

The Board of Directors of VST Holdings Limited (the "Company") is pleased to present the Interim Report and the condensed unaudited consolidated accounts of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30th September 2002. The consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th September 2002, and the consolidated balance sheet of the Group as at 30th September 2002, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 1 to 15 of this interim report.

## CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30th September 2002*

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30th September</b>	
		<b>2002</b>	2001
	<i>Note</i>	<b>HK\$'000</b>	HK\$'000
Turnover		<b>942,647</b>	818,354
Cost of sales		<b>(914,038)</b>	(783,454)
Gross profit		<b>28,609</b>	34,900
General and administrative expenses		<b>(13,747)</b>	(17,295)
Other loss, net		<b>(24)</b>	(11)
Profit from operations	4	<b>14,838</b>	17,594
Finance costs, net	5	<b>(1,371)</b>	(2,962)
Profit before taxation		<b>13,467</b>	14,632
Taxation	6	<b>(2,185)</b>	(2,508)
Net profit attributable to shareholders		<b>11,282</b>	12,124
Dividends	7	<b>3,500</b>	–
Earnings per share	8		
– Basic		<b>1.70 cents</b>	2.31 cents
– Diluted		<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September 2002

	Note	Unaudited As at 30th September 2002 HK\$'000	Audited As at 31st March 2002 HK\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank deposits		25,294	16,749
Restricted cash deposits		24,203	–
Accounts receivable, net	10	195,627	104,673
Prepayments and other current assets		1,291	7,255
Inventories, net		98,103	90,145
Due from related companies		–	72,487
		<u>344,518</u>	<u>291,309</u>
<b>Non-current assets</b>			
Fixed assets	9	15,781	3,878
Investment properties		1,720	1,720
		<u>17,501</u>	<u>5,598</u>
<b>Total assets</b>		<u><b>362,019</b></u>	<u><b>296,907</b></u>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Bank loans and import loans, secured	12	123,853	126,636
Accounts payable, accruals and other payables	11	122,147	88,812
Dividends payable		–	14,920
Current portion of obligations under finance leases		–	137
Provision for taxation		2,891	2,167
		<u>248,891</u>	<u>232,672</u>
<b>Non-current liability</b>			
Bank loans, secured	12	4,920	552
<b>Capital and reserves</b>			
Share capital	13	70,000	62,000
Share premium		25,243	–
Retained earnings		9,465	1,683
Proposed dividend		3,500	–
		<u>108,208</u>	<u>63,683</u>
<b>Total liabilities and equity</b>		<u><b>362,019</b></u>	<u><b>296,907</b></u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30th September 2002*

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th September</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Net cash outflow from operating activities	<b>(21,302)</b>	(5,976)
Net cash inflow from investing activities	<b>35,650</b>	4,871
Net cash outflow from financing activities	<b>(5,803)</b>	(12,267)
Increase (Decrease) in cash and bank deposits	<b>8,545</b>	(13,372)
Cash and bank deposits		
Beginning of period	<b>16,749</b>	16,809
End of period	<b>25,294</b>	3,437
Analysis of the balances of cash and bank deposits		
Cash and bank deposits	<b>25,294</b>	7,020
Bank overdrafts	–	(3,583)
	<b>25,294</b>	3,437

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2002

	Share capital	Share premium	Retained earnings	Proposed dividends	Total
	HK\$'000	HK\$'000 (ii)	HK\$'000	HK\$'000	HK\$'000
Balance at 1st April 2002 (i)	62,000	–	1,683	–	63,683
Pursuant to Reorganization (as explained in Note 1 to the condensed financial statements)	(62,000)	62,000	–	–	–
Shares issued as consideration for the acquisition of the entire issued share capital of VST Group Limited	100	(100)	–	–	–
Credited as fully paid as consideration for the acquisition of the entire issued share capital of VST Group Limited	100	(100)	–	–	–
Capitalization issue of shares	52,300	(52,300)	–	–	–
New issue on public listing	17,500	26,250	–	–	43,750
Expenses incurred in connection with new issue on public listing	–	(10,507)	–	–	(10,507)
Net profit for the period	–	–	11,282	–	11,282
Proposed dividend	–	–	(3,500)	3,500	–
Balance at 30th September 2002	<u>70,000</u>	<u>25,243</u>	<u>9,465</u>	<u>3,500</u>	<u>108,208</u>

*Notes:*

- (i) The share capital as at 31st March 2002 represented the aggregate amount of the nominal value of the share capital of the companies comprising the Group as at that date.
- (ii) The share premium account of the Group includes: (a) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganization scheme (as mentioned in Note 1 to the condensed financial statements) over the nominal value of the share capital of the Company issued in exchange; (b) the premium arising from the capitalization issue during the year; and (c) the premium arising from the new issue on public listing.

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.

## **NOTES TO CONDENSED FINANCIAL STATEMENTS**

### **1) Group reorganization, operations and basis of consolidation**

VST Holdings Limited (the "Company") was incorporated in the Cayman Islands on 5th March 2002 as an exempted 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 9th May 2002. The Company's subsidiaries are principally engaged in the distribution of information technology products.

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 16th April 2002. The Reorganization involved companies under common control, and the Company and its subsidiaries resulting from the Reorganization are regarded as a continuing group.

