VST 偉仕

STOCK CODE: 856

VST HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Annual Report 2007

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Li Jialin
(Chairman and Chief Executive Officer)
Mr. William Choo

NON-EXECUTIVE DIRECTORS

Mr. Cheng Kam Chung M.H., OStJ, JP
(Vice Chairman)
Madam Sun Ali *(Resigned on 8 May 2007)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ni Zhenwei
Dr. Chan Po Fun Peter
Madam Hui Hiu Fai

COMPANY SECRETARY

Mr. Lung Cheuk Wah

QUALIFIED ACCOUNTANT

Mr. Chow Yiu Tat

AUDIT COMMITTEE

Dr. Chan Po Fun Peter *(Chairman)*
Mr. Ni Zhenwei
Madam Hui Hiu Fai

REMUNERATION COMMITTEE

Madam Hui Hiu Fai *(Chairman)*
Mr. Ni Zhenwei
Dr. Chan Po Fun Peter

AUDITORS

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

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Ltd.
Standard Chartered Bank

WEBSITE ADDRESS

http://www.vst.com.hk

STOCK CODE

856

INVESTOR AND MEDIA RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1901, 19 Floor
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168 Connaught Road Central
Hong Kong

REGISTERED OFFICE

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Grand Cayman
KY1-1111
Cayman Islands

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Abacus Share Registrars Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

"Adopting an all-round business model and boasting industry leading management standard, VST has consistently reported strong growth and brought stable and fruitful returns to shareholders."

I am pleased to present to our shareholders the annual results of VST Holdings Limited (the "Company") and its subsidiaries (together, the "Group" or "VST") for the year ended 31 March 2007.

RESULTS

For the year ended 31 March 2007, our sales achieved outstanding performance, together with our continuous effort in enhancing the product mix and distribution network, our turnover surged by 14% to HK$4,236,829,000 as compared with the same period last year. During the year under review, the Group proactively strengthened the operational management with our profit attributable to equity holders of the company rose approximately 44% to approximately HK$161,333,000 compared with the same period last year (2006: approximately HK$111,768,000). Basic earnings per share was approximately HK18.07 cents (2006: approximately HK13.31 cents), while diluted earnings per share was approximately HK17.55 cents (2006: approximately HK13.24 cents).

DIVIDEND

The Board proposed to distribute a final dividend of HK4.6 cents (2006: HK4.5 cents) per share for the year ended 31 March 2007. Together with the paid interim dividend of 3.2 HK cents, dividend per share in aggregate for the reporting period amounted to HK7.8 cents (2006: HK6 cents). Dividend payout ratio amounted to approximately 45.0% (2006: approximately 46.9%).

BUSINESS REVIEW

Our sustainable growth and outstanding business performance have received high acclaims and recognition from our many business partners. The various awards we received from major suppliers during the year included "Distributor of the Year 2006 China" presented by the world leading CPU and flash memory module supplier AMD, "Distributor of the Year Award FY2006" from the world's largest hard disks supplier Seagate and "Fastest Growing Distributor of the Year 2006 – APAC" from a world-class data-storage products supplier Maxtor.

Boasting strong distribution capability and industry leadership, VST has never stopped to attract new business partners. In the year under review, we secured three major distribution contracts for distributing Western Digital hard disks, Patriot memory and flash memory modules, and APOGEE memory in China. Together with our long-standing partners such as AMD, Seagate, Maxtor, Supermicro, Corsair, AsRock and Colorful, VST has become the preferred distributor of many global IT product giants.

With a well-established and extensive distribution network, VST has been highly effective in facilitating quick market penetration in China for products of our various partners. In order to increase our competitiveness and influence in the IT products market in China, we continued to expand our distribution network by adding new sales offices in Shenzhen and Shanghai during the year. Furthermore, we kicked off our overseas market expansion plan and set up a branch in Singapore. In view of our expanding operational scale, we also recruited industry expertise to ensure we have quality talents for supporting strategic development of our business in the future.

VST has always been playing an important role in the IT product supply chain. Our all-round operational model and industry leading management expertise are what underscored the Group's sustained profit growth. By effectively managing our distribution network, we have maximized synergies between our distribution channels, achieving "win-win" in terms of raising the Group's profit margin as well as protecting the interest of distributors. Riding on the solid cooperative relationships with our suppliers and distributors, VST has mastered market dominance position that effectively enhanced gross margin of our products and at the same time maintained lower than industry average inventory and accounts receivable turnover days.

PROSPECTS

China's accession into the WTO, coupled with government's supportive policies on IT industry according to the 11th Five Year plan, China has entered the "Digital Age" at full steam and is emerging as a major supplier of IT products to the world. With the distribution function in the IT product supply chain gaining importance, we are very optimistic about our development in the market in the future.

Taking advantage of the strong growth momentum of the China IT industry, we will continue to capture more cooperation opportunities with world-class IT products suppliers to enrich our product mix. Riding on our continuous enhancement in distribution network in China, VST will be able to achieve greater economies of scale and our cost control is believed to maintaining at the industry leading level. Furthermore, drawing from our successful experience in developing an extensive distribution network in China, VST will keep eyes on opportunities for expanding into overseas markets. We are well prepared and determined to make VST among the top three IT products distributors in the Asia-Pacific region.

APPRECIATION

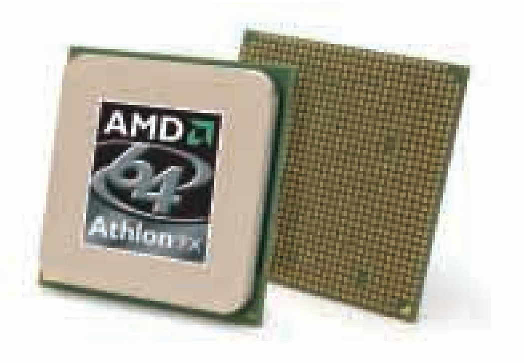
On behalf of the Board of Directors, I would like to take this opportunity to express my deepest gratitude to our shareholders for their continuous support and our staff for their valuable contribution in the past year.

Li Jialin
Chairman and Chief Executive Officer

Hong Kong, 9 July 2007

BUSINESS REVIEW

In keeping abreast of the fast-changing market conditions and product trend in the information technology ("IT") industry, the Group has closely monitored its performance and aligned itself by undertaking various measures which include establishing representative offices and liaison points throughout major cities in the People's Republic of China ("PRC") so as to strengthen



ties with its customers. This allowed the Group to be closer to its end-users thus enabling it to react swiftly to the changing market needs and continuously provide customized value-added services.

The Group has been keeping pace with the market development in order to strengthen its competitiveness and has been actively undertaking "Three Enhancement" development strategy. These are continual improvement in the corporate management, products and distribution channels. Remarkable results have been derived and disclosed in the current year's annual report. Moreover by means of widening our products and distribution channels, our market share in the PRC has markedly increased and which has become a strong foundation for future development.

In the past few years, there has been intense competition in the global IT industry, and many IT companies continuously adjusted their products, prices and service strategies in an attempt to stay competitive. In order to stay in the market forefront, the Group not only expanded its sales and distribution network and enriched its product portfolio, but also enhanced its distribution efficiency with improved after-sales services and other value-added services, so as to boost its market competitiveness. In 2006, the Group was once again honorably bestowed by its suppliers various awards which included Seagate's "Distributor of the Year Award FY2006"; AMD's "Distributor of the Year 2006 China", Maxtor's "Fastest Growing Distributor of the Year 2006 – APAC" as well as "Best Product Manager of the Year 2006" for the recognition of the Group's outstanding performance; and also Corsair's Top Business Partner 2006 as well as 2006 Award for Outstanding Contribution & Co-operation.

During the year under review, our Group has continually and successfully obtained the authorized distributorship for three new international brands, namely Western Digital's

disk drive products in Hong Kong and the PRC, the respective exclusive distributorship for PDP Systems Inc.'s DRAM and flash memory modules, as well as Walton Chaintech's memory module in the PRC. As a result of the Group's dedicated efforts, the Group has achieved another record high in turnover and net profit as stated in the consolidated profit and loss account session of this annual report.

PROSPECTS

The IT sector has been one of the fastest growing industries and the PRC will remain as one of the vital supply bases for the semiconductor and IT industry in the world. Under the development blueprint for the 11th Five-Year Plan of the PRC, the mainland has set to fully open its market to foreign competitors under the agreements it made for the membership of the World Trade Organization. Moreover, the PRC government's determination to move the whole nation into the "Digital Age" and IT development has become the foundation of the nation's policy. As a result, the huge potential for the IT market has attracted many foreign as well as local players to set foot in the PRC market to grab new business opportunities. Major foreign IT products manufacturers including Seagate, Western Digital and AMD are targeting the PRC to be their key growth drivers.

Pursuant to the release of the Microsoft Vista during early 2007, there will be a large demand for IT products in the region which will inevitably give rise to positive effect to our Group. Given the PRC's continuous and concrete economy, whilst coupled with the improving global economic outlook, Hong Kong's economy has in return exhibited a solid upturn. Our Group will capitalize such positive sentiment and increase its sales by proactively seeking opportunities to strengthen our distribution network through expanding the sales network in Hong Kong and the PRC.

Leveraging on its internationally reputable IT and digital media products manufacturers including Seagate, Maxtor, Western Digital, AMD, and Corsair in the global IT and digital media market, our Group has positioned itself as the distributor of high-quality and reliable IT and digital media products and has earned considerable trust from its customers. Besides, our Group will continue to gauge the market demand and look for reputable IT and digital products to enrich its distribution portfolio. In order to ensure value-for-money, our Group will continually improve the before-sale, after-sale and technical support services to our customers.

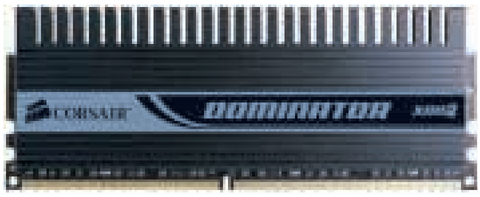
On the product front, the Group will also continue its endless pursuit to look for a variety of modern and functional digital products for its customers. Through the introduction of new products, the Group is able to diversify its revenue stream and appeal to a wide range of customer tastes. As a result of the Group's achievement in obtaining the authorized distributorship for additionally three new international brands, namely Western Digital's disk drive products in Hong Kong and the PRC, the respective exclusive distributorship for PDP Systems Inc.'s DRAM and flash memory

modules, as well as Walton Chaintech's memory module in the PRC, our business will definitely continue to expand and attract more customers through offering them with the latest and a wider range of high quality IT products.

