

MANAGEMENT **discussion** & analysis

BUSINESS REVIEW

Systems Integration & Software Services

The turnover from systems integration and software services business has recorded a decline of 14.5% year on year to HK\$670,186,000 accounting for 65.4% of the Group's total turnover. The systems integration and software services business recorded a segment profit of HK\$8,281,000. (2002: segment loss of HK\$76,958,000).

The drop in turnover can be attributed to numerous factors including the overall difficult business environment in Asia and a slower IT spending in the PRC, our disposal of non-core companies including Janko Electronics (Beijing) Co., Ltd., plus our proactive approach in upholding a stringent inventory and account receivable discipline and focusing on obtaining higher margin business.

During the year, we see increasing demand in applications solutions and services for maintenance, storage and high security. In line with the Group's strategy in transforming from a traditional systems integrator to a solution based IT service provider, the Group has been actively enhancing its software and applications capabilities and offering value-add services to our clients. As a result, significant income growth in service revenue has been made during the period and gross profit margin was greatly improved when compared with the corresponding period.

In Mainland China, during the period under review, the Group has successfully secured numerous sizeable contracts from both new and repeated customers. They included the People's Bank of China Headquarters Payment System and Network Revamping Project, Agricultural Bank of China Headquarters National Backbone Network Project, Industrial and Commercial Bank of China Shanxi Branch ATM Project, China Construction Bank Pledge Assets Management Information System, China Foreign Exchange Trade Centre,

and China Government Securities Depository Trust & Clearing Co., Ltd.

As for our software business, apart from further upgrading our proprietary banking solutions "VisionBanking Suite", the Group has successfully launched several new solutions to tap the fast growing non-banking market. These solutions included "Vision TAIS" for taxation, "Vision PSM" for the energy sector and "Vision HIS" for hospital management.

Furthermore, to cope with the increasing demand of data storage and information security, the Group also launched customized and advanced storage solutions as well as high quality security services. Our customized, advanced solutions comprise of data backup and recovery solution, disaster recovery solution, SAN storage solution, and network storage solution service.

In Hong Kong, Macau and Southeast Asia, against sluggish business environment in the region, the Group was able to achieve moderate growth in revenue and profit. The operations were able to secure notable names and reputed clients. They included Agricultural Bank of China Hong Kong Branch, Monetary Authority of Macau, ABN Amro Asia Pacific Pte Ltd of Singapore and Kumpulan Wang Simpanan Pekerja of Malaysia.

During the period under review, the Group forged strategic partnerships with various global IT franchisers to enhance its competitiveness in providing a wider spectrum and high value products and solutions for our customers. New partners acquired included NCR, Wincor Nixdorf GmbH & Co., Odysys Science & Technology Ltd. and StorageTek. Furthermore, the Group also set up its own "Total Storage Solution Centres" in Hong Kong, Singapore and the Philippines to deliver one-stop services for storage hardware, software solutions, and consulting services and offer customers test driving IBM's latest products.

We are proud to report that Vanda China was awarded by IBM as the "Top Industry Solutions Provider" 2002. The award

recognized the Group's achievement and contribution in creating and developing solutions and applications in China. During the year under review, Vanda China has developed a total of 17 software solutions. The operation has provided solutions and systems software services for various finance organizations including China Development Bank, Rural Credit Cooperative Union in Zhanjing and Zhaoqing, Dalian Housing Provident Fund Management Centre, Changchun Power Supply Company and Tianjin Local Taxation Bureau.

The achievement of Vanda Group was further reflected by winning numerous awards outside China including "RSA Top Achiever 2002", "Singapore 1000 Companies" in Singapore and "IBM Top Contributor for iSeries products" in Hong Kong.

Mid-range Computer Systems Distribution in South Asia

The Group's distribution arm, Azure Technologies with operations in Singapore, Malaysia and the Philippines has achieved solid growth in revenue during the reporting period. Its aggregated turnover was amounted to HK\$354,284,000 representing 34.6% of the Group's total turnover, an increase of approximately 17.4% as compared to the same period last year. The distribution business recorded a segment profit of HK\$21,666,000. (2002: segment loss of HK\$31,280,000).

Over the years, Azure Technologies in the Asean region has established a strong position as a reseller and is IBM top partner. In addition to distributing powerful high-end computer systems, Azure Technologies has been actively expanding the breadth and depth of its business by forming partnership alliances with the world's leading IT vendors to provide technologies and value-add services to our clients. Last year, we have added ARCAD, ePLDT and VMWare on the list.

During the year, Azure Technologies has successfully secured numerous contracts from reputable organizations by providing hardware, solutions, consultancy, implementation, server migration and consolidation and system upgrading services. These contracts were awarded by enterprises including Danone Asia Pte Ltd and Sony in Singapore, Bank Pertanian Malaysia Berhad and Kumpulan Wang Simpanan Pekerja in Malaysia, Super Value, Inc. and Government Service Insurance System in the Philippines.

Azure Technologies has also scooped an impressive number of awards for its growing business and outstanding

achievements in the region during the period. The Company has received 10 IBM awards in Singapore. They included the Overall Top Performing Business Partner for 2002, Top IBM Business Partner 2002-pSeries Server, Storage and Software, Significant Contributor Award 2002-iSeries Server. In Malaysia and the Philippines, Azure Technologies was awarded the IBM Platinum Club Award 2002 and Distributor of the Year for pSeries and Storage products respectively.

LIQUIDITY & CAPITAL RESOURCES

On 3rd April, 2002, the Company issued convertible bonds bearing interest at 4% per annum maturing on 3rd April, 2005 to Hutchison International Limited and DBS Nominees Private Limited in the principal amounts of HK\$197,966,638 ("2005 HIL Bond") and HK\$136,465,000 ("DBS Bond") respectively. The consideration for the issue of the 2005 HIL Bond was settled by the surrender of the bond of the same amount maturing on 8th April, 2002. The consideration for the issue of the DBS Bond was settled by cash of which HK\$78 million was used for the repayment of the bond issued to an independent third party of HK\$79,186,656 matured on 8th April, 2002 ("I3P Bond") and the balance of HK\$58 million was used for working capital of the Group. The I3P Bond was fully settled on 8th April, 2002.

As at 31st March, 2003, the Group's total bank balances and bank deposits (including pledged bank deposits) amounted to HK\$170 million (31st March, 2002: HK\$169 million) and the Group's interest-bearing bank and other borrowings (excluding convertible bonds) was HK\$92 million (31st March, 2002: HK\$131 million). HK\$88 million of the amounts of the interest-bearing bank and other borrowings were repayable within one year and the remaining portion were repayable within a period of 2 to 5 years. Gearing ratio has not been shown as the Group recorded a net deficiency in assets position.

EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 616 employees as at 31st March, 2003 (31st March, 2002: 805 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.