Notes to Financial Statements

31 December 2003

1. CORPORATE INFORMATION

The registered office of the Company is located at Claredon House, Church Street, Hamilton HM 11, 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 (current tax); 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 (deferred tax). 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 12 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.

Notes to Financial Statements

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, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, certain fixed assets and other investments, as further explained below.

The financial year end date of the Company was changed from 31 March to 31 December with effect from 17 December 2003. These financial statements cover a period of nine months from 1 April 2003 to 31 December 2003. Accordingly, the comparative amount presented for the consolidated profit and loss account, consolidated statement of changes in equity, consolidated cash flow statement and related notes are not for a comparable time period.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period. 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 outsider shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

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

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

Notes to Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Notes to Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

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.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased assets (continued)

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.

Long term investments

Long term investments are unlisted securities, intended to be held for a continuing strategic or long term purpose, and 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.

Notes to Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 sale 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 rate applicable.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Notes to Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

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.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 sheet 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.

Notes to Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward 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.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to those connected and related party transactions disclosed elsewhere in the financial statements, the Group had the following connected and/or related party transactions with connected/related parties during the period:

(a) On 7 July 2003, the Company entered into an agreement with Hutchison Whampoa IT Services S.à r.l. ("HWITS"), an indirect non-wholly owned subsidiary of Hutchison International Limited ("HIL"), pursuant to which the Company provides certain computer software application services to HWITS (the "HWITS Agreement"). Fees are charged to HWITS on a case by case basis with reference to, inter alia, the personnel and man-hours required at rates set out in the HWITS Agreement, which are determined based on the costs of the Company and the relevant market rates of the services provided. During the period from 3 September 2003 (being the date HIL became the controlling shareholder of the Company) to 31 December 2003, no transactions were entered into under the HWITS Agreement.

Notes to Financial Statements

4. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

(b) On 15 July 2003, the Company entered into an agreement with Hutchison 3G UK Limited ("H3GUK"), an indirect non-wholly owned subsidiary of HIL, pursuant to which the Company provides certain computer software application services to H3GUK (the "H3GUK Agreement"). Fees are charged to H3GUK on a case by case basis with reference to, inter alia, the personnel and man-hours required at rates set out in the H3GUK Agreement, which are determined with reference to the costs of the Company and the relevant market rates of the services provided. During the period from 3 September 2003 (being the date HIL became the controlling shareholder of the Company) to 31 December 2003, the total value of the transactions entered into pursuant to the H3GUK Agreement amounted to approximately US$156,768 (equivalent to approximately HK$1,222,790).

The above transactions (a) and (b) are connected party transactions to the Group. At the balance sheet date, HIL, a company incorporated in Hong Kong is the controlling shareholder of the Company and certain directors on the board of HIL are also directors of the Company. Both HWITS and H3GUK are indirect subsidiaries of HIL, therefore the entering into of any transaction between the Group and HWITS or H3GUK constitutes a related party transaction and a connected transaction which are subject to the disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

(c) During the period, the Company has provided certain suppliers and banks with guarantees in respect of the full amount of the facilities granted by these suppliers and banks to Vanda Systems (Singapore) Pte Ltd ("VSS"), Azure Technologies Pte Ltd ("AT"), Azure Technologies (Malaysia) Sdn. Bhd. ("ATM") and Azure Technologies Phils., Inc. ("ATP"), which are 91.7% owned subsidiaries of the Group. A summary of the guarantees given as at 1 April 2003 is as follows:

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

Notes to Financial Statements

31 December 2003

4. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

(c) As at 31 December 2003, the above guarantees had been revised as follows:

Borrower	Lender	Facility amount HK$'000	Guarantee amount HK$'000
ATM	Bank	24,600	22,755
ATM, AT & ATP	Supplier	105,300	105,300
AT	Bank	34,580	34,580
ATP	Bank	7,700	7,700

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

(d) The loan of S$1.5 million granted by Vanda (B.V.I.) Limited ("Vanda BVI"), a wholly-owned subsidiary of the Company, to VSS on 19 July 2002 remained outstanding as at 31 December 2003. The loan from Vanda BVI was used to subscribe for shares in AT, a wholly-owned subsidiary of VSS. These proceeds were utilised to subscribe for shares in ATM, a wholly-owned subsidiary of AT. The loan was made for the purpose of increasing the share capital of AT and ATM and to provide general working capital for ATM.

The loan is unsecured, bears interest at the Hong Kong prime rate per annum plus 0.5% and is repayable on demand.

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

(e) 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 the subsidiary of HK$246,000.

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

Notes to Financial Statements

5. DISCONTINUED OPERATION

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 Ltd ("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 31 December 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 from its non-core businesses.

The turnover, 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 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 operation	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 operation remaining in the consolidated balance sheet as at 31 December 2003 and 31 March 2003.

Notes to Financial Statements

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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 distribution of computer products, which are managed according to the geographical location of 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 the Philippines); and

(d) Corporate and others.

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 segment (discontinued operation) 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.

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31 December 2003

6. SEGMENT INFORMATION (continued)

(a) Geographical segments

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

Group

	Hong Kong and Macau		Mainland China		South East Asia		Corporate and others		Consolidated	
	Period from 1 April 2003 to 31 December 2003 HK$'000	Year ended 31 March 2003 HK$'000	**Period from 1 April 2003 to 31 December 2003 HK$'000**	Year ended 31 March 2003 HK$'000	**Period from 1 April 2003 to 31 December 2003 HK$'000**	Year ended 31 March 2003 HK$'000	**Period from 1 April 2003 to 31 December 2003 HK$'000**	Year ended 31 March 2003 HK$'000	**Period from 1 April 2003 to 31 December 2003 HK$'000**	Year ended 31 March 2003 HK$'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

Notes to Financial Statements

31 December 2003

6. SEGMENT INFORMATION (continued)

(a) Geographical segments (continued)

	Hong Kong and Macau		Mainland China		South East Asia		Corporate and others		Consolidated	
	Period from 1 April 2003 to 31 December 2003	Year ended 31 March 2003	**Period from 1 April 2003 to 31 December 2003**	Year ended 31 March 2003	**Period from 1 April 2003 to 31 December 2003**	Year ended 31 March 2003	**Period from 1 April 2003 to 31 December 2003**	Year ended 31 March 2003	**Period from 1 April 2003 to 31 December 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
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)

