Notes to the Combined Financial Statements

March 31, 2002

(Expressed in Hong Kong dollars unless otherwise stated)

1. Group Reorganization, Operations and Basis of Combination

VST Holdings Limited (the "Company") was incorporated in the Cayman Islands on March 5, 2002 as a company with limited liability under the Companies Law of the Cayman Islands. The Company is an investment holding company with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since May 9, 2002. The Company's subsidiaries are principally engaged in the distribution of information technology products, with details of the subsidiaries described in Note 7 to the combined financial statements.

Pursuant to a group reorganization scheme (the "Reorganization") in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the other companies comprising the group (collectively referred to as the "Group") on April 16, 2002. The Reorganization involved companies under common control, and the Company and its subsidiaries resulting from the Reorganization are regarded as a continuing group.

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 executed on April 16, 2002 had been in existence throughout the years ended March 31, 2002 and 2001 or since the dates of incorporation of the respective group companies where these were of a shorter period, and the assets and liabilities of the Group as at those dates as if the group structure resulting from the Reorganization had been in existence as at March 31, 2002 and 2001.

All significant transactions and balances among the companies comprising the Group have been eliminated on combination.

2. Principal Accounting Policies

a. Basis of presentation

The combined financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties, and in accordance with the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange.

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2. Principal Accounting Policies (Cont'd)

b. Adoption of Statements of Standard Accounting Practice

In the current year, the Group has adopted, for the first time, the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 14 (revised)	Leases
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

SSAP 9 (revised) prescribes when an enterprise should adjust its financial statements for events after the balance sheet date and the disclosures that an enterprise should give about the date when the financial statements were authorized for issue and about events after the balance sheet date. In particular, if dividends to holders of equity instruments are proposed or declared after the balance sheet date, an enterprise should not recognize those dividends as a liability at the balance sheet date. SSAP 9 (revised) also requires that an enterprise should not prepare its financial statements on a going concern basis if events after the balance sheet date indicate that the going concern assumption is not appropriate. This change in accounting policy has been applied retrospectively.

SSAP 14 (revised) is in principle similar to the old SSAP 14 "Accounting for leases and hire purchase contracts". The two main changes from the old SSAP, other than the changes in the disclosure requirements, are changes in the rules determining whether a lease is a finance lease towards an approach based on substance over form, and the change in the basis of allocating finance income of the lessor with regard to a finance lease over the lease term from net cash investment basis to net investment basis. This change in accounting policy has been applied retrospectively.

SSAP 26 establishes principles for reporting financial information by segment to help users of financial statements better understand an enterprise and make more informed judgements about an enterprise as a whole. This change in accounting policy has been applied retrospectively.

March 31, 2002

2. Principal Accounting Policies (Cont'd)

b. Adoption of Statements of Standard Accounting Practice (Cont'd)

The objective of SSAP 28 is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount. This change in accounting policy has been accounted for in accordance with the transitional provisions in the standard where the effect of the change is reported as an adjustment to the opening balance of retained earnings for the current year without restating the respective comparative information.

SSAP 29 prescribes the accounting treatment for intangible assets that are not dealt with in other SSAPs. In particular, it requires an enterprise to recognize an intangible asset if, and only if, certain criteria are met. The provisions in SSAP 29 with regard to research and development expenditure supersede SSAP 16 "Research and development costs".

The transitional provisions of the standard encourage, but do not require, the Group to recognize an intangible asset, which was acquired in a business combination that was an acquisition but was not previously recognized and formed part of the goodwill recognized, when it first adopts the standard. This change in accounting policy has been applied retrospectively.

SSAP 30 prescribes the accounting treatment for business combinations. In addition, it requires goodwill arising from an acquisition to be capitalized and amortized over its estimated useful life.

The transitional provisions of the standard encourage but do not require the Group to restate goodwill, (negative goodwill) that was eliminated against reserves previously, when it first adopts the standard. The change in accounting policy has been applied retrospectively.

SSAP 31 prescribes the accounting for and disclosure of impairment of assets. It requires that the recoverable amount of an asset should be estimated whenever there is an indication that the asset may be impaired or previous impairment may no longer exist or may have decreased. It also requires that an impairment loss be recognized whenever the carrying amount of an asset exceeds its recoverable amount. This change in accounting policy has been applied prospectively.