In view of the Group's highly responsive and efficient management team together with its extensive distribution network, our suppliers will continue to rank the Group as one of the chosen authorized distributors for internationally reputable IT and digital media products. Not resting on its laurels, the Group

will continually look for opportunities to further expand its supplies and network in the region so as to reinforce its competitive edge in the marketplace and bring even more sales revenue and profits to the Group. Without losing focus, our Group will continue to make use of these competitive advantages and expand our core business of distributing computer, digital and multimedia products business.

Whilst the IT and digital media industry in the PRC is still enjoying a fast and healthy growth, the management admits that the competitive landscape remains tough and our Group is fully prepared to meet the challenges. Nevertheless, the management firmly believes that the IT and digital media industry in the PRC will continue to be one of the fastest growing areas in the



world and will offer great potential and opportunities. Based on sound experience in the IT and digital media industry, the Group will endeavour to enhance its value by various measures including effective cost control, risk management, acute responsiveness to market changes, strong capabilities in sales and marketing in order to stay ahead of the competition and achieve even better returns for its shareholders in the coming years.

FINANCIAL REVIEW

The Group's turnover for the year ended 31 March 2007 amounted to approximately HK$4,236,829,000 (2006: approximately HK$3,705,633,000), representing an increase of approximately 14% as compared with that of last year. Profit attributable to shareholders amounted to approximately HK$161,333,000 (2006: approximately HK$111,768,000), representing an increase of approximately 44% as compared with that of last year. The main reason for the increase in net profit was mainly due to the maiden launch of a new brand product named Western Digital and the marked increase in the sale of Maxtor and Corsair products. The basic earnings per share for the year amounted to HK18.07 cents (2006: HK13.31 cents), while diluted earnings for share was approximately HK17.55 cents (2006: approximately HK13.24 cents).

The Group endeavoured to control its operating expenses and finance costs whilst increasing its interest income substantially through frequently placing surplus funds in short term deposits during the year under review. The continued improvement in the working capital management has resulted in less reliance on interest-bearing advances.

LIQUIDITY AND FINANCIAL RESOURCES

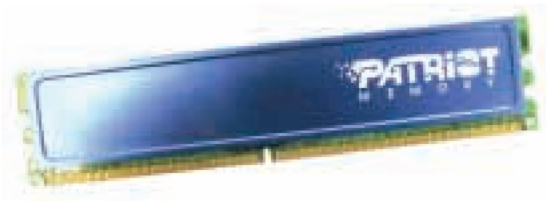
As at 31 March 2007, the Group's cash and bank deposits were approximately HK$123.9 million (2006: approximately HK$219.1 million).

As at 31 March 2007, the Group had no borrowings (2006: HK$63.5 million). The gearing ratio, calculated as the total borrowings less pledged bank deposits and divided by shareholders' equity, was nil. (2006: approximately 0.25).

During the year under review, all the convertible bonds at the aggregate principal amount of HK$66,000,000 at conversion price of HK$0.72 have been converted into 91,666,666 shares representing approximately 9.84% of the enlarged issued share capital of the Company.

As at 31 March 2007, the Group recorded total current assets of approximately HK$761.6 million (2006: approximately HK$543.4 million) and total current liabilities of approximately HK$354.6 million (2006: approximately HK$234.1 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 2.15 times as at 31 March 2007 (2006: approximately 2.32 times).

The Group recorded an increase in shareholders' funds from approximately HK$258.1 million as at 31 March 2006 to approximately HK$419.1 million as at 31 March 2007. The increase was mainly derived from the net increase in net profit after tax.



TREASURY POLICIES

The Group generally finances its operations with internally generated resources and banking facilities provided by banks in Hong Kong. The bank borrowings of the Group were predominantly subject to floating interest rates.

Cash and bank deposits of the Group were mainly denominated in Hong Kong dollars, United States dollars and Renminbi.

Transactions of the Group are mainly denominated either in Hong Kong dollars or United States dollars. For the purpose of optimization of cash resources, the Group regularly placed surplus funds into short term deposits and interest received from banks during the year ended 31 March 2007 was approximately HK$4.895 million (2006: approximately HK$1.524 million).

MATERIAL ACQUISITION/DISPOSAL AND SIGNIFICANT INVESTMENTS

During the year under review, the Group has disposed of its investments in two companies, namely Dic Video Technology Company Limited ("DIC") and 迪科視像技術有限公司 ("DVT Company Limited"). DIC and DVT Company Limited were authorized distributor of Western Digital's hard disk drives. As one of the Company's subsidiary, VST Computers (H.K.) Limited has already obtained the distribution right of Western Digital's hard disks drives, the Directors considered that the investments in the aforesaid companies were unnecessary.

Save as disclosed herewith, the Group did not have any material acquisition, disposal and significant investments during the year under review.

CHARGE ON ASSETS

As at 31 March 2007, the Group had pledged bank deposits of RMB10 million (equivalent to approximately HK$10 million) for PRC custom purpose.

CONTINGENT LIABILITIES

As at 31 March 2007, the Group did not have any significant contingent liabilities.

EMPLOYEES

As at 31 March 2007, the Group had 162 (2006: 71) full time employees.

The Group remunerated its employees mainly based on the industry practice, individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share option may be granted to eligible employees by reference to the Group's performance as well as individual's performance. Other benefits include medical, annual leave and retirement schemes. The net total remuneration paid for the year ended 31 March 2007 amounted to approximately HK$21,626,000 (2006: HK$18,206,000). The Group also provides training courses or seminars to its staff.

Save as disclosed herewith, no information in relation to the Group's performance has changed materially from the information disclosed in the annual report of the Company for the year ended 31 March 2006.

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the needs of its business.

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 March 2007, the Company has complied with the code provisions on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules which came into effect on 1 January 2005, with deviations from a code provision as explained below.

Under the code provision A.2.1, the roles of Chairman and Chief Executive Officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing. The roles of the Chairman and the CEO of the Company are not separated and are performed by the same individual, Mr. Li Jialin. The Directors will meet regularly to consider major matters affecting the operations of the Company. The Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of Company and believe that this structure will enable the Group to make and implement decisions promptly and effectively.

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, all Directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company.

The Company wishes to highlight the importance of its board (the "Board") of Directors in ensuring effective leadership and control of the Company and transparency and accountability of all operations.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All Directors should take decisions objectively in the interests of the Company.

The Board reserves for its decisions on all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary of the Company, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each Directors is normally able to seek independent professional advice in appropriate circumstances at the Company's expenses, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer of the Company (the "Chief Executive Officer") and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

Composition

The composition of the Board ensures a balance of skills and experience necessary for its independent judgement and fulfilling its business needs.

The Board currently comprises six members, consisting of two executive Directors, a non-executive Director and three independent non-executive Directors.

The Board of the Company comprises the following Directors:

Executive Directors:	
Mr. Li Jialin	*Chairman and Chief Executive Officer (the "Chairman")*
Mr. William Choo	
Non-executive Director:	
Mr. Cheng Kam Chung M.H., OStJ, JP	*(Vice Chairman)*
Independent Non-executive Directors:	
Mr. Ni Zhenwei	*Member of Audit Committee and Remuneration Committee*
Dr. Chan Po Fun Peter	*Chairman of Audit Committee and member of Remuneration Committee*
Madam Hui Hiu Fai	*Chairman of Remuneration Committee and member of Audit Committee*

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

During the period under review, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Directors possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Directors of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive Directors bring a wide range of technical, business and financial expertise, experiences and independent judgement to the Board. Through their active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of Directors.

Mr. Li Jialin has entered into service agreements with the Company for a term of two years commencing from 9 May 2002 and expiring on 8 May 2004, renewable automatically for successive years of one year each commencing from the day immediately after the expiry of the then current term of the directors' appointment, unless terminated by not less than 3 months' notice in writing served by either party on the other. Mr. William Choo's appointment as an executive Director has been extended by one year commencing from 28 April 2007 until 27 April 2008, unless terminated by not less than 3 months' notice in writing served by either party on the other. Under the service agreements, the initial annual emoluments of each executive Director is fixed and the remuneration payable to each of them will be reviewed by the Board each year.

The non-executive Directors and the independent non-executive Directors are also appointed for a specific term of one year and reviewed by the Board each year. During the year, the period of appointment of each of the independent non-executive Directors, namely Mr. Ni Zhenwei, Dr. Chan Po Fun Peter and Madam Hui Hiu Fai has been extended by one year from 1 June 2007, 16 April 2007 and 9 May 2007 respectively.

The terms of their appointments are as follows:

Executive Directors:	
Mr. Li Jialin	*(Chairman and Chief Executive Officer)*
Mr. William Choo	
Non-executive Directors:	
Mr. Cheng Kam Chung M.H., OStJ, JP	*(Vice Chairman)*
Madam Sun Ali	*(Resigned on 8 May 2007)*
Independent non-executive Directors:	
Mr. Ni Zhenwei	
Dr. Chan Po Fun Peter	
Madam Hui Hiu Fai	

Pursuant to the Company's articles of association, all Directors will be subject to retirement by rotation once every three years and any new Directors appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment. In accordance with Article 87 of the Company's Articles of Association, Mr. Li and Mr. Ni Zhenwei will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Training for Directors

Each newly appointed Directors receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to Directors whenever necessary.

Board Meetings

Number of Meetings and Directors' Attendance

The attendance of Directors at Board meetings, audit committee, and remuneration committee held during the period from the 1 April 2006 up to 9 July 2007 is set out below:

	Attendance/Number of Meetings
Directors	**Board**
Executive Directors	
Mr. Li Jialin	6/6
Mr. William Choo	4/6
Non-executive Directors	
Mr. Cheng Kam Chung M.H., OStJ, JP	6/6
Madam Sun Ali (Resigned on 8 May 2007)	2/6
Independent Non-executive Directors	
Mr. Ni Zhenwei	3/6
Dr. Chan Po Fun Peter	6/6
Madam Hui Hiu Fai	6/6

Practices and Conduct of Meetings
Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep the Directors appraised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Directors also have separate and independent access to the senior management whenever necessary.

The Chief Executive Officer, chief financial officer and company secretary of the Company attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

Minutes of all Board meetings and committee meetings are kept by the company secretary. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to the current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's articles of association also contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

BOARD COMMITTEES

The Board has established two committees, namely the Audit Committee and Remuneration Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available upon request.

The majority of the members of each Board committee are independent non-executive Directors and the list of the Chairman and members of each Board committee is set out under "Composition" of the Corporate Governance Report.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors (including one independent non-executive Directors who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any), internal auditor or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the year under review to review the financial results and reports, financial reporting and compliance procedures, and the re-appointment of the external auditors.