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6. SEGMENT INFORMATION (continued)

(a) Geographical segments (continued)

	Hong Kong and Macau		Mainland China		South East Asia		Corporate and others		Consolidated	
	31 December 2003 HK$'000	31 March 2003 HK$'000	**31 December 2003 HK$'000**	31 March 2003 HK$'000	**31 December 2003 HK$'000**	31 March 2003 HK$'000	**31 December 2003 HK$'000**	31 March 2003 HK$'000	**31 December 2003 HK$'000**	31 March 2003 HK$'000
Segment assets	**140,661**	140,256	**174,307**	253,069	**153,107**	159,662	**–**	–	**468,075**	552,987
Interests in associates	**–**	–	**3,415**	3,524	**–**	–	**–**	–	**3,415**	3,524
Unallocated assets	**–**	–	**–**	–	**–**	–	**31,207**	48,787	**31,207**	48,787
Total assets									**502,697**	605,298
Segment liabilities	**85,854**	79,678	**139,725**	170,381	**89,991**	85,090	**–**	–	**315,570**	335,149
Unallocated liabilities	**–**	–	**–**	–	**–**	–	**114,974**	458,548	**114,974**	458,548
Total liabilities									**430,544**	793,697

Other segment information:

	Hong Kong and Macau		Mainland China		South East Asia		Corporate and others		Consolidated	
	Period from 1 April 2003 to 31 December 2003 HK$'000	Year ended 31 March 2003 HK$'000	**Period from 1 April 2003 to 31 December 2003 HK$'000**	Year ended 31 March 2003 HK$'000	**Period from 1 April 2003 to 31 December 2003 HK$'000**	Year ended 31 March 2003 HK$'000	**Period from 1 April 2003 to 31 December 2003 HK$'000**	Year ended 31 March 2003 HK$'000	**Period from 1 April 2003 to 31 December 2003 HK$'000**	Year ended 31 March 2003 HK$'000
Depreciation	**456**	707	**3,375**	7,326	**1,561**	3,335	**1,134**	1,503	**6,526**	12,871
Provision/(write-back of provision) for and write-off of bad and doubtful debts	**18**	1,334	**3,128**	6,386	**5,078**	2,242	**20**	(765)	**8,244**	9,197
Provision/(write-back of provision) against for inventories	**40**	(4,996)	**(4,457)**	(1,151)	**1,908**	(8,301)	**–**	–	**(2,509)**	(14,448)
Capital expenditure	**313**	536	**2,385**	1,682	**761**	218	**140**	648	**3,599**	3,084

Notes to Financial Statements

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6. SEGMENT INFORMATION (continued)

(b) Business segments

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

Group

	Systems integration and application solution services		Infrastructure solutions		(Discontinued operation - note 5) e-business		Corporate		Consolidated	
	Period from 1 April 2003 to 31 December 2003 HK$'000	Year ended 31 March 2003 HK$'000	**Period from 1 April 2003 to 31 December 2003 HK$'000**	Year ended 31 March 2003 HK$'000	**Period from 1 April 2003 to 31 December 2003 HK$'000**	Year ended 31 March 2003 HK$'000	**Period from 1 April 2003 to 31 December 2003 HK$'000**	Year ended 31 March 2003 HK$'000	**Period from 1 April 2003 to 31 December 2003 HK$'000**	Year ended 31 March 2003 HK$'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)
Other segment information:										
Segment assets	**311,008**	388,871	**131,682**	137,340	**-**	-	**-**	-	**442,690**	526,211
Unallocated assets	**-**	-	**-**	-	**-**	-	**60,007**	79,087	**60,007**	79,087
Total assets									**502,697**	605,298
Capital expenditure	**2,853**	2,218	**606**	218	**-**	-	**140**	648	**3,599**	3,084

Notes to Financial Statements

7. TURNOVER AND 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 Group turnover and revenue is as follows:

	Group	
	Period from 1 April 2003 to 31 December 2003 HK$'000	Year ended 31 March 2003 HK$'000
Turnover	**688,786**	1,024,638
Other revenue		
Interest income	**1,230**	2,944
Gross rental income	**1,712**	1,569
Other	**2,923**	6,855
	5,865	11,368

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8. LOSS FROM OPERATING ACTIVITIES

This is arrived at after charging/(crediting):

	Notes	Group Period from 1 April 2003 to 31 December 2003 HK$'000	Year ended 31 March 2003 HK$'000
Cost of inventories sold*		557,910	826,889
Cost of services provided		32,218	27,775
Depreciation	15	6,526	12,871
Staff costs (including directors' remuneration in note 9):			
Wages and salaries		77,448	108,901
MPF scheme contributions		726	747
Redundancy costs		845	1,848
Pension scheme contributions		2,575	3,025
		81,594	114,521
Minimum lease payments under operating lease rentals in respect of land and buildings		5,572	8,658
Auditors' remuneration		2,878	1,917
Exchange losses, net		423	530
Loss on disposal of other investments		–	51
Loss on disposal of fixed assets		318	987
Loss on disposal of an associate		–	314
Provision for product warranty cost	24	5,952	8,580
Gross rental income		(1,712)	(1,569)
Less: Outgoings		154	272
Net rental income		(1,558)	(1,297)

* The write-back of provision against inventories for the period included as part of "Cost of inventories sold" amounted to HK$2,509,000 (year ended 31 March 2003: HK$14,448,000).

Notes to Financial Statements

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9. DIRECTORS' REMUNERATION

Directors' remuneration for the period/year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	Period from 1 April 2003 to 31 December 2003 HK$'000	Year ended 31 March 2003 HK$'000
Fees	130	–
Salaries, allowances and benefits in kind	5,720	12,584
MPF scheme contributions	174	444
Pension scheme contributions	–	49
Bonuses paid and payable	–	2,808
Compensation for loss of office	–	2,691
	6,024	18,576

No directors' emoluments during the period were paid to any independent non-executive director (year ended 31 March 2003: Nil).