SSAP 32 requires the consolidation of an entity when the substance of the relationship between an enterprise and the entity indicates that the entity is controlled by that enterprise. This change in accounting policy has been applied retrospectively.

March 31, 2002

2. Principal Accounting Policies (Cont'd)

b. Adoption of Statements of Standard Accounting Practice (Cont'd)

In addition to the adoption of the above standards, the Group has adopted the consequential changes made to SSAP 17 "Property, plant and equipment" and SSAP 18 "Revenue". The Group considers that the consequential changes made to the above SSAPs do not have any material impact on the financial statements of the Group.

Unless otherwise stated, the 2001 comparative figures presented herein have incorporated the effect of adjustments, where applicable, resulting from the adoption of the new accounting standards above.

c. Turnover

Turnover represents gross invoiced sales, net of discounts and returns.

d. Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other income are recognized on the following bases:

(i) Sale of goods

Sale of goods is recognized when the significant risks and rewards of ownership of the goods have been transferred to customers.

(ii) Interest income

Interest income from bank deposits and advances to a related company are recognized on a time proportion basis on the principal outstanding and at the rates applicable.

(iii) Rental income

Rental income is recognized on a straight-line basis over the terms of the relevant rental contracts.

March 31, 2002

2. Principal Accounting Policies (Cont'd)

e. Deferred taxation

Deferred taxation is provided under the liability method, at the rate in which it is estimated that tax will be paid or reversed, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that it is probable that a liability or an asset will crystallize.

f. Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets beyond its originally assessed standard of performance, the expenditure is capitalized as an additional cost of the fixed asset.

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost of each asset over its expected useful life. Leasehold land and building is depreciated over the remaining period of the respective lease. The annual rates are as follows:

Leasehold land and building	Over the remaining period of lease
Leasehold improvements	20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

The useful lives of assets and depreciation methods are reviewed periodically.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

March 31, 2002

2. Principal Accounting Policies (Cont'd)

g. Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential and for the long-term.

Investment properties are stated at open market value determined annually by independent valuers.

Increases in the carrying amount of investment properties are credited to the revaluation reserve in shareholders' equity. Decreases are first offset against increases on earlier valuations and are thereafter charged to the income statement. Increases in revaluations directly related to a previous decrease in carrying amount that was recognized as an expense is credited to income to the extent that it offsets the previously recorded decrease.

Upon the disposal of investment properties, the realized portion of the revaluation reserve is credited to the income statement as part of the profit or loss on disposal of the investment properties.

No depreciation is provided on investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on its carrying value over the unexpired lease term.

h. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, calculated on the first-in, first-out cost basis comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, plus the estimated credits receivable for subsequent price reduction provided by suppliers (which are reasonably certain to be realized) and less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

March 31, 2002

2. Principal Accounting Policies (Cont'd)

i. Impairment of assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of a fixed asset exceeds its recoverable amount, an impairment loss is recognized in the income statement for items of fixed assets carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

j. Provision

A provision is recognized when, and only when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

k. Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

March 31, 2002

2. Principal Accounting Policies (Cont'd)

l. Leases

(i) Finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred.

The Group recognizes finance leases as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it can be determined. Otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance cost for each accounting period. The depreciation policy for leased assets is the same as that for depreciable assets that are owned.

(ii) Operating leases

An operating lease is a lease other than a finance lease.

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

m. Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds. They are expensed as incurred.

March 31, 2002

2. Principal Accounting Policies (Cont'd)

n. Foreign currency transactions

The Company and its subsidiaries maintain their books and records in Hong Kong dollars. Transactions in other currencies are translated into Hong Kong dollars at exchange rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are re-translated into Hong Kong dollars at rates of exchange prevailing at the balance sheet date. All exchange differences are recognized in the income statement in the period in which they arise.

o. Defined contribution plans

The Group provides defined contribution plans based on local laws and regulations. The Group's contribution to defined contribution plans is charged to income in the year to which they relate.

p. Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

q. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

March 31, 2002

3. Related Party Transactions

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control or to exercise significant influence over the parties in making financial and operating decisions or vice versa, or where the Group and the parties are subject to common significant influence. Related parties may be individuals or entities.

a. In the normal course of business, the Group had the following significant transactions with related parties during the financial year ended March 31, 2002 as follows:

