

Report of the Directors

The Directors are pleased to present their first annual report together with the audited financial statements of VST Holdings Limited (the "Company") and the combined financial statements of the Company and other companies comprising the group (collectively referred to as the "Group") for the year ended March 31, 2002.

Group Reorganization and Basis of Presentation

The Company was incorporated in the Cayman Islands on March 5, 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Upon incorporation, the Company had an authorized share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each. On March 18, 2002, 1,000,000 shares of HK\$0.10 each of the Company were allotted and issued nil paid. Pursuant to a group reorganization in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on April 16, 2002.

On May 9, 2002, pursuant to the Company's initial public offering exercise, the shares of the Company were listed on the Stock Exchange.

During the period from March 5, 2002 (date of incorporation) to March 31, 2002, the Company has not yet commenced business and accordingly, no results of operation were presented for the Company during that period. The accompanying combined financial statements include the results of operations and cash flows of the Company and its subsidiaries as if the Group structure resulting from the reorganization as described above had been in existence throughout the years ended March 31, 2002 and 2001. Please refer to Note 1 to the combined financial statements for the basis of presentation and further details of the group reorganization. The financial information referred to in this report was extracted from the combined financial statements.

Principal Activities

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

The Group is operating in a single business segment of distribution of information technology products and all of the sales of the Group's inventories are concluded in Hong Kong. Therefore, no analysis on combined turnover and combined contributions to profit before taxation by principal activity and by geographical location for the year ended March 31, 2002 of the Group is presented in this report.

Change of Company Name

By a special resolution passed on March 21, 2002, the name of the Company was changed from VST Holdings Limited to VST International Limited. By a special resolution passed on the same date, the name of the Company was changed from VST International Limited to VST Holdings Limited, 偉仕控股有限公司 with effect from March 22, 2002.

Major Customers and Suppliers

The largest customer for the year ended March 31, 2002 represented approximately 25.6 percent (2001 – 31.4 percent) of the Group's total turnover, and the combined total of the five largest customers accounted for approximately 54.4 percent (2001 – 58.6 percent) of the Group's total turnover for the year.

In addition, the largest supplier for the year ended March 31, 2002 represented approximately 68.7 percent (2001 – 64.3 percent) of the Group's total purchases, and the combined total of the five largest suppliers accounted for approximately 98.5 percent (2001 – 98.4 percent) of the Group's total purchases for the year.

At no time during the year did any of the Directors, their associates or any shareholder of the Company who to the knowledge of the Directors owns more than 5 percent of the Company's share capital have any interests in any one of the Group's top five customers and/or suppliers.

Results and Appropriations

The combined results of the Group for the year ended March 31, 2002 are set out on page 33 of this annual report.

On December 10, 2001 and February 28, 2002, one of the companies comprising the Group declared dividends totalling approximately HK\$35,680,000 and HK\$14,920,000 to its then shareholders prior to reorganization, who are also the directors and shareholders of the Company.

The Directors do not recommend the payment of a final dividend.

Reserves

There is no movement in retained earnings of the Company for the year ended March 31, 2002. As at March 31, 2002, the Company had no reserve available for distribution. Other than the decrease in retained earnings of approximately HK\$20,355,000 for the Group, there has been no transfer to or from reserves for the Group during the year.

Fixed Assets

Details of the movements in fixed assets of the Group during the year are set out in Note 5 to the combined financial statements.

Share Capital

Details of the share capital of the Company are set out in Note 4 on page 28 to the balance sheet.

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 in the Cayman Islands.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at March 31, 2002 are set out in Note 11 to the combined financial statements.

Pension Schemes

Particulars of pension schemes of the Group are set out in Note 21 to the combined financial statements.

Subsequent Events

Details of the significant subsequent events of the Company and of the Group are set out in Note 5 to the balance sheet and Note 25 to the combined financial statements respectively.

Financial Summary

A summary of the published results and of the assets and liabilities of the Group for the last four financial years is set out on pages 63 and 64 of the annual report.

Directors

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 (<i>Chairman and Chief Executive Officer</i>)	(Appointed on March 18, 2002)
Mr. Cheng Kam Chung (<i>Vice Chairman</i>)	(Appointed on March 18, 2002)
Mr. Lam Hin Chi	(Appointed on March 18, 2002)

The following directors were appointed after the end of the financial year:

Non-executive Director:

Madam Sun Ali	(Appointed on April 15, 2002)
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Independent Non-executive Directors:

Mr. Phileas Fok Kwan Wing BH	(Appointed on April 15, 2002)
Dr. Liu Yongping	(Appointed on April 15, 2002)

In accordance with Article 87 of the Company's Articles of Association, Mr. Cheng Kam Chung and Mr. Lam Hin Chi retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' Service Contracts

Executive Directors

Each of the executive Directors has entered into a service contract with the Company for a term of two years commencing from May 9, 2002 and expiring on May 8, 2004. Under the service contracts, the initial 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.

Under the service contracts, each of the executive Directors is subject to a restrictive covenant not to engage in business similar to or the same as that carried by the Group within one year after the termination of the service contract. However, the Company shall compensate the executive Directors by payment of a maximum sum which equals the remuneration payable to the executive Directors for that restrictive period if the Company terminates the service contract other than, among others, by reason of any default of the executive Directors.

Directors' Service Contracts (Cont'd)

Non-executive Directors

Each of the non-executive Directors (including independent non-executive Directors) has received an appointment letter from the Company and was appointed by the Board of Directors on April 15, 2002 for a term of 2 years commencing from May 9, 2002 and expiring on May 8, 2004 with a fixed annual compensation. No service contracts have been entered into between the Company and the non-executive Director and the independent non-executive Directors.