The attendance of individual members at Audit Committee meetings is set out below:

	Attendance/Number of Meetings
Dr. Chan Po Fun Peter *(Chairman)*	2/2
Mr. Ni Zhenwei	1/2
Madam Hui Hiu Fai	2/2

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 March 2007 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The primary objectives of the Remuneration Committee include establishing a formal and transparent procedure for fixing the remuneration of the executive Directors and for fixing the remuneration packages of all Directors and the senior management. The Remuneration Committee is also responsible for ensuring the remuneration packages are sufficient to attract and retain the Directors for running the Company successfully; avoiding over-paying and that no Directors or any of his/her associates will participate in deciding his/her own remuneration. The remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets by the end of each year for reviewing the policy, structure and related matters of the remuneration packages of the executive Directors and senior management. The human resources department is responsible for collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The Remuneration Committee will consult the Chairman and the Chief Executive Officer about their recommendations on remuneration policy, structure and related matters of remuneration packages.

One Remuneration Committee meeting has been held during the period up to the date of this report to review (a) rules governing recruitment; (b) recruitment procedure and selection; (c) appraisal procedure, salary and bonus; and (d) termination and resignation procedure of staff.

The attendance of individual members at Remuneration Committee meeting is set out below:

	Attendance/Number of Meeting
Madam Hui Hiu Fai *(Chairman)*	1/1
Dr. Chan Po Fun Peter	1/1
Mr. Ni Zhenwei	1/1

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year from 1 April 2006 to 31 March 2007.

The Company has also established written guidelines on terms no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITOR'S REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2007.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report".

The Company's external auditors are PricewaterhouseCoopers. The audit fee of the Company for the year ended 31 March 2007 is approximately HK$1,000,000. In addition, the Company has also engaged Chan Chee Cheng & Co. with an engagement fee of HK$7,300 to provide taxation service to the Group during the year under review.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and the Company's assets, and reviewing the effectiveness of such on a semi-annual basis through the Audit Committee.

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

The management of the Company is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk.

The management also conducts periodic independent reviews on the operations of individual divisions to identify any irregularities and risks, develops action plans and recommendations to address the identified risks, and reports to the Audit Committee on any key findings. The Audit Committee, in turn, reports to the Board on any material issues and makes recommendations to the Board.

The Directors consider that the existing internal control system of the Group is effective and adequate.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The rights of the Company's shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's articles of association. Details of such rights to demand a poll and the poll procedures are included in all circulars despatched to the shareholders of the Company and will be explained during the proceedings of meetings.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Audit Committee and Remuneration Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings.

Separate resolutions are to be proposed at shareholders' meetings on each substantial issue, including the election of individual Directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains a website at www.vst.com.hk, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

EXECUTIVE DIRECTORS

Mr Li Jialin, aged 45, is one of the founders and Directors of the Group and is the Company's Chairman and Chief Executive Officer and an Executive Director. Mr. Li is also the Director of VST Group Limited (BVI) and VST Computers (H.K.) Limited respectively. He is responsible for the overall management and strategic positioning of the Group. Mr. Li graduated from Tsinghua University of the People's Republic of China with a Degree of Bachelor of Engineering in 1983 and a Master Degree in Management Engineering in 1986.

Mr. William Choo, aged 49, has been appointed as an Executive Director of the Company since 28 April 2006. He is responsible for the operating activities of the Group. Mr. Choo has around 18 years' business management experience in information technology industry in Asia Pacific region and has broad knowledge of corporate business development, market analysis, and a successful track record of sale and marketing. He holds a Diploma in Marketing from the Institute of Marketing (United Kingdom) and a Diploma in Marketing and Sales Management from National Productivity Board (Singapore).

NON-EXECUTIVE DIRECTOR

Mr. Cheng Kam Chung M.H., OStJ, JP, aged 50, is one of the founders and Directors of the Group and is the Company's Vice Chairman and non-executive Director. Mr. Cheng is also the Director of VST Group Limited (BVI) and VST Computers (H.K.) Limited respectively. He has been involved in the information technology and personal computer fields since 1990. Mr. Cheng graduated from the Hong Kong Polytechnic (currently known as Hong Kong Polytechnic University) in 1980. He is also awarded a Master Degree in Business Administration by the University of Wales, United Kingdom in November 2003. Mr. Cheng is appointed as Justice of the Peace by the Government of the Hong Kong Special Administrative Region on 1 July 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ni Zhenwei, aged 70, has taught in Tsinghua University for more than 38 years. Mr. Ni graduated from Tsinghua University in 1959, majoring in mechanical engineering. Since then, he taught in Tsinghua University. In 1987, Mr. Ni obtained his qualification as an associate researcher in Tsinghua University. He retired in 1996. Mr. Ni was appointed by the Group on 1 June 2004 as an independent non-executive Director. He also serves as a member of audit committee and remuneration committee of the Company.

Dr. Chan Po Fun Peter BBS, MBE, JP, FHKICPA, FCPA (Aust.), aged 85, practised accountancy in Hong Kong for 59 years. He has a doctorate in Offshore Petroleum Technology and Modern Chinese Law and is an honorary fellow of the Society for Underwater Technology. Dr. Chan is a trustee of Hong Kong Shue Yan University (also as its Research Professor) and the United College of Chinese University of Hong Kong. He was the Chairman of the Kowloon Stock Exchange, a founding Director of The Hong Kong Stock Exchange Limited and has served three terms as the Chairman of the former Hong Kong Federation of Stock Exchanges. Dr. Chan has been appointed by the Group since 16 April 2005 as an independent non-executive Director. He also serves as the Chairman of audit committee and a member of remuneration committee of the Company.

Madam Hui Hiu Fai, aged 33, holds a Master Degree in Business Administration from Cambridge University. She has substantial experience in the areas of corporate governance, consumer bank's deposit portfolios management, and strategy development on consumer banking, corporate banking, capital markets and insurance sectors. Madam Hui has been appointed as an independent non-executive director of the Company since 9 May 2006. She also serves as the Chairman of remuneration committee and a member of audit committee of the Company.

COMPANY SECRETARY

Mr. Lung Cheuk Wah, aged 56, is the company secretary and financial controller of the Company and is responsible for overseeing the company secretarial as well as financial matters of the Group. Mr. Lung is a fellow member of The Institute of Chartered Secretaries and Administrators in the United Kingdom; a fellow member of The Hong Kong Institute of Company Secretaries and from which Mr. Lung was granted the first Practitioner's Endorsement on 1 December 2006; and an associate member of The Taxation Institute of Hong Kong. Mr. Lung is a doctoral candidate in the Doctor of Business Administration program of the Murdoch University, Australia. He is also awarded a Master Degree in Business Administration by the University of East Asia (currently known as Macau University). Mr. Lung's working experience includes 4 years statutory audit in an international accounting firm and around 15 years in senior positions comprising internal audit, accounting and financing in the commercial sector. He joined the Group in November 2002.

The directors (the "Directors") of VST Holdings Limited (the "Company") are pleased to present their annual report together with the audited accounts of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the distribution of information technology ("IT") products.

Particulars of the Company's subsidiaries are set out in note 7 to the accounts.

The Group is operating in a single business segment of distribution of IT products and the sales of the Group's inventories are substantially delivered in Hong Kong. Therefore, no analysis on turnover and contributions to profit before taxation by principal activity and by geographical location for the year ended 31 March 2007 of the Group is presented in this report.

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer for the year ended 31 March 2007 represented approximately 16% (2006: 18%) of the Group's total turnover, and the combined total of the five largest customers accounted for approximately 50% (2006: 53%) of the Group's total turnover for the year under review.

In addition, the largest supplier for the year ended 31 March 2007 represented approximately 64% (2006: 66%) of the Group's total purchases, and the combined total of the five largest suppliers accounted for approximately 99% (2006: 99%) of the Group's total purchases for the year under review.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2007 are set out in the consolidated profit and loss account on page 38.

The Directors declared an interim dividend of HK3.2 cents per ordinary share, totalling HK$29,813,000, which was paid on 12 January 2007.

The Directors recommend the payment of a final dividend of HK4.6 cents per ordinary share totalling HK$42,857,000 for the year under review (2006: HK$39,863,000) to be approved at the forthcoming annual general meeting. Subject to the approval at the annual general meeting, the final dividend will be payable on or about 7 September 2007 to shareholders whose names appear on the register of members of the Company at the close of business on 31 August 2007. The register of members of the Company will be closed from 28 August 2007 to 31 August 2007, both days inclusive during which no transfer of shares will be effected.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 14 to the accounts.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 5 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 12 to the accounts.

DISTRIBUTABLE RESERVES

At 31 March 2007, the Company's reserves available for distribution amounted to approximately HK$127,692,000 (2006: HK$63,359,000). In addition, the Company's share premium account, in the amount of HK$90,103,000 (2006: HK$32,094,000), may be distributed in the form of fully paid bonus shares in accordance with the Companies Law (revised) of the Cayman Islands.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there is no restriction against such rights under the laws of the Cayman Islands.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 76.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year under review. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year under review.

SHARE OPTIONS

Under the terms of the Company's share option scheme approved by the shareholders on 17 April 2002 (the "Share Option Scheme"), the board of Directors may, at its discretion, invite employees (including both full time and part time employees, and executive Directors), non-executive Directors, suppliers, customers and other corporations or individuals that provide support to the Group (as defined in the Share Option Scheme) to take up options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the Share Option Scheme may not exceed 10% of the issued share capital of the Company. The scheme became effective upon the listing of the Company's shares on 9 May 2002. No options have been granted to the Directors up to the date of this report.

Save as disclosed above, at no time during the year was the Company or any of the companies comprising the group, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debenture of, the Company or any other body corporate and none of the Directors, their spouses or their children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

The summary of the details of the Share Option Scheme of the Company is as follows:

Purpose	:	To award participants as incentive or rewards for their contribution to the Group
Participants	:	(a) Any employee or prospective employee (whether full time or part time) of the Company, any of its subsidiaries or any entity (the "Invested Entity") in which 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 subsidiary 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 the Group or any Invested Entity; and (e) any consultants, advisers, managers, officers or entity that provides research, development or other technological support to the Group or any Invested Entity; and, for the purposes of the Share Option Scheme, the offer may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants.
Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at 31 March 2007	:	93,166,666 ordinary shares and 10% of the issued share capital

Maximum entitlement of each participant :	Shall not exceed 1% of the issued share capital of the Company in any 12-month period
Period within which the securities must be taken up under an option :	Not applicable
Minimum period an option must be held before it can be exercised :	Not applicable
Amount payable on acceptance of the option :	HK$1
Period within which payments/calls/loans must be made/repaid :	Not applicable
Basis of determining the exercise price :	To be determined by the Board of Directors and will not be less than the higher of (i) the nominal value of the Company's ordinary share; (ii) the closing price of the Company's ordinary share as stated in the daily quotation sheets issued by the Stock Exchange on the date of offer; and (iii) the average closing price of the Company's ordinary share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer.
The remaining life of the Share Option Scheme :	The Share Option Scheme remains in force for a period of 10 years from the date of its adoption on 17 April 2002.