	Note	**2002** **$'000**	2001 $'000
Sale of inventories to related companies	(i)	**189,125**	624,774
Facility fee charged by related companies	(ii)	**–**	(3,803)
Interest income from a related company	(iii)	**1,987**	2,650
Interest expense charged by related companies	(iv)	**–**	(3,004)
Purchase of inventories from related companies	(v)	**(6,491)**	(3,434)
Rental expenses paid/payable to related companies	(vi)	**(1,188)**	(2,759)

(i) Except for certain sales to related parties that were transacted at cost, most of the sales to related parties were determined on a cost-plus basis with reference to the market condition, and were negotiated on a case-by-case basis and mutually agreed by both parties.

(ii) Certain of the properties of the related companies were mortgaged to secure the banking facilities of the Group. The Group was charged a facility fee of 1% per month in connection with the properties pledged by the related parties for the additional banking facilities of the Group. The collateral on the properties of the related companies was released prior to March 31, 2001, except for the properties of a related company, which was released and replaced by collateral on certain properties held by the Group prior to the listing of shares of the Company.

(iii) During the year, the Group provided advances to a related company which were placed in fixed deposits with certain banks of the related company and were pledged as collateral for the banking facilities of the Group. Such advances bore interest at an interest rate that equals the interest rate on the bank deposits of the related company. As at March 31, 2002, bank deposits of approximately $48,257,000 (2001 – $68,557,000) of the related company were pledged for the banking facilities obtained by the Group. Subsequent to March 31, 2002, the advances were repaid by the related company and the collateral on the aforesaid bank deposits of a related company was released and replaced by the bank deposits of the Group.

March 31, 2002

3. Related Party Transactions (Cont'd)

(iv) Interest expense charged by related companies was calculated based on the outstanding interest bearing advances from related companies and at rates ranging from 1% to 1.2% per month, which were mutually agreed by both parties. The advances were fully settled during the year ended March 31, 2001.

(v) Purchases of inventories from related parties were determined on a cost-plus basis with reference to the market condition, and were negotiated on a case-by-case basis and mutually agreed by both parties.

(vi) Rental expense charged by related companies is calculated in accordance with the terms specified in the rental agreements entered into by both parties.

The Directors of the Group confirmed that the above related party transactions ceased subsequent to the listing of the shares of the Company.

b. During the year, certain consulting fees paid to third party independent companies totalling $2,494,000 in relation to the preparation of the issuances of the shares of the Company were borne by a related company.

c. As at March 31, 2002, the Group's banking facilities were also secured by corporate guarantees provided by certain related companies and personal guarantees provided by certain Directors of the Company and an independent third party. The bankers had given their consent to replace the above-mentioned securities and guarantees by corporate guarantee from the Company subsequent to the listing of shares of the Company on May 9, 2002. The personal guarantee provided by the independent third party has been released prior to the listing of shares of the Company.

d. Please refer to Note 10 for the terms of the balances with related companies.

4. Segment Information

No business segment information (primary segment information) was presented for the years ended March 31, 2002 and 2001 as the Group is operating in a single business segment which is the distribution of information technology products.

The Group's operation is conducted in Hong Kong. Generally, the risks and rewards of ownership of goods are transferred upon delivery to the customers, which takes place in Hong Kong. Accordingly, all of the sales of the Group's inventories are concluded in Hong Kong and therefore no geographical segment information is presented for the years ended March 31, 2002 and 2001.

March 31, 2002

5. Fixed Assets

	2002						2001
	Leasehold land and building	Leasehold improvements	Furniture and fixtures	Office equipment	Motor vehicles	Total	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost							
Beginning of year	–	2,395	1,169	4,059	1,427	9,050	7,546
Additions	–	89	44	1,622	–	1,755	1,790
Transfer from investment properties	680	–	–	–	–	680	–
Disposals	–	(29)	(12)	(296)	–	(337)	(286)
End of year	680	2,455	1,201	5,385	1,427	11,148	9,050
Accumulated Depreciation							
Beginning of year	–	1,889	1,120	2,814	425	6,248	4,666
Charge for the year	1	272	37	645	286	1,241	1,673
Disposals	–	(8)	(3)	(208)	–	(219)	(91)
End of year	1	2,153	1,154	3,251	711	7,270	6,248
Net Book Value							
Beginning of year	–	506	49	1,245	1,002	2,802	2,880
End of year	679	302	47	2,134	716	3,878	2,802

The leasehold land and building was pledged to a bank to secure certain banking facilities granted to a subsidiary of the Group.