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

Directors' Interests in Securities

As at March 31, 2002, the Company had no notice of any interests to be maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as the Company had not been listed on the Stock Exchange as at that date.

Upon listing of the Company's shares on the Stock Exchange on May 9, 2002 and up to the date of this report, the interests of the Directors and chief executive of the Company in the equity or debt securities of the Company and its associated corporations (within the meaning of the SDI Ordinance) as recorded in the register maintained under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

a. Interests in the Company

Name of Director	Type of interest	Number of ordinary shares
Mr. Li Jialin	Corporate (<i>Note 1</i>)	241,500,000
Mr. Cheng Kam Chung	Family and other (<i>Note 2</i>)	241,500,000

Notes:

- 241,500,000 shares of the Company are held by L & L Limited, the entire issued share capital of which is equally held by Mr. Li Jialin (the Chairman and Chief Executive Officer of the Company and an executive Director) and his spouse, Madam Liu Li.
- 241,500,000 shares of the Company are 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 a 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.

Directors' Interests in Securities (Cont'd)

b. Interests in a subsidiary – VST Computers (H.K.) Limited

Name of Director	Type of interest	Number of non-voting deferred shares
Mr. Li Jialin	Corporate (Note 3)	31,000,000 shares of HK\$1.00 each
Mr. Cheng Kam Chung	Corporate (Note 3)	31,000,000 shares of HK\$1.00 each

Note:

- 62,000,000 shares of non-voting deferred shares of HK\$1.00 each of VST Computers (H.K.) Limited were held by VST Group Limited, a company with limited liability incorporated in Hong Kong on June 27, 1995 with beneficial interest ultimately owned equally by L & L Limited and CKC Holdings Limited.

Other than disclosed above, none of the directors, or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance up to the date of this report.

Directors' Rights to Acquire Shares in the Company

Under the terms of the Company's share option scheme approved by the shareholders on April 17, 2002 (the "Share Option Scheme"), the Board of 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 Share Option Scheme became effective upon the listing of the Company's shares on May 9, 2002. No options have been granted to the Directors up to the date of this report.

Save as disclosed above, and other than the group reorganization in preparation for the Company's listing of shares, 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.

Directors' Rights to Acquire Shares in the Company (Cont'd)

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

- Purpose : To award participants as incentive or rewards for their contribution to the Group
- Participants : (a) any employee or proposed 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 the date of annual report : 70,000,000 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

Directors' Rights to Acquire Shares in the Company (Cont'd)

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.

Substantial Shareholders

As at March 31, 2002, the Company had no notice of any interests to be recorded under Section 16 (1) of the SDI ordinance as the Company had not been listed on the Stock Exchange as at that date.

Upon listing of the Company's shares on the Stock Exchange on May 9, 2002 and up to the date of this report, the register of substantial shareholders maintained under Section 16 (1) of the SDI Ordinance showed that the following shareholders had a beneficial interest of 10 percent or more in the issued share capital of the Company:

Name of shareholder	Note	Number of ordinary shares	Percentage of holding
L & L Limited	a	241,500,000	34.5%
CKC Holdings Limited	b	241,500,000	34.5%

Substantial Shareholders (Cont'd)

Notes:

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

Directors' Interests in Contracts of Significance

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

Directors' Interest in Competing Businesses

As at the date of the annual report, each of CKC Holdings Limited and L & L Limited was indirectly interested in the following companies that were involved in the business of distribution of information technology products:

Company	Name of direct shareholder	Interests	Place of operation
VST Distribution (S) Pte Ltd	VST Group Limited	10%	Singapore
VST Technology Sdn Bhd	VST Group Limited	10%	Malaysia
VST (NZ) Limited	VST Group Limited	10%	New Zealand

The Directors consider that the interests of CKC Holdings Limited and L & L Limited in the above companies is not likely to compete with the business of the Group for the following reasons:

- a. each of CKC Holdings Limited and L & L Limited has only minority interests in those companies and accordingly does not have significant influence in the management and operations of those companies; and
- b. the business of the above companies is restricted exclusively in Singapore, Malaysia and New Zealand by their major suppliers and to the best of the knowledge of the Directors, after making due and careful enquiries, none of the above companies has been or is involved in the distribution of information technology products in the People's Republic of China (the "PRC") and/or Hong Kong nor in any other business which competes or may compete with or is likely to compete, whether directly or indirectly, with the business of the Group in the PRC and/or Hong Kong as described in this annual report.

Purchase, Sale or Redemption of Shares

Upon listing of the Company's shares on the Stock Exchange on May 9, 2002 and up to the date of this report, neither the Company nor any of the companies comprising the Group had purchased, sold or redeemed any of the Company's shares.

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.

Compliance with the Code of Best Practice

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") since May 9, 2002.

Audit Committee

The Company has established an audit committee on April 17, 2002 consisting of two independent non-executive Directors, Mr. Phileas Fok Kwan Wing BH and Dr. Liu Yongping, with written terms of reference in compliance with the Code of Best Practice 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 financial statements before recommending them to the Board of Directors for approval).

Auditors

Our auditors, Arthur Andersen & Co, will combine their practice with PricewaterhouseCoopers and a resolution to appoint PricewaterhouseCoopers as auditors to the Company will be proposed at the annual general meeting.

On behalf of the Board

Li Jialin

Chairman and Chief Executive Officer

Hong Kong,
June 27, 2002.