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

	Group	
	Period from 1 April 2003 to 31 December 2003 Number of directors	Year ended 31 March 2003 Number of directors
Nil – HK$1,000,000	14	8
HK$1,500,001 – HK$2,000,000	1	1
HK$2,500,001 – HK$3,000,000	1	1
HK$3,500,001 – HK$4,000,000	–	1
HK$4,000,001 – HK$4,500,000	–	1
HK$6,000,001 – HK$6,500,000	–	1
	16	13

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9. DIRECTORS' REMUNERATION (continued)

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

During the period, no share options were granted to the directors in respect of their services rendered to the Group.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the period included three (year ended 31 March 2003: four) directors, details of whose remuneration are set out in note 9 to the financial statements above. Details of the remuneration of the remaining two (year ended 31 March 2003: one) non-director, highest paid employees for the period/year are as follows:

	Group	
	Period from 1 April 2003 to 31 December 2003	Year ended 31 March 2003
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,911**	1,447
MPF scheme contributions	**81**	68
Bonuses paid and payable	**307**	659
	2,299	2,174

Notes to Financial Statements

10. FIVE HIGHEST PAID EMPLOYEES (continued)

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

	Group	
	Period from 1 April 2003 to 31 December 2003	Year ended 31 March 2003
	Number of employees	Number of employees
HK$1,000,001 – HK$1,500,000	2	–
HK$2,000,001 – HK$2,500,000	–	1
	2	1

During the period, 3,000,000 share options were granted to a non-director, highest paid employee in respect of his services rendered to the Group further details of which are included in note 29 to the financial statements. No value in respect of these share options were charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

11. FINANCE COSTS

	Group	
	Period from 1 April 2003 to 31 December 2003 HK$'000	Year ended 31 March 2003 HK$'000
Interest on:		
Bank loans, overdrafts and supplier loans wholly repayable within five years	2,942	5,214
Finance leases	16	37
Convertible bonds	5,717	13,506
	8,675	18,757

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12. 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.

	Group	
	Period from 1 April 2003 to 31 December 2003 HK$'000	Year ended 31 March 2003 HK$'000
Current period/year provision:		
Hong Kong	**71**	150
Outside Hong Kong	**4,295**	2,959
	4,366	3,109
Prior year under provision:		
Hong Kong	**–**	4
Outside Hong Kong	**9,836**	1,426
	9,836	1,430
Deferred tax – note 27	**367**	174
Tax charge for the period/year	**14,569**	4,713

Notes to Financial Statements

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12. TAX (continued)

A reconciliation of the tax expense applicable to the 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 a reconciliation of the applicable rates (i.e., the statutory rates) to the effective tax rates, are as follows:

	Group			
	Period from 1 April 2003 to 31 December 2003		Year ended 31 March 2003	
	HK$'000	%	HK$'000	%
Loss before tax	(60,856)		(167,792)	
Tax at the statutory rate of 17.5% (year ended 31 March 2003: 16%)	(10,650)	(17.5)	(26,847)	(16.0)
Higher tax rates of other countries	(2,952)	(4.9)	(456)	(0.3)
Income not subject to tax	(369)	(0.6)	(408)	(0.2)
Expenses not deductible for tax	12,319	20.2	29,201	17.4
Effect on opening deferred tax of increase in tax rate	412	0.7	–	–
Adjustments in respect of current tax of previous periods	9,836	16.2	1,430	0.9
Tax losses not recognised	6,647	10.9	7,449	4.4
Tax losses utilised from previous period	(674)	(1.1)	(5,656)	(3.4)
Tax charge at the Group's effective rate	14,569	23.9	4,713	2.8

Notes to Financial Statements

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13. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the period dealt with in the financial statements of the Company was HK$61,663,000 (year ended 31 March 2003: HK$147,163,000) (note 30(b) to the financial statements).

14. 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.

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15. FIXED ASSETS

Group

	Leasehold land and buildings Hong Kong	Leasehold land and buildings Mainland China	Leasehold improvements	Furniture, fixtures, equipment and motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At cost:					
At 1 April 2003	17,602	31,696	8,695	64,044	122,037
Additions	–	–	244	3,355	3,599
Disposals	–	(545)	(172)	(2,762)	(3,479)
Exchange realignment	–	463	33	813	1,309
At 31 December 2003	17,602	31,614	8,800	65,450	123,466
Accumulated depreciation and impairment:					
At 1 April 2003	4,123	3,994	8,126	50,936	67,179
Provided for the period	396	624	567	4,939	6,526
Disposals	–	(545)	(124)	(2,463)	(3,132)
Impairment during the period recognised in the consolidated profit and loss account	7,000	5,161	–	–	12,161
Exchange realignment	–	121	26	578	725
At 31 December 2003	11,519	9,355	8,595	53,990	83,459
Net book value:					
At 31 December 2003	6,083	22,259	205	11,460	40,007
At 31 March 2003	13,479	27,702	569	13,108	54,858

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15. FIXED ASSETS (continued)

Company

	Leasehold improvements HK$'000	Furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000
At cost:			
At 1 April 2003	6	2,352	2,358
Additions	93	48	141
Disposals	(6)	(2)	(8)
At 31 December 2003	93	2,398	2,491
Accumulated depreciation:			
At 1 April 2003	1	713	714
Provided for the period	21	540	561
Disposals	(1)	(2)	(3)
At 31 December 2003	21	1,251	1,272
Net book value:			
At 31 December 2003	72	1,147	1,219
At 31 March 2003	5	1,639	1,644

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$12,011,000 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 26 to the financial statements). 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 31 December 2003 amounted to HK$172,000 (31 March 2003: HK$205,000).

During the period, an impairment loss provision on leasehold land and buildings of HK$12,161,000 (year ended 31 March 2003: Nil) was made as the recoverable amounts of leasehold land and buildings situated in Hong Kong and Mainland China have declined below their carrying amounts. In the opinion of the directors, such impairment losses arose from the prevailing unfavourable environment surrounding the property markets.

Notes to Financial Statements

16. INVESTMENT PROPERTIES

	Group	
	31 December 2003 HK$'000	31 March 2003 HK$'000
At beginning of period/year	30,300	11,990
Reclassified from fixed assets	–	26,467
Revaluation deficits	(1,500)	(8,157)
At end of period/year	28,800	30,300

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

At 31 December 2003, certain investment properties with carrying values of HK$24,500,000 (31 March 2003: HK$26,000,000) were pledged to banks as security for banking facilities granted to the Group (note 26 to the financial statements).