As at March 31, 2002, the net book value of motor vehicles held under finance leases amounted to approximately $457,000 (2001 – $676,000).

March 31, 2002

6. Investment Properties

The investment properties of the Group represent land and buildings held in Hong Kong under medium-term leases. Such investment properties were revalued on an open market basis on March 31, 2002 by LCH (Asia – Pacific) Surveyors Limited ("LCH"), an independent professional valuer, at $1,720,000 (2001 – $2,400,000 by Chesterton Petty Limited, an independent professional valuer). The investment properties were mortgaged as security for the Group's banking facilities.

During the year, certain of the Group's investment properties had been occupied by the Group for its own use on a long-term basis. Accordingly, certain of the investment properties has been reclassified to "Leasehold land and building" in fixed assets.

7. Details of Subsidiaries

As at the date of this report, the details of the subsidiaries held by the Company, both directly and indirectly, pursuant to the Reorganization are as follows:

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interests held		Principal activities
			Directly	Indirectly	
VST Computers (H.K.) Limited	Hong Kong	Ordinary shares: HK$2 Non-voting deferred shares: HK$62,000,000	–	100%	Distribution of information technology products
VST Group Limited	British Virgin Islands	Ordinary shares: US$4	100%	–	Investment holding

March 31, 2002

8. Accounts Receivable, Net

	2002	2001
	$'000	$'000
Accounts receivable comprises trade balances with		
– third parties	**107,869**	37,431
– related companies	**387**	87,423
	108,256	124,854
Less: Provision for doubtful debts	**(3,583)**	(4,447)
	104,673	120,407

The Group grants a credit period to third party customers and related companies ranging from 7 to 30 days and may be extended to selected customers depending on their trade volume and settlement history with the Group. However, sales to new customers are only conducted on cash basis in accordance with the Group's credit control policy. The aging analysis of gross accounts receivable is summarized as follows:

	2002	2001
	$'000	$'000
1 to 30 days	**99,032**	69,731
31 to 60 days	**2,404**	17,367
61 to 90 days	**1,732**	18,475
91 to 180 days	**1,253**	5,305
181 days to 1 year	**266**	7,112
Over 1 year	**3,569**	6,864
	108,256	124,854

March 31, 2002

9. Inventories, Net

The analysis of inventories is as follows:

	2002 $'000	2001 $'000
Inventory on hand		
– held for re-sale	46,011	67,989
– held for return to suppliers or exchange to customers	19,159	19,142
Inventory-in-transit	29,005	56,493
Less: Inventory provision	(4,030)	(3,329)
	90,145	140,295

10. Due from/to Related Companies

As at March 31, 2002, the amounts due from related companies included advances to a related company of approximately $48,257,000 (2001 – $68,557,000) which were placed in fixed deposits with certain banks by the related company and were pledged as collateral for certain banking facilities of the Group (see Note 3a (iii)). For the years ended March 31, 2002 and 2001, the advances bore interest at an interest rate that equaled the interest rate on the bank deposits of the related company. The advances are unsecured and have no fixed repayment terms.

As at March 31, 2000, the amounts due to related companies included advances from related companies of approximately $91,522,000, which bore interest at a rate mutually agreed by both parties and were unsecured and had no fixed repayment terms. Such advances were fully repaid during the year ended March 31, 2001.

Except for the advances from/to related companies as mentioned above, other balances with related companies arise primarily from transfer of funds between the companies and they are unsecured, non-interest bearing and have no fixed repayment terms.

The balances were fully settled prior to the listing of the shares of the Company.