The Directors of the Company who held office during the year and up to the date of this report are:

Executive Directors:

Mr. Li Jialin	*(Chairman and Chief Executive Officer)*
Mr. William Choo	*(appointed on 28 April 2006)*

Non-executive Directors:

Mr. Cheng Kam Chung MH *(Vice Chairman)*	*(changed from executive Director to non-executive Director on 11 August 2006)*
Madam Sun Ali	*(resigned on 8 May 2007)*

Independent non-executive Directors:

Mr. Ni Zhenwei	
Dr. Chan Po Fun Peter	
Madam Hui Hiu Fai	*(appointed on 9 May 2006)*
Mr. Hu Yebi	*(resigned on 8 May 2006)*

In accordance with Article 87 of the Company's Articles of Association, Mr. Li Jialin and Mr. Ni Zhenwei will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election. The Company confirms that it has received from each of its independent non-executive Directors an annual confirmation of his/her independence pursuant to the Listing Rules and the Company considers the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

Executive Directors

Mr. Li Jialin has entered into service agreements with the Company for a term of two years commencing from 9 May 2002 and expiring on 8 May 2004, renewable automatically for successive years of one year each commencing from the day immediately after the expiry of the then current term of the directors' appointment, unless terminated by not less than 3 months' notice in writing served by either party on the other. Mr. William Choo's appointment as an executive Director has been extended by one year commencing from 28 April 2007 until 27 April 2008, unless terminated by not less than 3 months' notice in writing served by either party on the other. Under the service agreements, the annual emoluments of each executive Director is fixed and the remuneration payable to each of them will be reviewed by the Board of Directors each year.

Non-executive Directors

Mr. Cheng Kam Chung, who was an executive director, has been re-designated as a non-executive Director with effect from the close of annual general meeting of the Company held on 11 August 2006. Mr. Ni Zhenwei's appointment as an independent non-executive Director has been extended by one year commencing from 1 June 2007 to 31 May 2008. Dr. Chan Po Fun Peter's appointment as an independent non-executive Director has been extended by one year commencing from 16 April 2007 to 15 April 2008. Madam Hui Hiu Fai's appointment as an independent non-executive Director has been extended by one year commencing from 9 May 2007 to 8 May 2008.

Save as disclosed above, no Director has an unexpired service contract which is not terminable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of the companies comprising the Group was a party and in which a Director had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year under review.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and senior management are set out on pages 20 to 21.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 31 March 2007, the interests and short positions of the Directors and the chief executive of the Company in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") which would have to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provisions of the SFO) and/or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which would have to be notified to the Company and the Stock Exchange pursuant to the Listing Rules were as follows:

Name of Director	Company/name of associated corporation	Capacity	Number and class of securities	Approximate percentage of issued share capital of the Company/associated company
Mr. Li Jialin	Company	Beneficial interests, family interests and interests in controlled corporation	444,632,000, ordinary shares Long position *(Note 1)*	47.72%
Mr. Cheng Kam Chung MH	Company	Beneficial interests, family interests and other interests	106,500,000 ordinary shares Long position *(Note 2)*	11.43%

Notes:

1. 241,500,000 shares of the Company were held by L & L Limited, the entire issued share capital of which was equally held by Mr. Li Jialin (the Chairman and Chief Executive Officer of the Company) and his spouse, Madam Liu Li. In addition, each of Mr. Li Jialin and Madam Liu Li was personally interested in 38,132,000 shares and 165,000,000 shares of the Company respectively.

2. 97,500,000 shares of the Company were held by CKC Holdings Limited, the entire issued share capital of which is held by Infinity Fortune Limited, a company incorporated in the British Virgin Islands, as a trustee of Infinity Fortune Unit Trust. Infinity Fortune Unit Trust is an unit trust of which 1 unit is held by Madam Kwan How Yin, the spouse of Mr. Cheng Kam Chung (Vice Chairman of the Company and an executive Director), and 9,999 units are held by HSBC International Trustee Limited as trustee for the CKC Family Trust, a discretionary trust which objects include Madam Kwan How Yin and her children. In addition, Mr. Cheng was personally interested in 9,000,000 shares of the company.

Save ad disclosed above, as at 31 March 2007, none of the Directors nor the chief executives of the Company had any interests or short positions in any share, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Listing Rules, to be notified to the Company and the Stock Exchange.

Substantial shareholders' and other persons' interests and short positions in shares and debentures

As at 31 March 2007, so far is known to the Directors, the following persons (not being a Director or a chief executive of the Company) had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group:

Name of shareholder	Capacity	Number and class of securities	Approximate percentage of shareholding
L&L Limited	Beneficial interests	241,500,000 ordinary shares Long position *(Note 1)*	25.92%
CKC Holdings Limited	Beneficial interests	97,500,000 ordinary shares Long position *(Note 2)*	10.47%
Liu Li	Beneficial interests, family interests and interests in controlled corporation	444,632,000 ordinary shares Long position *(Note 3)*	47.72%
Zhang Qing	Beneficial interests and interests in controlled corporation	50,561,333 Long position	5.43%
ABN AMRO	Beneficial interests	98,159,333 Long position	10.54%

Notes:

1. The entire issued share capital of L&L Limited is equally held by Mr. Li Jialin (the Chairman and Chief Executive Officer of the Company) and his spouse, Madam Liu Li.

2. The entire issued share capital CKC Holdings Limited is held by Infinity Fortune Limited, a company incorporated in the British Virgin Islands, as a trustee of Infinity Fortune Unit Trust. Infinity Fortune Unit Trust is an unit trust of which 1 unit is held by Madam Kwan How Yin, the spouse of Mr. Cheng Kam Chung (Vice Chairman and executive Director), and 9,999 units are held by HSBC International Trustee Limited as trustee for the CKC Family Trust, a discretionary trust which objects include Madam Kwan How Yin and her children.

3. 241,500,000 shares of the Company were held by L&L Limited, the entire issued share capital of which was equally held by Mr. Li Jialin (the Chairman and Chief Executive Officer of the Company) and his spouse, Madam Liu Li. In addition, each of Mr. Li Jialin and Madam Liu Li was personally interested in 38,132,000 shares and 165,000,000 shares of the Company respectively.

Save as disclosed above, as at 31 March 2007, so far is known to the Directors, there was no person who had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provision of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or was directly or indirectly interested in 10% of more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group, or any options in respect of such capital.

Directors' interests in competing business

During the year under review, VST Group Limited, a company incorporated in Hong Kong owned equally by L&L Limited and CKC Holdings Limited, had disposed of its entire interests in VST Technology Sdn Bhd which is principally engaged in the business of distribution of IT products. Accordingly, the Directors consider that they have no interests in any competing business.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CONNECTED TRANSACTIONS

On 31 March 2006, the Group entered into a rental agreement with Mr. Li Jialin, the Chairman and an executive Director of the Company, in respect of a director quarter. Pursuant to the agreement, the Group paid a monthly rental of HK$80,000 to Mr. Li Jialin for a term of 12 months from 1 April 2006 to 31 March 2007.

The above constituted a connected transaction under the Listing Rules. The Directors are of the opinion that the above transaction was entered into on normal commercial terms and on an arm's length basis and is fair and reasonable so far as the shareholders of the Company, taken as a whole, are concerned. The above connected transaction constituted an exempted connected transaction under the Listing Rules as the total consideration involved in the transaction was less than HK$1 million and 2.5% of the percentage ratios under chapter 14A of the Listing Rules.

DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

A summary of the Directors and senior management's emoluments is set out in note 26 to the accounts.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float throughout the year under review.

ZERO COUPON CONVERTIBLE BONDS DUE 2008

During the year under review, all the convertible bonds at the aggregate principal amount of HK$66,000,000 at conversion price of HK$0.72 have been converted into 91,666,666 shares representing approximately 9.84% of the enlarged issued share capital of the Company. After the above conversion, the number of issued shares of the Company was increased to 931,666,666 fully paid ordinary shares.

CHANGE IN BOARD LOT SIZE OF SHARES

The board lot size of the shares for trading on the Stock Exchange has been changed from 8,000 Shares to 2,000 Shares with effect from Friday, 7 April, 2006. The Board of Directors believes that the reduced board lot size may facilitate the trading and improve the liquidity of the Shares and enable the Company to attract more investors and broaden its shareholder base. The change in board lot size does not affect the rights of the shareholders.

AUDIT COMMITTEE

The Company has established an audit committee on 17 April 2002 with written terms of reference in compliance with the Code of Corporate Governance Practices as set out in the Listing Rules. The primary duties of the audit committee are to review and supervise the Group's internal control and financial reporting process including the interim and annual accounts before recommending them to the Board of Directors for approval. The Company's audited results for the year ended 31 March 2007 have been reviewed by the audit committee who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

REMUNERATION COMMITTEE

The Company has established a remuneration committee on 29 September 2005 consisting of three independent non-executive Directors with written terms of reference in compliance with the Code on Corporate Governance Practices of the Listing Rules. The primary duties of the remuneration committee regarding the remuneration of Directors and senior management include making remuneration recommendations, determining the specific remuneration packages, reviewing and approving performance-based remuneration, termination compensation, dismissal or removal compensation arrangements, and ensuring that no Director or any of his associates is involved in deciding his own remuneration.

FINAL DIVIDEND

The Directors have recommended the payment of a final dividend of HK4.6 cents per ordinary share for the year under review (2006: HK4.5 cents) to be declared at the forthcoming annual general meeting. Subject to the approval at the annual general meeting, the final dividend will be payable on or about 7 September 2007 to shareholders whose names appear on the register of members of the Company (the "Register of Members") at the close of the business on 27 August 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 28 August 2007 to 31 August 2007, both days inclusive, during which no transfer of shares will be effected. In order to qualify for attending the annual general meeting to be held on 31 August 2007, all transactions accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited situated at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 27 August 2007.