The Group's investment properties were revalued on 31 December 2003 by DTZ Debenham Tie Leung and Midland Surveyors Limited, independent professionally qualified valuers, at HK$23,300,000 and HK$5,500,000, respectively, on an open market, existing use basis. All investment properties are leased to third parties under operating leases, further summary details of which are included in note 34(a) to the financial statements.

17. INTERESTS IN SUBSIDIARIES

	Company	
	31 December 2003 HK$'000	31 March 2003 HK$'000
Unlisted shares, at cost	28,278	28,277
Due from subsidiaries	540,624	556,693
Due to subsidiaries	(1,163)	–
	567,739	584,970
Less: Provision for impairment	(485,985)	(438,361)
	81,754	146,609

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17. INTERESTS IN SUBSIDIARIES (continued)

The amounts due are unsecured, not repayable within one year and interest-free except for amounts due from certain subsidiaries totalling HK$113,968,000 (31 March 2003: HK$130,389,000) which bear interest at rates ranging from 5% to 5.125% (31 March 2003: 5% to 5.125%) per annum.

Particulars of the principal subsidiaries are as follows:

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

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17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered and paid-up share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Janeper Development Limited	Hong Kong	Ordinary HK$2 Deferred HK$300,000	–	100	Property investment
BonVision Technology Limited	Hong Kong	Ordinary HK$4,000	–	99	Dormant
Vanda Computer Service (Macau) Company Limited	Macau	Ordinary MOP$500,000	–	100	Systems integration and trading of computer products
WiseAsia Computer Service (Macau) Company Limited	Macau	Ordinary MOP$25,000	–	100	Systems integration and trading of computer products
Vanda Computer System Integration (Shanghai) Co., Ltd. # @	The People's Republic of China	US$1,050,000	–	100	Systems integration and trading of computer products
Beijing Vanda Yunda IT Services Co., Ltd. # *	The People's Republic of China	RMB31,000,000	–	–	Systems integration and trading of computer products
Beijing Vanda Suntech Software Engineering Co., Ltd. # @	The People's Republic of China	US$500,000	–	100	Manufacture and sale of computer software and provision of related technical consultancy services

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17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered and paid-up share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Changchun Vanda Software Engineering Co., Ltd. # @	The People's Republic of China	US$500,000	–	100	Development, design and installation of computer software systems, provision of consultancy and training services and trading of computer products
Changchun Changlian Software Engineering Co., Ltd. # **	The People's Republic of China	RMB2,750,000	–	60	Development, design and installation of computer software systems, provision of consultancy and training services and trading of computer products
Vanda Computer System Integration (Shenzhen) Co., Ltd. # @	The People's Republic of China	US$2,100,000	–	100	Development, design and installation of computer software systems

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17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered and paid-up share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Dalian Vanda Software Engineering Co., Ltd. # **	The People's Republic of China	RMB996,120	–	60	Design and installation of computer software communications networks and industrial control systems
Vanda Systems (Singapore) Pte Ltd	Singapore	Ordinary S$7,200,000	–	91.7	Investment holding
Vanda Solutions (Singapore) Pte Ltd	Singapore	Ordinary S$652,896	–	91.7	Provision of information technology consultancy services and trading of computer products
Azure Technologies Pte Ltd	Singapore	Ordinary S$2,500,000	–	91.7	Distribution of computer products and provision of information technology consultancy services
Vandacom (Malaysia) Sdn. Bhd. #	Malaysia	RM$500,000	–	91.7	Provision of technical services and trading of computer products

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17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered and paid-up share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Azure Technologies (Malaysia) Sdn. Bhd. #	Malaysia	RM$7,700,000	–	91.7	Distribution of computer products and provision of computer support services
Azure Technologies Phils., Inc. #	the Philippines	Peso27,000,000	–	91.7	Distribution of computer hardware, software and the provision of computer support services

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* 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 these subsidiaries are registered as wholly-foreign owned enterprises under the prevailing laws in Mainland China.

** These two subsidiaries are established in Mainland China in the form of contractual joint venture.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the period 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.

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18. INTERESTS IN ASSOCIATES

	Group 31 December 2003 HK$'000	31 March 2003 HK$'000
Share of net assets	**3,310**	3,419
Amounts due from associates	**105**	105
	3,415	3,524

The balances due are unsecured, interest-free and are 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 ownership interest attributable to the Group	Principal activities
Beijing Datang-Vanda Systems & Communications Co., Ltd. #	Corporate	The People's Republic of China	25	Systems integration

Not audited by Ernst & Young Hong Kong or other Ernst & Young Global 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 period 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.

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19. LONG TERM INVESTMENT

	Group	
	31 December 2003 HK$'000	31 March 2003 HK$'000
Unlisted equity investment, at cost	**115,330**	115,330
Provision for impairment	**(115,330)**	(111,630)
	–	3,700

The 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 of HK$3,700,000 (year ended 31 March 2003: HK$76,361,000) has been made during the period and charged to the consolidated profit and loss account for the period.

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20. OTHER INVESTMENTS

	Group	
	31 December 2003 HK$'000	31 March 2003 HK$'000
Unlisted equity investments, at fair value	–	3,511

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

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

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

As at 31 December 2003, the Group also held a 9.1% equity interest in NT&T in the form of ordinary shares of which the entire amount of HK$25,402,000 was fully impaired in the prior year.

In the prior year, a total impairment provision of HK$57,202,000 was made against the Group's investments in NT&T, including the 9.1% equity interest in NT&T, the Original Bonds and the New Bonds. In view of the continuous non-performance and dissatisfactory results of NT&T, such impairment loss was charged to the consolidated profit and loss account in the prior year.

During the current period under review, an impairment provision of HK$3,266,000 was made against unlisted equity investments held by the Group, which engaged in software system development business in Mainland China in view of the unfavorable and competitive environment surrounding the business model undertaken by that investment.

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21. ACCOUNTS RECEIVABLE

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

	Group		Company	
	31 December 2003 HK$'000	31 March 2003 HK$'000	**31 December 2003 HK$'000**	31 March 2003 HK$'000
Current to 30 days	**127,211**	181,221	**551**	–
31 to 90 days	**33,880**	41,174	**–**	–
Over 90 days	**20,479**	47,905	**–**	–
	181,570	270,300	**551**	–

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

Included in accounts receivable as at 31 December 2003, an amount of HK$551,000 (31 March 2003: Nil) due from H3GUK, a related company of the Group, arose from services rendered to it (note 4 to the financial statements) during the period.

22. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Group	
	31 December 2003 HK$'000	31 March 2003 HK$'000
Cash and bank balances	**121,358**	102,422
Time deposits	**73,012**	67,850
	194,370	170,272
Less: Time deposits pledged for banking facilities – note 26	**(60,798)**	(62,112)
Cash and cash equivalents	**133,572**	108,160

Notes to Financial Statements

22. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS (continued)

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$45,652,000 (31 March 2003: HK$30,423,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control 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.

23. ACCOUNTS PAYABLE

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

	Group	
	31 December 2003 HK$'000	31 March 2003 HK$'000
Current to 30 days	**96,069**	146,402
31 to 90 days	**9,192**	7,677
Over 90 days	**18,240**	17,657
	123,501	171,736

Notes to Financial Statements

31 December 2003

24. PROVISIONS

Group

	Product warranty cost 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	5,952	1,500	7,452
Amounts utilised during the period	(6,232)	–	(6,232)
At 31 December 2003	14,107	11,500	25,607
Portion classified as current liabilities	(14,071)	(11,500)	(25,571)
Long term portion	36	–	36
	Note (a)	Note (b)	

Notes:

(a) 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.

(b) On 6 April 2001, the Group entered into an agreement (the "Agreement") with First Shanghai Investments 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 remaining 40 ordinary shares in BonVision (representing 1% equity interest as at 31 December 2003) and the relevant shareholder's loan of HK$8 million in BonVision to the Group at a consideration of HK$19.5 million, at the earlier of 31 December 2003 or upon the occurrence of any events as specified by the Agreement.

During the period, the Group's interest in BonVision increased to 99% due to BonVision's issue of new shares of the Group for cash of HK$3,900.

On 31 December 2003, First Shanghai served notice to the Group for the exercise of the put option and the acquisition was completed on 13 January 2004.

Notes to Financial Statements

31 December 2003

25. 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 four years.

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

Group and Company

	Minimum lease payments 31 December 2003 HK$'000	Minimum lease payments 31 March 2003 HK$'000	Present value of minimum lease payments 31 December 2003 HK$'000	Present value of minimum lease payments 31 March 2003 HK$'000
Amounts payable:				
Within one year	51	56	37	36
In the second to fifth years, inclusive	150	188	131	159
Total minimum finance lease payments	201	244	168	195
Future finance charges	(33)	(49)		
Total net finance lease payables	168	195		
Portion classified as current liabilities	(37)	(36)		
Long term portion	131	159		

Notes to Financial Statements

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

	Group	
	31 December 2003 HK$'000	31 March 2003 HK$'000
Secured bank overdrafts	1	–
Trust receipt loans:		
Secured	35,441	32,837
Unsecured	26,480	27,860
Bank loans:		
Secured	18,096	20,969
Unsecured	–	2,104
Unsecured supplier loans	3,190	7,933
	83,208	91,703

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

	Group	
	31 December 2003 HK$'000	31 March 2003 HK$'000
Within one year:		
Overdrafts	1	–
Trust receipt loans	61,921	60,697
Bank loans	16,010	19,624
Supplier loans	3,190	7,933
	81,122	88,254
In the second year:		
Bank loans	1,005	1,573
In the third to fifth years, inclusive:		
Bank loans	1,081	1,876
	83,208	91,703
Portion classified as current liabilities	(81,122)	(88,254)
Long term portion	2,086	3,449

26. INTEREST-BEARING BANK LOANS, OVERDRAFTS AND SUPPLIER LOANS (continued)

The bank overdrafts and certain bank and trust receipt loans are secured by fixed charges over certain leasehold land and buildings (note 15 to the financial statements), investment properties (note 16 to the financial statements) and time deposits of the Group (note 22 to the financial statements). The supplier loans are unsecured and bear interest at rates ranging from 4.5% to 10.5% (31 March 2003: 4.5% to 10.5%) per annum.

27. DEFERRED TAX

	Group	
	31 December 2003 HK$'000	31 March 2003 HK$'000
At beginning of year	**261**	87
Deferred tax charge for the period/year – note 12	**367**	174
Exchange realignment	**4**	–
At end of period/year	**632**	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 unrecognised deferred tax assets from tax losses arising in Hong Kong of HK$29,840,000 (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.

Notes to Financial Statements

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28. SHARE CAPITAL

Shares

	Company	
	31 December 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:		
1,536,421,325 (31 March 2003: 421,607,199) ordinary shares of HK$0.10 each	**153,642**	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, HIL and DBS Nominees Private Limited ("DBS") served notice to the Company of their intention to exercise the full conversion of the convertible bonds held by them, in a total principal amount of approximately HK$334,432,000 (note 31 to the financial statements), into new ordinary shares of the Company at an amended conversion price of HK$0.30 each (note 31 to the financial statements). 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 HIL and DBS with a total share premium of HK$222,955,000, before share issue expenses of HK$1,613,000.

During the period, an employee exercised an option to subscribe for 42,000 ordinary shares at HK$0.10 each at a subscription price of HK$0.81 per share (note 29 to the financial statements), giving rise to a share premium of HK$30,000.

Subsequent to the balance sheet date, the authorised share capital of the Company was increased from HK$400,000,000 to HK$3,000,000,000 by the creation of an additional 26,000,000,000 shares of HK$0.10 each pursuant to an ordinary resolution passed at a special general meeting held on 5 March 2004.

Notes to Financial Statements

28. SHARE CAPITAL (continued)

Shares (continued)

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 HK$'000	Share premium account HK$'000	Total HK$'000
At 1 April 2003	421,607,199	42,161	307,937	350,098
Issue of shares upon conversion of convertible bonds – note 31	1,114,772,126	111,477	222,955	334,432
Exercise of options	42,000	4	30	34
Share issue expenses	–	–	(1,613)	(1,613)
At 31 December 2003	1,536,421,325	153,642	529,309	682,951

Share options

Details of the Company's share option schemes and the share options granted under the schemes are included in note 29 to the financial statements.