March 31, 2002

11. Bank Loans and Import Loans, Secured

	2002 $'000	2001 $'000
Bank loans	**1,074**	1,596
Short-term bank loans	**4,670**	6,513
Import loans	**121,444**	71,613
	127,188	79,722

The maturity of the above loans is as follows:

	2002 $'000	2001 $'000
On demand or within one year	**126,636**	78,648
More than one year but not exceeding two years	**522**	1,074
More than two years but not exceeding five years	**30**	–
Total	**127,188**	79,722
Less: Amounts due within one year included under current liabilities	**(126,636)**	(78,648)
	552	1,074

The bank loans bear interest at market rate. As at March 31, 2002, the Group's investment properties and leasehold land and buildings and certain leasehold land and buildings and bank deposits held by a related company were pledged as security for the above banking facilities. The Group's banking facilities were also secured by the corporate guarantees provided by certain related companies and personal guarantees provided by certain Directors of the Company and an independent third party. The corporate guarantees provided by certain related companies and the personal guarantees provided by certain Directors of the Company are to be replaced by corporate guarantee from the Company subsequent to the listing of shares of the Company. The personal guarantee provided by the independent third party; the legal charges on bank deposits of a related company (note 10); and the legal charges on certain leasehold land and buildings held by a related company have been replaced by legal charges on bank deposits and certain leasehold land and buildings held by the Group prior to the listing of the shares of the Company.

March 31, 2002

12. Accounts Payable, Accruals and Other Payables

	2002 $'000	2001 $'000
Accounts payable comprises trade balances with:		
– third parties	**86,649**	172,358
– related companies	**–**	724
	86,649	173,082
Customers' deposits	**–**	36,000
Accruals and other payables	**2,163**	4,645
	88,812	213,727

Certain suppliers and related companies grant credit periods ranging from 30 to 90 days to the Group. The aging analysis of accounts payable is summarized as follows:

	2002 $'000	2001 $'000
1 to 60 days	**86,310**	172,685
61 to 120 days	**339**	397
	86,649	173,082

13. Share Capital

The share capital on the combined balance sheet represents the aggregate amount of the nominal value of the share capital of the companies comprising the Group as at March 31, 2002.

March 31, 2002

14. Turnover and Revenue

Turnover and revenue consist of:

	2002	2001
	$'000	$'000
Turnover – sales of inventory	**1,634,218**	1,769,946
Interest income	**2,139**	3,120
Rental income	**146**	70
Total revenue	**1,636,503**	1,773,136

15. Finance Costs, Net

Analysis of net finance cost is as follows:

	2002	2001
	$'000	$'000
Interest expense on		
– bank loans, overdrafts and import loans	**7,192**	7,073
– advances from related companies	**–**	3,004
– finance leases	**44**	44
	7,236	10,121
Interest income from		
– bank deposits	**(152)**	(470)
– advances to a related company	**(1,987)**	(2,650)
	(2,139)	(3,120)
	5,097	7,001

March 31, 2002

16. Profit before Taxation

Profit before taxation is determined after crediting and charging the following:

	2002 $'000	2001 $'000
Crediting:		
Interest income from:		
– bank deposits	**152**	470
– advances to a related company	**1,987**	2,650
Rental income	**146**	70
Exchange gain, net	**280**	–
Write-back of provision for doubtful debts	**864**	–
Charging:		
Inventory provision	**701**	1,419
Staff costs:		
– salaries, allowance and welfare	**17,945**	16,567
– provident fund contributions	**739**	740
Auditors' remuneration	**470**	350
Operating lease rentals in respect of:		
– rented premises and warehouses	**3,018**	4,062
– motor vehicle	**–**	480
Depreciation expense on:		
– owned fixed assets	**1,022**	1,454
– fixed assets held under finance leases	**219**	219
Interest expense on:		
– bank loans, overdrafts and import loans	**7,192**	7,073
– advances from related companies	**–**	3,004
– finance leases	**44**	44
Loss on disposal of fixed assets	**114**	42
Exchange loss, net	**–**	766

March 31, 2002

17. Taxation

Analysis of taxation is as follows:

	2002 $'000	2001 $'000
Current taxation		
– Hong Kong profits tax	**6,399**	5,653
– PRC tax	**191**	138
(Over) Under-provision of Hong Kong profits tax in prior years	**(9)**	139
	6,581	5,930

Hong Kong profits tax has been provided at the rate of 16% (2001 – 16%) on the estimated assessable profit for the year.

Taxation in the People's Republic of China ("PRC") represents the Enterprise Income Tax related to a subsidiary of the Group after the Reorganization that has representative offices established in the PRC which perform liaison services for the Group. It has been calculated based on the estimated deemed taxable profit for the years in accordance with the relevant PRC tax laws at the rate prevailing in the PRC municipal jurisdiction.

There was no significant unprovided deferred taxation as at March 31, 2002.

