004, the operating conditions will see great improvement in the New Year. There are a number of factors favourable to the growth of our business.

Our core business of IT services has begun to show improvement with the demise of SARS. New contracts are secured not only in the banking and finance sector, which is our traditional forte but also from multinational corporations. The expanded customer base will boost our revenue.

The cost rationalisation measures have taken effects and begun to deliver enhanced cost and operational efficiency resulting in direct positive impact on our profitability.

With HIL and DBS Private Equity becoming new business shareholders, the Group enjoys new opportunities in new business arena. For example, the Group has begun to provide service support to Hutchison group's 3G initiatives. A major milestone in Hong Kong's telecommunications market, the launch of 3G will bring immense opportunities for Vanda in the area of system development and support. We are confident that Vanda will enjoy greater synergistic benefits from our new shareholders to broaden its business scope and horizon.

In January 2004, the Group proposed an acquisition of the entire issued share capital of Hutchison Global Communications Investments Limited ("HGC") and PowerCom Network Hong Kong Limited ("PowerCom") which was approved by the independent shareholders at the special general meetings of the Company held on 5 March 2004. Upon the completion of the acquisition of HGC and PowerCom which is expected to take place before 13 March 2004, both businesses bringing in advanced broadband access technology, the enlarged Vanda group will be expected to benefit from the tremendous synergies resulted from the association. The enlarged group will be uniquely positioned as a next generation technology services provider in Hong Kong.

With the streamlined operation, increasing source of income, recovering economy, as well as synergies and enhanced cross-product compatibility resulted from the transaction, the Group is better equipped to add value for our customers by the delivery of premium and total information and communication technologies ("ICT") services, and to further capture the business opportunities in the ever evolving ICT industry.

NOTE OF THANKS

I would like to take the opportunity to thank the Directors and our shareholders for their immense support and confidence in the management. I must also thank all staff members of the Group for their support in implementing the new business directions and their contribution to laying down the foundation for future growth.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the nine months ended 31 December 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

Throughout the nine months ended 31 December 2003 and up to the date of this announcement, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that the independent non-executive directors of the Company were not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

Information that is required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

By order of the Board
Loh Tiak Koon
Chief Executive Officer

Hong Kong, 8 March 2004

Please also refer to the published version of this announcement in The Standard dated 9 March 2004.