AUDITORS

The accounts of the Group for the year ended 31 March 2007 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

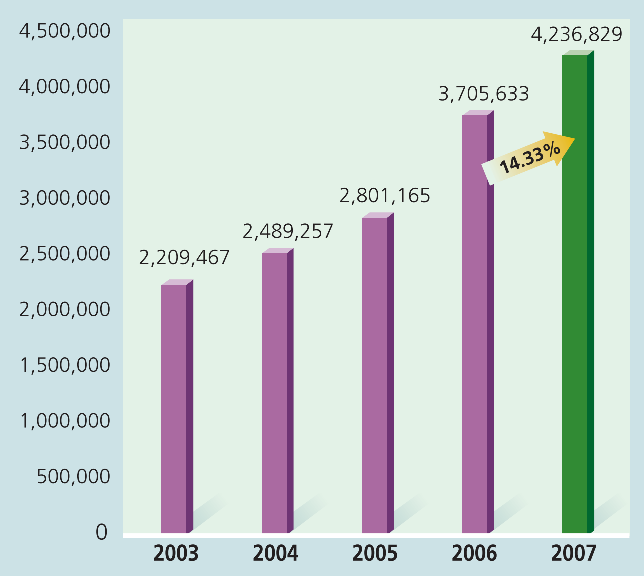
On behalf of the Board

Li Jialin
Chairman and Chief Executive Officer

Hong Kong, 9 July 2007

Steady Growth in Turnover

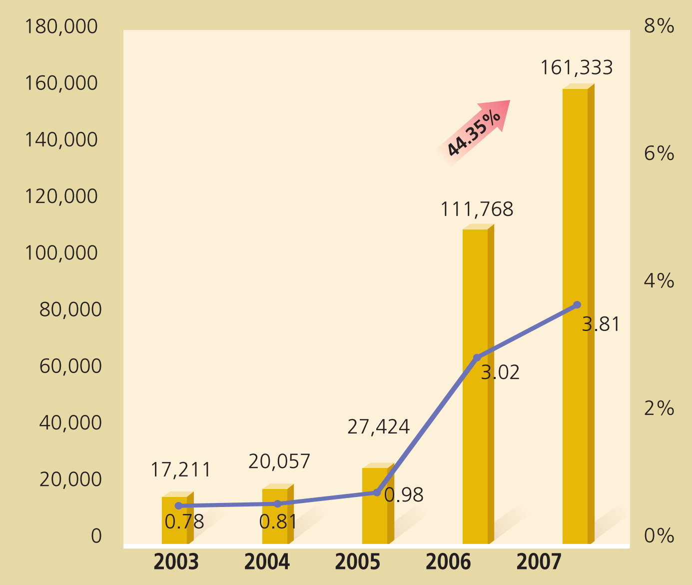
For the year ended 31st March 2007
HK$'000



Robust Growth in Net Profit

For the year ended 31st March 2007
HK$'000

Net profit percentage %



PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong
Telephone: (852) 2289 8888
Facsimile: (852) 2810 9888

TO THE SHAREHOLDERS OF VST HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated accounts of VST Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 36 to 75, which comprise the consolidated and Company balance sheets as at 31 March 2007, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE ACCOUNTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated accounts based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement.

TO THE SHAREHOLDERS OF VST HOLDINGS LIMITED (CONTINUED)
(incorporated in the Cayman Islands with limited liability)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 9 July 2007

Consolidated Balance Sheet

As at 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	**2,793**	2,653
Available-for-sale financial assets	6	**9,467**	10,000
		12,260	12,653
Current assets			
Bills receivable		**–**	17,908
Trade receivables	9	**346,434**	141,203
Prepayments and other receivables		**3,620**	1,708
Inventories	10	**287,661**	163,419
Pledged bank deposits		**10,000**	–
Cash and cash equivalents	11	**113,926**	219,129
		761,641	543,367
Total assets		**773,901**	556,020
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	12	**93,167**	84,000
Reserves	14	**283,069**	134,248
Proposed dividend	14	**42,857**	39,863
Total equity		**419,093**	258,111
LIABILITIES			
Non-current liabilities			
Convertible bonds	16	**–**	63,544
Deferred taxation	17	**200**	237
		200	63,781
Current liabilities			
Trade payables	15	**333,235**	213,233
Accruals and other payables		**3,691**	1,978
Taxation payable		**17,682**	18,917
		354,608	234,128
Total liabilities		**354,808**	297,909
Total equity and liabilities		**773,901**	556,020
Net current assets		**407,033**	309,239
Total assets less current liabilities		**419,293**	321,892

On behalf of the Board

Li Jialin
Director

William Choo
Director

The notes on pages 41 to 75 are an integral part of these accounts.

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current asset			
Investments in subsidiaries	7	**83,154**	63,683
Current assets			
Amounts due from subsidiaries	8	**228,352**	180,426
Prepayments and other receivables		**232**	306
Cash and cash equivalents	11	**332**	83
		228,916	180,815
Total assets		**312,070**	244,498
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	12	**93,167**	84,000
Reserves	14	**174,938**	56,586
Proposed dividend	14	**42,857**	39,863
Total equity		**310,962**	180,449
LIABILITIES			
Non-current liabilities			
Convertible bonds	16	**–**	63,544
Current liabilities			
Accruals and other payables		**54**	505
Taxation payable		**1,054**	–
		1,108	505
Total liabilities		**1,108**	64,049
Total equity and liabilities		**312,070**	244,498
Net current assets		**227,808**	180,310
Total assets less current liabilities		**310,962**	243,993

On behalf of the Board

Li Jialin
Director

William Choo
Director

The notes on pages 41 to 75 are an integral part of these accounts.

Consolidated Profit and Loss Account

For the year ended 31 March 2007

	Note	**2007** **HK$'000**	2006 HK$'000
Turnover	18	**4,236,829**	3,705,633
Cost of sales		**(4,001,594)**	(3,534,497)
Gross profit		**235,235**	171,136
Other gains, net	19	**2,578**	1,485
Administrative expenses		**(36,963)**	(31,094)
Operating profit	20	**200,850**	141,527
Finance costs	21	**(5,256)**	(5,668)
Profit before taxation		**195,594**	135,859
Taxation	22	**(34,261)**	(24,091)
Profit for the year attributable to equity holders of the Company	23	**161,333**	111,768
Dividends	24	**72,670**	52,463
Earnings per share for profit attributable to equity holders of the Company *(expressed in HK cents per share)*	25		
– Basic		**18.07 cents**	13.31 cents
– Diluted		**17.55 cents**	13.24 cents

The notes on pages 41 to 75 are an integral part of these accounts.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2007

	Share capital HK$'000	Other reserves (Note 14) HK$'000	Retained earnings HK$'000	Proposed dividends HK$'000	Total HK$'000
Balance at 1 April 2005	84,000	30,411	43,536	5,880	163,827
Net profit for the year	–	–	111,768	–	111,768
Convertible bonds, equity component, net of tax	–	996	–	–	996
2005 final dividend paid	–	–	–	(5,880)	(5,880)
2006 interim dividend					
– proposed	–	–	(12,600)	12,600	–
– paid	–	–	–	(12,600)	(12,600)
2006 final dividend proposed	–	–	(39,863)	39,863	–
Balance at 31 March 2006	84,000	31,407	102,841	39,863	258,111
Balance at 1 April 2006	84,000	31,407	102,841	39,863	258,111
Net profit for the year	–	–	161,333	–	161,333
Currency translation difference	–	678	–	–	678
Increase in fair value of available-for-sale financial assets	–	2,467	–	–	2,467
Issue of ordinary shares upon conversion of convertible bonds	9,167	57,013	–	–	66,180
2006 final dividend paid	–	–	–	(39,863)	(39,863)
2007 interim dividend					
– proposed	–	–	(29,813)	29,813	–
– paid	–	–	–	(29,813)	(29,813)
2007 final dividend proposed	–	–	(42,857)	42,857	–
Balance at 31 March 2007	**93,167**	**91,565**	**191,504**	**42,857**	**419,093**

The notes on pages 41 to 75 are an integral part of these accounts.

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	Note	**2007** **HK$'000**	2006 HK$'000
Cash flows from operating activities			
Net cash generated from operations	28(a)	**7,633**	218,664
Hong Kong profits tax paid		**(35,441)**	(6,933)
PRC income tax paid		**(92)**	(82)
Interest paid		**(2,620)**	(5,148)
Net cash (used in)/generated from operating activities		**(30,520)**	206,501
Cash flows from investing activities			
Interest received		**4,895**	1,524
Purchase of property, plant and equipment		**(1,580)**	(831)
(Increase)/decrease in pledged bank deposits		**(10,000)**	19,244
Purchase of available-for-sale financial assets		**(7,000)**	(10,000)
Proceeds from disposal of available-for-sale financial assets		**8,000**	–
Net cash (used in)/generated from investing activities		**(5,685)**	9,937
Cash flows from financing activities	28(b)		
Dividends paid		**(69,676)**	(18,480)
Net proceeds from the issue of convertible bonds		**–**	64,020
Repayment of obligation under finance lease		**–**	(97)
New import loans		**182,845**	723,861
Repayment of import loans		**(182,845)**	(813,497)
Net cash used in financing activities		**(69,676)**	(44,193)
Net (decrease)/increase in cash and cash equivalents		**(105,881)**	172,245
Cash and cash equivalents at the beginning of year		**219,129**	46,884
Effect of foreign exchange rate changes		**678**	–
Cash and cash equivalents at the end of year	11	**113,926**	219,129

The notes on pages 41 to 75 are an integral part of these accounts.

1 GENERAL INFORMATION

VST Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the distribution of information technology ("IT") products.

The Company is a limited liability company incorporated in the Cayman Islands. Its principal place of business is at Unit 1901, 19th Floor, West Tower, Shun Tak Centre, 168 Connaught Road Central, Hong Kong.