March 31, 2002

18. Directors' and Five Highest Paid Individuals' Emoluments

a. Details of directors' emoluments pursuant to Section 161 of the Companies Ordinance are set out below:

	2002 $'000	2001 $'000
Non-executive directors		
Fees	–	–
Executive directors		
Fees	–	–
Other emoluments		
– Basic salaries and allowances	4,490	5,665
– Bonuses	–	–
– Provident fund contributions	224	193
Total	4,714	5,858

During the year, no directors of the Company waived any emoluments and no incentive payment for joining the Group or compensation for loss of office was paid/payable to any directors.

The emoluments of the directors analyzed by the number of directors and emolument ranges are as follows:

	Number of directors	
	2002	2001
Nil – $1,000,000	3	1
$1,000,001 – $1,500,000	–	–
$1,500,001 – $2,000,000	2	1
$2,000,001 – $2,500,000	–	–
$2,500,001 – $3,000,000	–	–
$3,000,001 – $3,500,000	–	1
	5	3

March 31, 2002

18. Directors' and Five Highest Paid Individuals' Emoluments (Cont'd)

b. Details of five highest paid individuals' emoluments are set out below:

Of the five highest paid individuals in the Group, three (2001 – three) are directors of the Company whose emoluments are included above. The emoluments of the remaining two (2001 – two) individuals are as follows:

	2002	2001
	$'000	$'000
Basic salaries and allowances	**1,236**	1,133
Bonuses	**–**	51
Provident fund contributions	**54**	50
	1,290	1,234

During the year, approximately $156,000 were paid to one of the five highest paid individuals (including directors, members and employees) as compensation for loss of office. No emoluments were paid/payable to the five highest paid individuals (including directors, members and employees) as inducement to join or upon joining the Group.

The emoluments of each of these highest paid non-director individuals fell within the band of Nil to $1,000,000 during the years ended March 31, 2002 and 2001.

19. Dividends

No dividend has been paid or declared by the Company since its incorporation. The dividends paid/declared for the years ended March 31, 2002 and 2001 by a subsidiary of the Company to its then shareholders prior to the Reorganization are as follows:

	2002	2001
	$'000	$'000
VST Computers (H.K.) Limited	**50,600**	21,940

March 31, 2002

20. Earnings per Share

The calculation of basic earnings per share for the years ended March 31, 2002 and 2001 is based on the combined net profit attributable to shareholders during the years and on the weighted average of 525,000,000 shares of the Company deemed to have been issued throughout the years.

No dilutive financial instrument is outstanding or deemed to be outstanding throughout the years ended March 31, 2002 and 2001 and accordingly, no diluted earnings per share has been presented.

21. Pension Scheme Arrangements

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

a. Prior to December 1, 2000, the Group had arranged for its 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.

   The forfeited contributions made by the Group and the related accrued interest can be used to reduce the employer's contribution. During the year ended March 31, 2002, approximately $82,000 (2001 – $211,000) of the aforesaid contributions were forfeited and utilized by the Group to reduce the employer's contribution.

   Since December 1, 2000, the subsidiary in Hong Kong has arranged for its employees in Hong Kong to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). The MPF Scheme was introduced pursuant to the Mandatory Provident Fund Legislation introduced during the year ended March 31, 2001. Under the MPF Scheme, the Group and each of the employees make monthly contribution 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 December 1, 2000, the employees' contribution is subject to a cap of monthly earnings of $20,000 per employee.

   For those employees who joined the Group after December 1, 2000, both the employer's and employees' contribution are subject to a cap of monthly earnings of $20,000 per employee. For those employees with monthly earnings of less than $4,000, the employees' contributions are voluntary.

March 31, 2002

21. Pension Scheme Arrangements (Cont'd)

b. The Group's employees in the representative offices in the PRC participate in the pension schemes regulated by the respective Province and/or the State. 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 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 pension obligation beyond the above required contribution to the pension schemes.

c. The aggregate amount of employer's contribution made by the Group to the pension schemes for employees is approximately $739,000 (2001 – $740,000).