29. SHARE OPTION SCHEMES

The Group operates certain option schemes, details of which are as follows:

(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 incentive 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 would be offered pursuant to the Existing Scheme, however the Existing Scheme will in all other respects remain in force to the extent necessary to give effect to the exercise of the outstanding options granted pursuant thereto (the "Outstanding Options"). The Outstanding Options will continue to be valid and exercisable in accordance with the rules of the Existing Scheme.

Notes to Financial Statements

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29. SHARE OPTION SCHEMES (continued)

(i) Existing Scheme of the Company (continued)

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

The maximum number of Shares in respect of which options were able to be granted (together with Shares issued pursuant to options exercised and Shares in respect of which any options remain outstanding) under the Existing Scheme and any other share option schemes of the Company may not exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose Shares issued on exercise of options granted pursuant to the Existing Scheme. At 31 December 2003, the number of shares issuable under share options granted under the Existing Scheme was 8,590,000, which represented approximately 0.6% of the Company's shares in issue as at that date. No option was able to be granted to any one Employee which, if exercised in full, would have resulted in such Employee becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued and remaining issuable to him or her under the Existing Scheme, would exceed 25% of the aggregate number of Shares for the time being issued and issuable under the Existing Scheme.

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

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

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

Notes to Financial Statements

31 December 2003

29. SHARE OPTION SCHEMES (continued)

(i) Existing Scheme of the Company (continued)

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	Exercised during the period	Expired during the period	Number of share options at 31 December 2003	Exercise period of share options	Exercise price of share options** HK$	Price of Company's share at grant date of share options*** HK$
Directors								
Lam Hon Nam	23.11.1999	1,500,000	–	(1,500,000)	–	23.5.2000 to 22.5.2003	0.87	1.21
	12.7.2000	1,000,000	–	–	1,000,000	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)	–	23.5.2000 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)	–	23.5.2000 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)	–	23.5.2000 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)	–	23.5.2000 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
(Note 2)	2.5.2001	1,964,000	(42,000)	(552,000)	1,370,000	2.11.2001 to 18.11.2004	0.81	1.02
		5,074,000	(42,000)	(2,542,000)	2,490,000			
Total:		14,824,000	(42,000)	(6,192,000)	8,590,000			

Notes to Financial Statements

31 December 2003

29. SHARE OPTION SCHEMES (continued)

(i) Existing Scheme of the Company (continued)

* The vesting period of the above outstanding share options was from the date of the grant until the commencement of the exercise period and only 50% of the options were able to be exercised within the first year from the date on which the options were 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 was the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

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.

Note 2: The 42,000 share options exercised at HK$0.81 per share during the period resulted in the issue of 42,000 ordinary shares of the Company and new share capital of HK$4,000 and share premium of HK$30,000, as detailed in note 28 to the financial statements. The price of the Company's share prior to the exercise date of options on 25 September 2003 was HK$1.03 per share.

The options are exercisable for a period of three years commencing on the expiry of six months after the date on which the option was accepted, provided that no options may be exercised after 21 March 2005.

At the balance sheet date, the Company had 8,590,000 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 8,590,000 additional ordinary shares of the Company and additional share capital of HK$859,000 and share premium of HK$12,521,000 (before issue expenses). Included in outstanding share options at the balance sheet date, a total number of 4,620,000 share options granted on 12 July 2000 were expired on or before 16 January 2004.

Notes to Financial Statements

29. SHARE OPTION SCHEMES (continued)

(ii) Share option schemes of subsidiaries

On 21 May 2001, the Company approved the adoption by certain subsidiaries (the "Subsidiaries") of their respective share option schemes (collectively the "Subsidiaries' Scheme"). The purpose of the adoption of the Subsidiaries' Scheme is to provide greater incentive to the Subsidiaries' employees, thereby improving their productivity and helping to retain key staff. The board of directors of the Subsidiaries may, at their discretion, offer to grant options to subscribe for shares in the respective Subsidiaries to employees and any executive directors of the Subsidiaries. Subject to any earlier termination by the respective Subsidiaries, the Subsidiaries' Scheme shall be valid and effective for a period of 10 years from 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.

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

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

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

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

Notes to Financial Statements

31 December 2003

29. SHARE OPTION SCHEMES (continued)

(iii) New Option Scheme of the Company

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

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

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

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

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

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

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

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

Notes to Financial Statements

29. SHARE OPTION SCHEMES (continued)

(iii) New Option Scheme of the Company (continued)

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

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

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

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

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

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

Notes to Financial Statements

29. SHARE OPTION SCHEMES (continued)

(iii) New Option Scheme of the Company (continued)

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

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

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

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

Notes to Financial Statements

31 December 2003

29. SHARE OPTION SCHEMES (continued)

(iii) New Option Scheme of the Company (continued)

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 at 31 December 2003	Exercise period of share options	Exercise price of share options ** HK$	Price of Company's share at grant date of share options *** 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
Other employees								
In aggregate	2.5.2002	12,600,000 (Note 1)	–	(2,750,000)	9,850,000 (Note 1)	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	(750,000)	4,750,000	16.5.2004 to 15.5.2007	0.41	0.41
		12,600,000	12,750,000	(3,500,000)	21,850,000			
Total:		32,600,000	12,750,000	(3,500,000)	41,850,000			

Note 1: Included in outstanding share options as at 1 April 2003 and 31 December 2003, a total number of share options of 3,000,000 granted to Ms. Ching Wan Kwan was reclassified from the category under directors to other employees after she resigned as a director of the Company with effect from 3 September 2003.

* 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.

Notes to Financial Statements

31 December 2003

29. SHARE OPTION SCHEMES (continued)

(iii) New Option Scheme of the Company (continued)

At the balance sheet date, the Company had 41,850,000 share options outstanding under the New Option Scheme, which represented approximately 2.7% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 41,850,000 additional ordinary shares of the Company and additional share capital of HK$4,185,000 and share premium of HK$27,207,000 (before issue expenses).