The Company's shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated accounts are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated accounts have been approved for issue by the Board of Directors on 9 July 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated accounts of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets which are carried at fair value.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

(a) Effect of adopting new/revised HKFRS

In the current year, the Group adopted the following amendments of HKFRS which are effective in the current year and are relevant to the Group's operations:

- HKAS 21 Amendment, Net Investment in a Foreign Operation
- HKAS 39 & HKFRS 4 Amendments, Financial Guarantee Contracts

The adoption of the above new/revised HKFRSs has no material impact on the Group's consolidated accounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(a) *Effect of adopting new/revised HKFRS (continued)*

The following standards, amendments and interpretations of HKFRS are effective in the current year but are not relevant to the Group's operations:

- HKAS 19 Amendment, Employee Benefits
- HKAS 39 Amendment, Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- HKAS 39 Amendment, The Fair Value Option
- HKFRS 1 Amendment, First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 Amendment, Exploration for and Evaluation of Mineral Resources
- HKFRS 6, Exploration for and Evaluation of Mineral Resources
- HK(IFRIC)-Int 4, Determining whether an Arrangement Contains a Lease
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market-Waste Electronical and Electronic Equipment
- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies

(b) *Standards, interpretations and amendments to published standards that are not yet effective*

The following new standards and interpretation of HKFRS have been issued and are relevant to the Group's operations:

- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Accounts – Capital Disclosures (effective for accounting periods commencing on or after 1 January 2007). The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual period beginning 1 April 2007.
- HKFRS 8, Operating Segments (effective for accounting periods commencing on or after 1 January 2009). The Group will apply HKFRS 8 from annual period beginning 1 April 2009, but it is not expected to have any significant impact on the Group's consolidated accounts other than presentational changes and additional disclosures in respect of segment information.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(b) Standards, interpretations and amendments to published standards that are not yet effective (continued)

The following new standards and interpretation of HKFRS have been issued and are relevant to the Group's operations:(continued)

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for accounting periods commencing on or after 1 November 2006). The Group will apply HK(IFRIC)-Int 10 from annual period beginning 1 April 2007, but it is not expected to have any significant impact on the Group's consolidated accounts.

The following interpretations of HKFRS have been issued and are not relevant to the Group's operations:

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for accounting periods commencing on or after 1 May 2006)

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for accounting periods commencing on or after 1 June 2006)

- HK(IFRIC)-Int 11, HKFRS 2 – Group and Treasury Share Transaction (effective for accounting periods commencing on or after 1 March 2007)

- HK(IFRIC)-Int 12, Service Concession Arrangements (effective for accounting periods commencing on or after 1 January 2008)

2.2 Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in Hong Kong dollars ("HK dollars"), which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale investments reserve in equity.

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the consolidated profit and loss account as part of the gain or loss on sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate costs to their residual values over their estimated useful lives, as follows:

Leasehold improvements	20% or lease period whichever is shorter
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (Note 2.5).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the profit and loss account.

2.5 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. The management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. During the year, the Group did not hold any investments in this category.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" in the balance sheet (Note 2.8).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held to maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets. During the year, the Group did not hold any investments in this category.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Financial assets *(continued)*

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in the profit and loss account, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as "gains/losses on disposal of investments". Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade and other receivables is described in Note 2.8.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Inventories

Inventories comprise IT products for distribution and are stated at the lower of cost and net realisable value.

Cost is determined using the first-in, first-out method. The cost of finished goods comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. It excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.8 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks.

2.10 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Borrowings *(continued)*

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

All borrowing costs are charged to the profit and loss account in the period in which they are incurred.

2.12 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax assets are realised or the deferred income tax liabilities are settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.13 Employee benefits

(a) *Pension obligations*

For eligible employees in Hong Kong, the Group operates defined contribution plans, the assets of which are held in separate trustee-administered funds. The retirement plans are generally funded by payments from employees and by the relevant group companies. For employees in the People's Republic of China (the "PRC"), the Group participates in defined contribution retirement schemes organised by the relevant local government in the PRC.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Employee benefits *(continued)*

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(c) Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.14 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.15 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the profit and loss account on a straight-line basis over the period of the lease.

2.16 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown, net of returns and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) *Sale of goods*

Sale of goods are recognised when products have been delivered to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

2.18 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated accounts in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to foreign exchange risk, interest rate risk, credit risk and liquidity risk.

(a) *Foreign exchange risk*

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar and the PRC Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group uses foreign currency forward contracts to reduce foreign exchange risk. As at 31 March 2007, the Group had no outstanding foreign currency forward contracts.

(b) *Interest rate risk*

The Group's interest rate risk arises mainly from bank balances and deposits. Bank balances and deposits that are subject to variable rates expose the Group to cash flow interest rate risk. Bank balances and deposit that are subject to fixed rates expose the Group to fair value interest rate risk. The Group has not hedged its cash flow and fair value interest rate risks.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Credit risk

The carrying amount of trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets.

The Group has put in place policies to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade receivables falls within the recorded allowances. At 31 March 2007, no provision for uncollectible trade receivables had been made.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Directors aim to maintain flexibility in funding by keeping credit lines available.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices on the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair values of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing on each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debts. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal values less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes

The Group is subject to income taxes in Hong Kong and the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Estimated write-down of inventories to net realisable value

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs of inventories are recorded where events or changes in circumstances indicate that the balances may not be realised.

The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the period in which such estimate has been changed.

(c) Estimated provision for impairment of trade receivables

The Group makes provision for impairment of trade receivables based on an assessment of the recoverability of trade receivables. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible.

The identification of impairment of trade receivables requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade receivables and impairment loss in the period in which such estimate has been changed.

5 PROPERTY, PLANT AND EQUIPMENT

	Group				
	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 April 2005					
Cost	1,525	362	6,110	1,485	9,482
Accumulated depreciation	(476)	(185)	(4,774)	(1,179)	(6,614)
Net book amount	1,049	177	1,336	306	2,868
Year ended 31 March 2006					
Opening net book amount	1,049	177	1,336	306	2,868
Additions	228	131	472	–	831
Disposals	–	–	(4)	–	(4)
Depreciation	(303)	(68)	(593)	(78)	(1,042)
Closing net book amount	974	240	1,211	228	2,653
At 31 March 2006					
Cost	1,753	493	6,567	1,485	10,298
Accumulated depreciation	(779)	(253)	(5,356)	(1,257)	(7,645)
Net book amount	974	240	1,211	228	2,653
Year ended 31 March 2007					
Opening net book amount	974	240	1,211	228	2,653
Additions	848	23	709	–	1,580
Disposals	(230)	(4)	(83)	–	(317)
Depreciation	(342)	(75)	(629)	(77)	(1,123)
Closing net book amount	1,250	184	1,208	151	2,793
At 31 March 2007					
Cost	2,070	488	7,069	1,484	11,111
Accumulated depreciation	(820)	(304)	(5,861)	(1,333)	(8,318)
Net book amount	1,250	184	1,208	151	2,793

Note:

Depreciation expense of HK$1,123,000 (2006: HK$1,042,000) has been expensed in administrative expenses.

6 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Beginning of year	**10,000**	–
Disposals	**(10,000)**	–
Additions	**7,000**	10,000
Increase in fair value credited to equity	**2,467**	–
End of year	**9,467**	10,000

Available-for-sale financial assets include the following:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Quoted investment:		
– PRC	**9,467**	–
Unlisted equity securities:		
– Hong Kong	**–**	488
– PRC	**–**	9,512
	–	10,000

7 INVESTMENTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted investments, at cost	**83,154**	63,683

Note:

On 14 April 2006, the Company established a new subsidiary, 深圳偉仕宏業電子有限公司, in the PRC with registered and paid-up capital of Rmb20,000,000 (equivalent to approximately HK$19,471,000).

7 INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries as at 31 March 2007 are as follows:

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital/registered capital	Percentage of interest held Directly	Indirectly
VST Group Limited ("VSTG")	British Virgin Islands	Investment holding, British Virgin Islands	4 ordinary shares of US$1 each	100	–
深圳偉仕宏業電子有限公司	PRC	Distribution of IT products in the PRC	Rmb20,000,000	100	–
VST Computers (H.K.) Limited	Hong Kong	Distribution of IT products in Hong Kong	2 ordinary shares of HK$1 each 62,000,000 non-voting deferred shares of HK$1 each	–	100
偉仕宏宇國際貿易（上海）有限公司	PRC	Distribution of IT products and investment holding in the PRC	US$1,000,000	–	100
VST Computers (Singapore) Pte. Ltd.	Singapore	Distribution of IT products in Singapore	10 ordinary shares of SGD10 each	–	100

8 AMOUNTS DUE FROM SUBSIDIARIES

The amount due from VSTG of HK$130,000,000 as at 31 March 2007 (2006: Nil) is unsecured, interest-free and repayable on demand.

The amount due from VST Computers (H.K.) Limited of HK$98,352,000 (2006: HK$180,426,000) is unsecured, interest bearing at a rate between 7.75% and 8.00% per annum (2006: 4.42% and 8.00% per annum) and is repayable on demand.

9 TRADE RECEIVABLES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**346,434**	141,740
Less: Provision for impairment of receivables	**–**	(537)
	346,434	141,203

There is concentration of credit risk with respect to trade receivables as the Group's sales are concentrated on several key customers. The Group's control over credit risk is disclosed in Note 3.

The Group grants a credit period to third party customers ranging from 7 to 60 days, which may be extended for selected customers depending on their trade volume and settlement history with the Group. However, sales to new customers are only conducted on a cash basis in accordance with the Group's credit control policy. The ageing analysis of gross trade receivables is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	**345,209**	140,388
31 – 60 days	**25**	427
61 – 90 days	**–**	550
Over 90 days	**1,200**	375
	346,434	141,740

The carrying amounts of trade receivables approximate their fair values.

10 INVENTORIES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Inventories on hand		
– Held for re-sale	**184,920**	122,483
– Held for return to suppliers or exchange to customers	**5,616**	7,365
Inventories-in-transit	**97,829**	36,879
Less: provision	**(704)**	(3,308)
	287,661	163,419

The cost of inventories recognised as expense and included in cost of sales amounted to HK$4,448,924,000 (2006: HK$3,818,784,000).

11 CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and in hand	**33,596**	174,129	**332**	83
Short-term bank deposits *(note a)*	**80,330**	45,000	**–**	–
	113,926	219,129	**332**	83
Denominated in:				
– HK dollars	**34,371**	72,149	**332**	83
– US dollars	**69,381**	146,830	**–**	–
– Renminbi *(note b)*	**10,174**	150	**–**	–
	113,926	219,129	**332**	83

(a) The effective interest rate on short-term bank deposits was 4.07% per annum (2006: 3.65%); these deposits have an average maturity of 2 days (2006: 7 days).

(b) The Group's bank balances and deposits denominated in Renminbi are deposited with banks in the PRC. The conversion of these Renminbi denominated balances into foreign currencies and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the government of the PRC.