22. Notes to the Combined Cash Flow Statement

a. Reconciliation of profit before taxation to net cash (outflow) inflow from operating activities:

	2002	2001
	$'000	$'000
Profit before taxation	**36,826**	35,967
Interest income	**(2,139)**	(3,120)
Interest expense	**7,236**	10,121
Depreciation of fixed assets	**1,241**	1,673
Loss on disposal of fixed assets	**114**	42
Decrease in accounts receivable, net	**15,734**	100,746
Decrease in prepayments and other current assets	**251**	2,300
Decrease in inventories, net	**50,150**	2,778
Increase in due from related companies	**(3,735)**	(5,016)
(Decrease) Increase in accounts payable, accruals and other payables	**(124,915)**	8,034
Decrease in due to related companies	**–**	(433)
Net cash (outflow) inflow from operating activities	**(19,237)**	153,092

March 31, 2002

22. Notes to the Combined Cash Flow Statement (Cont'd)

b. Analysis of changes in financing activities:

	2002				2001
	Share capital	Bank loans and import loans	Obligations under finance leases	Total	Total
	$'000	$'000	$'000	$'000	$'000
Beginning of year	62,000	79,722	411	142,133	200,753
Net cash inflow from financing through import loans	–	49,831	–	49,831	27,185
Repayments of bank loans	–	(522)	–	(522)	(522)
(Repayment) Increase of short-term bank loans	–	(1,843)	–	(1,843)	6,513
Repayment of obligations under finance leases	–	–	(274)	(274)	(274)
Repayment of advances from related companies	–	–	–	–	(91,522)
End of year	62,000	127,188	137	189,325	142,133

23. Operating Lease Commitments

As at March 31, 2002, the total future minimum lease payments payable under non-cancellable operating leases in respect of premises and warehouses are analyzed as follows:

	2002	2001
	$'000	$'000
Within one year	553	3,597
After one year but within five years	71	971
	624	4,568

March 31, 2002

24. Contingent Liabilities

As at March 31, 2002, the Group did not have any contingent liabilities.

25. Subsequent Events

The following transactions took place subsequent to March 31, 2002 and up to the date of this report:

a. On April 16, 2002, the Group completed a Reorganization in preparation for the listing of the Company's shares on the Stock Exchange. Since May 9, 2002, the Company's shares have been listed on the Stock Exchange. Details of the Reorganization are as follows:

   (i) On April 16, 2002, the authorized share capital of the Company was increased from $100,000 to $200,000,000, by the creation of an additional 1,999,000,000 shares of $0.10 each, ranking pari passu with the then existing shares of the Company.

   (ii) On April 16, 2002, the Company acquired the entire issued share capital of VST Group Limited, a company incorporated in the British Virgin Islands, the consideration of which comprised (i) the issue of 1,000,000 shares of $0.10 each credited as fully paid by the Company, and (ii) credited as fully paid the 1,000,000 shares of $0.10 each issued nil paid on March 18, 2002.

   (iii) On April 17, 2002, 523,000,000 shares of $0.10 each were allotted as fully paid to the holders of the shares of the Company that appear on the register of members of the Company in proportion to their respective shareholdings as at the close of business on April 17, 2002 by capitalization issue of shares.

March 31, 2002

25. Subsequent Events (Cont'd)

(iv) On May 9, 2002, 175,000,000 new shares and 42,000,000 sale shares of $0.10 each were issued to the public at $0.25 each resulting in total net cash proceeds attributable to the Company of approximately $33,243,000.

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

	Note	Number of shares issued '000	Total par value $'000
Shares allotted and issued nil paid upon incorporation and as at March 31, 2002		1,000	–
Shares issued as consideration for the acquisition of the entire issued share capital of VST Group Limited	(ii)	1,000	100
Credited as fully paid as consideration for the acquisition of the entire issued share capital of VST Group Limited	(ii)	–	100
Capitalization issue of shares	(iii)	523,000	52,300
New issue on public listing	(iv)	175,000	17,500
		700,000	70,000

March 31, 2002

25. Subsequent Events (Cont'd)

b. On April 17, 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 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. No options have been granted up to the date of the combined financial statements.

c. On April 17, 2002, VST Computers (H.K.) Limited, a subsidiary purchased certain properties from a related company for use as the Group's storage and ancillary office at a consideration of $11,880,000 based on an open market valuation as at February 28, 2002 performed by LCH (Asia-Pacific) Surveyors Ltd., an independent professional valuer. The banking facilities of the Group were previously secured against the properties held by this related company. The collateral on such properties against the Group's banking facilities was then released and replaced by collateral on certain properties held by the Group.