As detailed in note 35 to the financial statements, the issued share capital of the Company will be enlarged after the completion of the proposed acquisitions as a result of the issuance of shares in the Company as partial settlement of the purchase consideration. Pursuant to an ordinary resolution passed at a special general meeting held on 5 March 2004, it was approved that the New Option Scheme limit was "refreshed" so that the total number of shares of the Company which might be allotted and issued upon exercise of all options to be granted under the New Option Scheme and any other share option scheme on or after the date of the special general meeting in relation to the completion of the proposed acquisitions will not exceed 5% of the issued share capital of the Company as at the date of passing the resolution approving the refreshment of the New Option Scheme limit as enlarged by the allotment and issue of new ordinary shares of the Company as settlement of the purchase consideration for the proposed acquisitions.

30. RESERVES

(a) 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 35 to 36 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. These fixed assets were subsequently reclassified as investment properties of the Group in prior years. The fixed asset revaluation reserve originally arising will be transferred to retained profits/(accumulated losses) as a movement in reserves upon disposal of these investment properties.

Notes to Financial Statements

30. RESERVES (continued)

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2002		307,586	28,077	(413,828)	(78,165)
Premium on exercise of options		351	–	–	351
Net loss for the year		–	–	(147,163)	(147,163)
At 31 March 2003 and 1 April 2003		307,937	28,077	(560,991)	(224,977)
Issue of shares upon conversion of convertible bonds	28, 31	222,955	–	–	222,955
Exercise of options	28	30	–	–	30
Share issue expenses in relation to the conversion of convertible bonds	28	(1,613)	–	–	(1,613)
Net loss for the period		–	–	(61,663)	(61,663)
At 31 December 2003		529,309	28,077	(622,654)	(65,268)

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation referred to in note 30(a) to the financial statements, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act (1981) of Bermuda, as amended, the contributed surplus is distributable under certain circumstances.

Notes to Financial Statements

31 December 2003

31. CONVERTIBLE BONDS

	HK$'000
At 1 April 2003	334,432
Converted during the period – note 28	(334,432)
At 31 December 2003	–

On 15 February 2002, the Company entered into two investor agreements (the "Investor Agreements") with HIL and DBS, respectively. Under the respective Investor Agreements, the Company agreed (i) to issue convertible bonds in the principal sum of HK$197,966,638 to HIL (the "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 HIL (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 Company 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 HIL 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 HIL 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.

Notes to Financial Statements

31. CONVERTIBLE BONDS (continued)

On 23 July 2003, the Company entered into two amendment agreements (the "Amendment Agreements") with HIL and DBS, respectively. Pursuant to the Amendment Agreements:

(a) the Company, 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, HIL 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 HIL 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 HIL 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 Company 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 as stipulated in the Amendment Agreements;

(b) HIL 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 HIL 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 HIL 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 HIL and DBS, respectively, (aggregating 1,114,772,126 ordinary shares), giving rise to a share premium of HK$222,955,000, before share issuing expenses of HK$1,613,000 (note 28 to the financial statements).

Notes to Financial Statements

31 December 2003

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transaction

As detailed in note 31 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

	Group	
	Period from 1 April 2003 to 31 December 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	–	4,936
Loss on disposal of subsidiaries	–	(1,943)
	–	(81)
Satisfied by:		
Disposal expenses paid by the Group	–	(81)

Notes to Financial Statements

31 December 2003

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of subsidiaries (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	Group	
	Period from 1 April 2003 to 31 December 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.

33. CONTINGENT LIABILITIES

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

	Group		Company	
	31 December 2003 HK$'000	31 March 2003 HK$'000	**31 December 2003 HK$'000**	31 March 2003 HK$'000
Guarantees given to banks and suppliers in connection with:				
Facilities granted to subsidiaries	**–**	–	**445,635**	545,402
Bank guarantees issued by banks	**10,438**	25,842	**–**	–
	10,438	25,842	**445,635**	545,402

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.

Notes to Financial Statements

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33. CONTINGENT LIABILITIES (continued)

(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$3,545,000 as at 31 December 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 the directors do not consider probable that the situation will result in a material future outflow of resources from the Group.

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 16 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 31 December 2003, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group		Company	
	31 December 2003 HK$'000	31 March 2003 HK$'000	**31 December 2003 HK$'000**	31 March 2003 HK$'000
Within one year	**1,486**	1,060	**297**	–
In the second to fifth years, inclusive	**1,101**	1,264	**475**	–
	2,587	2,324	**772**	–

Notes to Financial Statements

34. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain 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 31 December 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	31 December 2003 HK$'000	31 March 2003 HK$'000	**31 December 2003 HK$'000**	31 March 2003 HK$'000
Within one year	**5,742**	4,211	**1,827**	–
In the second to fifth years, inclusive	**4,949**	3,365	**2,923**	–
	10,691	7,576	**4,750**	–

35. POST BALANCE SHEET EVENTS

(a) On 13 January 2004, the Company completed the acquisition of the remaining 1% equity interest and its shareholder's loan in BonVision from First Shanghai at a consideration of HK$19.5 million following the exercise by First Shanghai of the put option on 31 December 2003, the details of which are set out in note 24 to the financial statements.

On the same date, the Company was advanced a loan of HK$19.5 million by First Shanghai Finance Limited to finance the settlement of the purchase consideration as mentioned above. The loan bears interest at a rate of 2% per annum and is repayable within one year from the date of drawdown.

(b) On 28 January 2004, the Group entered into a sale and purchase agreement (the "Agreement") with an independent third party to dispose of certain of its investment properties located in Hong Kong at a total cash consideration of HK$5,511,000. On 23 February 2004, the disposal was completed and resulted in the transfer of a revaluation surplus of HK$2,267,000 (previously created) from the fixed assets revaluation reserve to accumulated losses. The disposal did not give rise to any significant gain or loss on disposal.

Notes to Financial Statements

31 December 2003

35. POST BALANCE SHEET EVENTS (continued)

(c) On 28 January 2004, the Company entered into agreements with:

(i) Hutchison Global Communications Holdings Limited (the "HGC Vendor"), an indirect wholly-owned subsidiary of Hutchison Whampoa Limited ("HWL"), whose shares are listed on the Main Board of the Stock Exchange of Hong Kong (the "Stock Exchange"), for the acquisition of the entire issued share capital of Hutchison Global Communications Investments Limited ("HGC") at a consideration of HK$7.1 billion (the "HGC Acquisition"). The principal activities of HGC are the provision of a wide range of voice and data communication services in Hong Kong; and

(ii) Cheung Kong Enterprises Limited ("CKE"), an indirect wholly-owned subsidiary of Cheung Kong (Holdings) Limited ("CKH"), whose shares are listed on the Stock Exchange, and CLP Telecommunications Limited ("CLPT"), a wholly-owned subsidiary of CLP Holdings Limited whose shares are also listed on the Stock Exchange, (collectively referred as to the "PowerCom Vendors"), for the acquisition of the entire issued share capital of PowerCom Network Hong Kong Limited ("PowerCom") at a consideration of approximately HK$391 million (the "PowerCom Acquisition"). The principal activities of PowerCom are the provision of broadband services through power sockets.