12 SHARE CAPITAL

	2007 HK$'000	2006 HK$'000
Authorised:		
2,000,000,000 (2006: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
931,666,666 (2006: 840,000,000) ordinary shares of HK$0.10 each	**93,167**	84,000

A summary of the movements in issued share capital of the Company is as follows:

	2007		2006	
	Number of issued Ordinary shares of HK$0.10 each	**Par value *HK$'000***	Number of issued Ordinary shares of HK$0.10 each	Par value *HK$'000*
Beginning of year	**840,000,000**	**84,000**	840,000,000	84,000
Issue of shares *(note a)*	**91,666,666**	**9,167**	–	–
End of year	**931,666,666**	**93,167**	840,000,000	84,000

(a) During the year ended 31 March 2007, 91,666,666 ordinary shares were issued upon conversion of convertible bonds. These shares rank pari passu with the existing shares. Further details are set out in Note 16 to the accounts.

13 SHARE OPTION SCHEME

On 17 April 2002, the Company approved a share option scheme under which the Directors may, at their discretion, invite employees (including both full time and part time employees, and executive Directors), non-executive Directors, suppliers, customers and other corporations or individuals that provide support to the Group (as defined in the share option scheme) to take up options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company. The subscription price will be determined by the Company's Board of Directors and will not be less than the higher of (i) the nominal value of the Company's ordinary shares; (ii) the closing price of the Company's ordinary shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of offer; and (iii) the average closing price of the Company's ordinary shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer. The share option scheme became effective upon the listing of the Company's shares on 9 May 2002.

Up to 31 March 2007, no options had been granted pursuant to the above share option scheme.

14 RESERVES

(a) Group

	Share premium HK$'000 (Note i)	Convertible bonds reserve HK$'000 (Note ii)	Available-for-sale investments reserve HK$'000	Translation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 April 2005	30,411	–	–	–	49,416	79,827
Profit for the year	–	–	–	–	111,768	111,768
Convertible bonds, equity components *(Note 16)*	–	996	–	–	–	996
2005 final dividend paid	–	–	–	–	(5,880)	(5,880)
2006 interim dividend paid	–	–	–	–	(12,600)	(12,600)
Balance at 31 March 2006	30,411	996	–	–	142,704	174,111
Representing:						
Reserves						134,248
2006 final dividend proposed *(Note 24)*						39,863
Balance at 31 March 2006						174,111
Balance at 1 April 2006	30,411	996	–	–	142,704	174,111
Currency translation difference	–	–	–	678	–	678
Increase in fair value of available-for-sale financial assets	–	–	2,467	–	–	2,467
Issue of ordinary shares upon conversion of convertible bonds *(Note 16)*	58,009	(996)	–	–	–	57,013
Profit for the year	–	–	–	–	161,333	161,333
2006 final dividend paid	–	–	–	–	(39,863)	(39,863)
2007 interim dividend paid	–	–	–	–	(29,813)	(29,813)
Balance at 31 March 2007	88,420	–	2,467	678	234,361	325,926
Representing:						
Reserves						283,069
2007 final dividend proposed *(Note 24)*						42,857
Balance at 31 March 2007						325,926

14 RESERVES *(continued)*

(a) Group *(continued)*

Notes:

(i) The share premium account of the Group includes: (a) the difference between the nominal values of the share capital of the subsidiaries acquired and that of the Company issued in exchange pursuant to the group reorganisation in April 2002; (b) the capitalisation issue in April 2002; and (c) the premium arising from the new issue of shares, net of share issuance costs.

(ii) Convertible bonds in reserves represent the value of the equity conversion component. Details of the convertible bonds are set out in Note 16.

(b) Company

	Share premium *HK$'000*	Convertible bonds *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
Balance at 1 April 2005	32,094	–	29,138	61,232
Profit for the year	–	–	52,701	52,701
Convertible bonds, equity component *(Note 16)*	–	996	–	996
2005 final dividend paid	–	–	(5,880)	(5,880)
2006 interim dividend paid	–	–	(12,600)	(12,600)
Balance at 31 March 2006	32,094	996	63,359	96,449
Representing:				
Reserves				56,586
2006 final dividend proposed *(Note 24)*				39,863
Balance at 31 March 2006				96,449
Balance at 1 April 2006	32,094	996	63,359	96,449
Profit for the year	–	–	134,009	134,009
Issue of ordinary shares upon conversion of convertible bonds *(Note 16)*	58,009	(996)	–	57,013
2006 final dividend paid	–	–	(39,863)	(39,863)
2007 interim dividend paid	–	–	(29,813)	(29,813)
Balance at 31 March 2007	90,103	–	127,692	217,795
Representing:				
Reserves				174,938
2007 final dividend proposed *(Note 24)*				42,857
Balance at 31 March 2007				217,795

14 RESERVES *(continued)*

(b) Company *(continued)*

The share premium account of the Company represents: (a) the difference between the book values of the underlying net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal values of the Company's shares issued under the group reorganisation in April 2002; (b) the capitalisation issue in April 2002; and (c) the premium arising from the new issue of shares, net of share issuance costs.

In accordance with the Companies Law (revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

15 TRADE PAYABLES

The Group's suppliers grant credit periods ranging from 30 to 90 days to the Group. The ageing analysis of trade payables is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
0 – 60 days	**333,235**	213,233

The carrying amounts of trade payables approximate their fair values.

16 CONVERTIBLE BONDS

The Company issued to ABN AMRO Bank NV ("ABN") zero coupon convertible bonds at a nominal value of HK$66,000,000 on 2 March 2006. Net proceeds from the convertible bonds amounted to HK$64,020,000, after netting off the direct transaction costs of HK$1,980,000.

The bonds mature two years from the issue date at their maturity value of approximately HK$76,470,000 or can be converted into shares at the holder's option at a conversion price of HK$0.72 per share.

At any time prior to the maturity date, the Company may redeem the convertible bonds at the redemption price and in the specified redemption period if at least 90 percent in principal amount of the bonds has already been converted, redeemed or purchased and cancelled.

The conversion price will be subject to adjustment for consolidation, subdivision or reclassification of shares, capitalisation of profits or reserves, capital distributions, rights issues, issues at less than current market price, modification of rights of conversion, and other dilutive events.

The fair values of the liability component and the equity conversion component were determined at date of issuance of the bonds.

16 CONVERTIBLE BONDS *(continued)*

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the fair value of the equity conversion component, is included in shareholders' equity, net of tax (Note 14).

	Group and Company	
	2007	2006
	HK$'000	*HK$'000*
Equity component:		
Beginning of year	**996**	–
Initial recognition at 2 March 2006	**–**	996
Conversion of bonds into the Company's new ordinary shares during the year	**(996)**	–
End of year	**–**	996
Liability component:		
Beginning of year	**63,544**	–
Initial recognition at 2 March 2006	**–**	63,024
Interest accrual *(Note 21)*	**2,636**	520
Conversion of bonds into the Company's new ordinary shares during the year	**(66,180)**	–
End of year	**–**	63,544

Up to 21 December 2006, all the convertible bonds had been converted into 91,666,666 new shares of the Company, representing 9.84% of the Company's enlarged issued share capital of 931,666,666 shares at that time.

Interest expense on the convertible bonds for the year ended 31 March 2007 is calculated using the effective interest method by applying the effective interest rate of 10.15% (2006: 10.15%) to the liability component.

17 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2006: 17.5%).

The movement of the deferred tax liability during the year is as follows:

	Group	
Accelerated tax depreciation	**2007** ***HK$'000***	2006 *HK$'000*
Beginning of year	**237**	171
(Credited)/charged to the consolidated profit and loss account *(Note 22)*	**(37)**	66
End of year	**200**	237

There were no significant unprovided deferred tax assets as at 31 March 2007 (2006: Nil).

18 TURNOVER AND SEGMENT INFORMATION

Turnover represents gross invoiced sales, net of discounts and returns. Revenue recognised during the year is as follows:

	2007 ***HK$'000***	2006 *HK$'000*
Turnover – Sale of goods	**4,236,829**	3,705,633

No business segment information (primary segment information) is presented as the Group is operating in a single business segment which is the distribution of IT products.

No geographical segment information is presented as all the Group's turnover and contribution to operating results were substantially derived from the distribution of IT products carried out in Hong Kong.

19 OTHER GAINS, NET

	2007 HK$'000	2006 HK$'000
Interest income	4,895	1,524
Loss on disposal of available-for-sale financial assets	(2,000)	–
Loss on disposal of property, plant and equipment	(317)	(4)
Derivative financial instruments: forward contracts, transactions not qualifying as hedges		
– Changes in fair value of forward contracts	–	(1,941)
– Gain on settlement of forward contracts upon maturity	–	1,906
	2,578	1,485

20 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2007 HK$'000	2006 HK$'000
Crediting		
Rebates and discounts from suppliers	460,446	302,470
Charging		
Cost of inventories	4,448,924	3,818,784
Staff costs, including directors' emoluments		
– Salaries, allowance and welfare	20,860	17,542
– Provident fund contributions	766	664
Operating lease rentals in respect of premises and warehouse	3,811	2,744
Net exchange loss	1,221	150
Bad debt written off	1,206	–
Auditor's remuneration	1,128	700
Depreciation of property, plant and equipment		
– Owned	1,123	964
– Leased	–	78
Inventory provision	685	2,940
Loss on disposal of property, plant and equipment	317	4
Impairment of trade receivables	–	537

21 FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest expense on:		
– Bank overdrafts and import loans	**2,620**	5,146
– Interest on convertible bonds *(Note 16)*	**2,636**	520
– Finance lease	**–**	2
	5,256	5,668

22 TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	2007 HK$'000	2006 HK$'000
Current taxation		
– Hong Kong profits tax	**34,741**	24,022
– PRC income tax	**92**	82
Over-provision of Hong Kong profits tax in prior years	**(535)**	(79)
Deferred taxation *(Note 17)*	**(37)**	66
	34,261	24,091

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year.

PRC income tax represents the Enterprise Income Tax of the representative offices established in the PRC and has been calculated based on the estimated deemed taxable profit for the year in accordance with the relevant PRC tax laws at rates between 15% to 33% (2006: 15% to 33%) prevailing in the PRC municipal jurisdiction.

On 16 March 2007, the National People's Congress of the PRC approved the Corporate Income Tax Law (the "new CIT Law"). The new CIT Law reduces or increases the corporate income tax rate for domestic enterprises or foreign invested enterprises from 33% or 24% or 15% to a fixed rate of 25% with effect from 1 January 2008. The new CIT Law provides that further detailed measures and regulations on the determination of taxable profit, tax incentives and grandfathering provisions will be issued by the State Council in due course. As and when the State Council announces the additional regulations, the Group will assess their impact, if any, and this change in accounting estimate will be accounted for prospectively.