HWL, through its wholly-owned subsidiary, HIL, holds approximately 37.06% of the issued share capital of the Company as at 28 January 2004, and certain directors on the board of HIL or the HGC Vendor are also directors of the Company and of certain subsidiaries of the Company. As HWL is a controlling shareholder (as such term is defined under the Listing Rules) of the Company, and HIL and the HGC Vendor are wholly-owned subsidiaries of HWL, HIL and the HGC Vendor are connected persons of the Company under the Listing Rules.

HWL is a connected person of CKH by virtue of it being a substantial shareholder of a subsidiary of CKH. As HWL is, through HIL, interested in approximately 37.06% of the issued share capital of the Company as at 28 January 2004, the Company is an associate of HWL within the meaning of the Listing Rules and thus the Company is a connected person of CKH.

In this connection, the HGC Acquisition and the PowerCom Acquisition constitute a connected transaction of the Company under the Listing Rules and a related party transaction of the Company, respectively.

35. POST BALANCE SHEET EVENTS (continued)

(c) (continued)

The consideration for the HGC Acquisition 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 consideration for the PowerCom Acquisition was also determined after arm's length negotiation, based on the judgement of management of the Company of the competitiveness of the combined HGC-PowerCom Solutions in the broadband market in Hong Kong and the uniqueness of the PowerCom Technology.

The consideration for the acquisition of HGC and PowerCom will be satisfied as to:

(i) HK$3.9 billion by the issue and allotment of 4,875,000,000 new ordinary shares of the Company at an issue price of HK$0.80 per share credited as fully paid and as to the remaining HK$3.2 billion by the issue of a convertible note of the same amount, credited as fully paid at its face value, by the Company (the "HGC Consideration Convertible Note") to the HGC Vendor; and

(ii) approximately HK$391 million by the issue and allotment of 488,572,636 new ordinary shares of the Company to the PowerCom Vendors as to 395,743,835 new ordinary shares to CKE and 92,828,801 new ordinary shares of the Company to CLPT at an issue price of HK$0.80 per share and being credited as fully paid, respectively.

The HGC Consideration Convertible Note will bear 1% interest per annum from the date of issue, payable once every six months in arrears on the principal amount outstanding from time to time. The HGC Consideration Convertible Note is repayable, if not previously converted, upon its maturity on the fifth anniversary of the date of issue. The outstanding principal amount of the HGC Consideration Convertible Note or any part thereof may be converted into ordinary shares of the Company at any time on or after the first anniversary of the date of issue but on or prior to maturity at a conversion price of HK$0.96 per share (subject to adjustment). The details of the terms of HGC Consideration Convertible Note are set out in the Company's circular dated 18 February 2004 (the "Circular").

The completion of the HGC Acquisition and the PowerCom Acquisition is conditional upon the fulfillment of a number of conditions precedent (as set out in the Circular) or otherwise waived by the relevant parties on or before 13 March 2004. As a result of the possible shares to be issuable upon completion of the HGC Acquisition and the PowerCom Acquisition, the directors of the Company proposed to increase the authorised share capital of the Company on 28 January 2004.

Notes to Financial Statements

31 December 2003

35. POST BALANCE SHEET EVENTS (continued)

(c) (continued)

On 5 March 2004, the HGC Acquisition and the PowerCom Acquisition were approved by the independent shareholders of the Company in a special general meeting and all conditions precedent for the completion of the HGC Acquisition and the PowerCom Acquisition were fulfilled on 8 March 2004. Immediately after the completion of the proposed acquisitions, goodwill of approximately HK$4.2 billion on acquisition arose which being the difference between the purchase consideration and the total carrying value of the net assets of HGC and PowerCom acquired from the HGC Vendor and the PowerCom Vendors, assuming no allocation of the estimated goodwill to the underlying assets of HGC and PowerCom. On the same date, the increase in authorised share capital of the Company was also approved in the special general meeting (note 28 to the financial statements).

Upon the completion of the HGC Acquisition, the Company and HIL will enter into an agreement for the provision of an interest-bearing facility of up to HK$1 billion for two years from the date of the completion to the Company or its subsidiaries. The interest rate will be based on normal commercial terms with reference to inter-bank market lending rates. This will also constitute a connected party transaction for the Company under the Listing Rules.

The details of the HGC Acquisition and the PowerCom Acquisition, together with any other financing arrangements between the Company, HIL and CKH, are set out in the joint announcement of the Company, HWL and CKH dated 28 January 2004 and the Company's circular despatched to the Company's shareholders on 18 February 2004.

(d) On 29 January 2004, the Company was informed by the HGC Vendor, CKE and CLPT that they via their placing agent had entered into conditional agreements for the placement of 1,818,000,000 ordinary shares, 147,000,000 ordinary shares and 35,000,000 ordinary shares of the Company, respectively, to be issued as settlement of the purchase consideration, (representing approximately 28.98% of the enlarged share capital of the Company after the proposed acquisitions based on the issued share capital as at 29 January 2004) at a price of HK$0.90 per share, to more than six placees who are professional, institutional and/or other investors (the "Placement"). The Placement is to be completed on the same date as the completion of HGC Transaction which is expected to take place on or before 13 March 2004.

(e) Pursuant to a special resolution passed at the special general meeting held on 5 March 2004, the name of the Company is to be changed to "Hutchison Global Communications Holdings Limited" and the Chinese name of the Company, for identification purposes, is to be changed to "和記環球電訊控股有限公司" conditional upon the completion of the HGC Acquisition and the approval of the Registrar of Companies in Bermuda. The change is to signify the new identity of the Company following the completion of the HGC Acquisition.

Notes to Financial Statements

36. 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.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8 March 2004.