22 TAXATION *(continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2007 **HK$'000**	2006 HK$'000
Profit before taxation	**195,594**	135,859
Calculated at a taxation rate of 17.5% (2006: 17.5%)	**34,229**	23,775
Effect of different tax rates in different tax jurisdictions	**70**	–
Income not subject to taxation	**(918)**	(236)
Expenses not deductible for taxation purposes	**1,323**	624
Over-provision in prior years	**(535)**	(79)
Utilisation of previously unrecongised tax losses	**–**	(75)
Deemed Enterprise Income Tax in the PRC	**92**	82
Taxation charge	**34,261**	24,091

23 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of HK$134,009,000 (2006: HK$52,701,000).

24 DIVIDENDS

	2007 **HK$'000**	2006 HK$'000
Interim, paid, of HK3.2 cents (2006: HK1.5 cents) per ordinary share	**29,813**	12,600
Final, proposed, of HK4.6 cents (2006: HK4.5 cents) per ordinary share	**42,857**	39,863
	72,670	52,463

At a meeting held on 9 July 2007, the Directors proposed a final dividend of HK4.6 cents per ordinary share. The 2007 proposed final dividend is based on 931,666,666 shares in issue at 9 July 2007. This proposed dividend is not reflected as a dividend payable in these consolidated accounts.

Such dividend represented HK$42,857,000 for the 931,666,666 shares in issue as at 31 March 2007.

25 EARNINGS PER SHARE

Basic

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$161,333,000 (2006: HK$111,768,000) and the weighted average of 892,740,000 shares (2006: 840,000,000 shares) in issue during the year.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares which is convertible bonds. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect. The weighted average number of ordinary shares in issue is compared with the number of shares that would have been issued assuming the conversion of the convertible bonds.

	2007 ***HK$'000***	2006 *HK$'000*
Profit attributable to equity holders of the Company	**161,333**	111,768
Interest expense on convertible bonds (net of tax)	**2,175**	429
Profit used to determine diluted earnings per share	**163,508**	112,197
Weighted average number of ordinary shares in issue (thousands)	**892,740**	840,000
Adjustments for		
– assumed conversion of convertible bonds (thousands)	**38,927**	7,534
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**931,667**	847,534
Diluted earnings per share (HK cents per share)	**17.55**	13.24

26 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid or payable to Directors of the Company during the year are as follows:

	2007 HK$'000	2006 HK$'000
Fees	**340**	335
Other emoluments		
– Basic salaries and housing allowances	**3,562**	3,718
– Discretionary bonus	**100**	1,000
– Contributions to pension scheme	**101**	186
	4,103	5,239

The remuneration of each Director for the year ended 31 March 2007 is set out below:

Name of Director	Fees HK$'000	Basic salaries and housing allowance HK$'000	Discretionary bonus HK$'000	Contribution to pension scheme HK$'000	Total HK$'000
Executive Directors					
Li Jialin	–	1,924	100	101	2,125
William Choo (i)	–	1,638	–	–	1,638
Non-executive Directors					
Sun Ali (v)	60	–	–	–	60
Cheung Kam Chung (ii)	–	–	–	–	–
Independent Non-executive Directors					
Chan Po Fun, Peter	120	–	–	–	120
Ni Zhenwei	60	–	–	–	60
Hu Yebi (iv)	11	–	–	–	11
Hui Hiu Fai (iii)	89	–	–	–	89
	340	3,562	100	101	4,103

26 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

The remuneration of each Director for the year ended 31 March 2007 is set out below: *(continued)*

Notes:

(i) Appointed on 28 April 2006

(ii) Changed from executive Director to non-executive Director on 11 August 2006

(iii) Appointed on 9 May 2006

(iv) Resigned on 8 May 2006

(v) Resigned on 8 May 2007

The remuneration of each Director for the year ended 31 March 2006 is set out below:

Name of Director	Fees	Basic salaries and housing allowance	Discretionary bonus	Contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Li Jialin	–	1,924	1,000	96	3,020
Cheng Kam Chung	–	1,794	–	90	1,884
Non-executive Director					
Sun Ali	60	–	–	–	60
Independent Non-executive Directors					
Chan Po Fan Peter (i)	115	–	–	–	115
Hu Yebi (ii)	89	–	–	–	89
Liu Yong Ping (iii)	11	–	–	–	11
Ni Zhenwei	60	–	–	–	60
	335	3,718	1,000	186	5,239

Notes:

(i) Appointed on 16 April 2005

(ii) Appointed on 9 May 2005 and resigned on 8 May 2006

(iii) Resigned on 8 May 2005

26 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

Directors' emoluments disclosed above include approximately HK$280,000 (2006: HK$275,000) paid to independent non-executive Directors.

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during year (2006: Nil).

During the year, no Director of the Company waived any emoluments (2006: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2006: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2006: three) individuals during the year are as follows:

	2007	2006
	HK$'000	*HK$'000*
Basic salaries and allowances	**1,656**	1,602
Discretionary bonuses	**360**	450
Contributions to pension schemes	**77**	81
	2,093	2,133

The emoluments fell within the following bands:

	Number of individuals	
Emolument band	**2007**	2006
Nil – HK$1,000,000	**3**	3

27 RETIREMENT SCHEME ARRANGEMENTS

The Group arranges for the employees of its subsidiaries and representative offices to join retirement schemes operated in Hong Kong and the PRC.

Prior to 1 December 2000, certain companies now comprising the Group had arranged for their employees to join a defined contribution scheme in Hong Kong. The scheme covered full-time employees and provided for contributions ranging from 5% to 10% of the employees' earnings.

Since 1 December 2000, the subsidiary in Hong Kong has arranged for its employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme") pursuant to the Mandatory Provident Fund Legislation. Under the MPF Scheme, the Group and each of the employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Legislation. For those employees who joined the Group on or before 1 December 2000, the employees' contribution is subject to a cap of monthly earnings of HK$20,000 per employee. For those employees who joined the Group after 1 December 2000, both the employer's and employees' contributions are subject to a cap of monthly earnings of HK$20,000 per employee.

The Group's employees of the subsidiaries and representative offices in the PRC participate in the retirement schemes regulated by the respective province. In accordance with the respective provincial laws and regulations, the Group is required to contribute a sum of not more than 20% of the total wages payable to each employee of the subsidiaries and the registered representative offices established in the PRC whilst the relevant employees are required to contribute a sum of not more than 8% of their respective wages as the employees' basic contribution. The Group has no further retirement benefit obligation beyond the above required contributions to the retirement schemes.

The aggregate net amount of employer's contributions made by the Group to the retirement schemes for employees is approximately HK$786,000 (2006: HK$664,000).

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash generated from operations

	2007	2006
	HK$'000	*HK$'000*
Profit before taxation	**195,594**	135,859
Interest income	**(4,895)**	(1,524)
Interest expense	**5,256**	5,668
Depreciation of property, plant and equipment	**1,123**	1,042
Loss on disposal of property, plant and equipment	**317**	4
Loss on disposal of available-for-sale financial assets	**2,000**	–
Fair value change on derivative financial instruments	**–**	1,941
Operating profit before working capital changes	**199,395**	142,990
Changes in working capital		
Trade receivables	**(205,231)**	70,587
Bills receivable	**17,908**	(17,908)
Prepayments and other receivables	**(1,912)**	(412)
Inventories	**(124,242)**	15,715
Trade payables	**120,002**	8,843
Accruals and other payables	**1,713**	(1,151)
Net cash generated from operations	**7,633**	218,664

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing activities

	Share capital HK$'000	Share premium HK$'000	Import loans HK$'000	Obligation under finance lease HK$'000	Convertible bonds: Equity component HK$'000	Convertible bonds: Liability component HK$'000
Balance at 1 April 2005	84,000	30,411	89,636	97	–	–
New import loans	–	–	723,861	–	–	–
Repayment of import loans	–	–	(813,497)	–	–	–
Repayment of obligation under finance lease	–	–	–	(97)	–	–
Net proceeds from the issue of convertible bonds	–	–	–	–	996	63,024
Non-cash movement:						
– Interest accruals for convertible bonds	–	–	–	–	–	520
Balance at 31 March 2006	84,000	30,411	–	–	996	63,544
Balance at 1 April 2006	84,000	30,411	–	–	996	63,544
New import loans	–	–	182,845	–	–	–
Repayment of import loans	–	–	(182,845)	–	–	–
Non-cash movements:						
– Interest accruals for convertible bonds	–	–	–	–	–	2,636
– Conversion of convertible bonds	9,167	58,009	–	–	(996)	(66,180)
Balance at 31 March 2007	93,167	88,420	–	–	–	–

29 COMMITMENTS UNDER OPERATING LEASES

As at 31 March 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings	
	2007	2006
	HK$'000	*HK$'000*
Not later than one year	**4,723**	2,983
Later than one year and not later than five years	**3,191**	678
	7,914	3,661

30 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

(a) Director's quarter

On 31 March 2006, the Group entered into a rental agreement with Mr. Li Jialin, the Chairman and an executive Director of the Company, in respect of director's quarter. Pursuant to the agreement, the Group paid a monthly rental of HK$80,000 to Mr. Li Jialin for a term of 12 months from 1 April 2006 to 31 March 2007 (2006: monthly rental of HK$80,000 to Mr. Li Jialin for a term of 12 months from 1 April 2005 to 31 March 2006).

(b) Key management compensation

	2007	2006
	HK$'000	*HK$'000*
Basic salaries and allowances	**3,562**	3,718
Discretionary bonuses	**100**	1,000
Contribution to pension scheme	**101**	186
	3,763	4,904

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out below:

RESULTS

	Year ended 31 March				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note b)			
Turnover	**4,236,829**	3,705,633	2,801,165	2,489,257	2,209,467
Profit before taxation	**195,594**	135,859	33,554	24,346	21,011
Taxation	**(34,261)**	(24,091)	(6,130)	(4,289)	(3,800)
Profit attributable to shareholders	**161,333**	111,768	27,424	20,057	17,211

ASSETS AND LIABILITIES

	As at 31 March				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note b)			
Total assets	**773,901**	556,020	461,216	497,916	507,873
Total liabilities	**(354,808)**	(297,909)	(299,330)	(374,922)	(397,236)
Shareholders' equity	**419,093**	258,111	161,886	122,994	110,637

Notes:

(a) The Company became the holding company of the companies comprising the group (collectively referred to as the "Group") on 16 April 2002 and became listed on the Stock Exchange on 9 May 2002. Accordingly, the financial summary comprises the combined/consolidated results and state of affairs of the Group during the last five years ended 31 March 2007.

(b) The effect of adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" was adjusted to the opening balance of reserves for the year ended 31 March 2006 in accordance with the transitional provisions of HKAS 32 and HKAS 39. The figures prior to 2006 have not been restated to reflect this change.