Accordingly, the comparative figures for the preceding financial period have been prepared on the basis as if the group structure resulting from the Reorganization executed on 16th April 2002 had always been in existence since the beginning of the earliest period presented.

## 2) Basis of preparation and accounting policies

These condensed unaudited consolidated interim accounts have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Statement of Standard Accounting Practice ("SSAP") No. 25 (revised) "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

These condensed unaudited consolidated interim accounts should be read in conjunction with the annual accounts of the Group for the year ended 31st March 2002 (the "Annual Accounts").

The accounting policies and methods of computation used in the preparation of these condensed unaudited consolidated interim accounts are consistent with those used in the Annual Accounts except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 34	:	Employee benefits

The adoption of these SSAPs did not have any material effect on the condensed unaudited consolidated interim accounts for the six months ended 30th September 2002.

### 3) Segment information

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 consolidated turnover and consolidated contributions to profit before taxation by principal activity and by geographical location for the six months ended 30th September 2002 of the Group is presented in this report.

### 4) Profit from operations

Profit from operations is stated after charging depreciation expenses on fixed assets of approximately HK\$602,000 (2001: HK\$779,000).

### 5) Finance costs, net

Analysis of net finance costs is as follows:

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th September</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Interest expense on		
– bank loans, overdrafts and import loans	<b>1,850</b>	4,534
– finance leases	<b>23</b>	22
	<b>1,873</b>	4,556
Interest income from		
– bank deposits	<b>(502)</b>	(185)
– advances to a related company	–	(1,409)
	<b>(502)</b>	(1,594)
	<b>1,371</b>	2,962

## 6) Taxation

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

Taxation in the People's Republic of China ("PRC") represents the enterprise income tax related to a subsidiary of the Group 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 periods in accordance with the relevant PRC tax laws at the rate prevailing in the PRC municipal jurisdiction.

The amount of taxation charged to the condensed unaudited consolidated income statement represents:

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th September</b>	
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Hong Kong profits tax	<b>2,135</b>	2,373
PRC tax	<b>50</b>	135
	<b><u>2,185</u></b>	<u>2,508</u>

## 7) Dividends

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th September</b>	
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Proposed interim dividend of 0.5 HK cents (2001: nil) per share	<b><u>3,500</u></b>	<u>—</u>

At a meeting held on 20th November 2002, the directors of the Company (the "Directors") recommended an interim dividend of 0.5 HK cents per share for the six months ended 30th September 2002 to those shareholders whose names appear on the register of members on 19th December 2002. This proposed dividend is not reflected as a dividend payable in these condensed unaudited consolidated interim accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st March 2003.

## **8) Earnings per share**

The calculation of basic earnings per share was based on the Group's net profit attributable to shareholders of HK\$11,281,652 (2001: HK\$12,124,122) and on the weighted average of 663,661,202 (2001: 525,000,000) ordinary shares of the Company deemed to have been issued throughout the periods on the assumption that the Reorganization has been completed as at 1st April 2001.

No dilutive financial instrument is outstanding or deemed to be outstanding throughout the periods ended 30th September 2002 and 2001 and accordingly, no diluted earnings per share has been presented.

## **9) Fixed assets**

During the period, the Group acquired fixed assets of approximately HK\$12,607,000 and also disposed of fixed assets with aggregate net book value of approximately HK\$102,000.

## 10) Accounts receivable, net

The Group grants a credit period to customers ranging from 7 to 30 days and may be extended to selected customers depending on their trade volume and settlement history with the Group. The aging analysis of gross accounts receivable is summarized as follows:

	<b>Unaudited</b>	Audited
	<b>As at 30th</b>	As at 31st
	<b>September</b>	March
	<b>2002</b>	2002
	<b>HK\$'000</b>	HK\$'000
1 to 30 days	<b>181,546</b>	99,032
31 to 60 days	<b>10,192</b>	2,404
61 to 90 days	<b>1,991</b>	1,732
91 to 180 days	<b>1,898</b>	1,253
181 days to 1 year	<b>74</b>	266
Over 1 year	<b>7</b>	3,569
	<hr/>	<hr/>
	<b>195,708</b>	108,256
Less: Provision for doubtful debts	<b>(81)</b>	(3,583)
	<hr/>	<hr/>
	<b>195,627</b>	104,673
	<hr/> <hr/>	<hr/> <hr/>

## 11) Accounts payable, accruals and other payables

The aging analysis of accounts payable is summarized as follows:

	<b>Unaudited</b>	Audited
	<b>As at 30th</b>	As at 31st
	<b>September</b>	March
	<b>2002</b>	2002
	<b>HK\$'000</b>	HK\$'000
1 to 60 days	<b>85,718</b>	86,310
61 to 120 days	<b>32,942</b>	339
Over 120 days	<b>311</b>	–
	<hr/>	<hr/>
Total accounts payable	<b>118,971</b>	86,649
Accruals and other payables	<b>3,176</b>	2,163
	<hr/>	<hr/>
	<b>122,147</b>	<b>88,812</b>
	<hr/> <hr/>	<hr/> <hr/>

## 12) Bank loans and import loans, secured

	<b>Unaudited</b>	Audited
	<b>As at 30th</b>	As at 31st
	<b>September</b>	March
	<b>2002</b>	2002
	<b>HK\$'000</b>	HK\$'000
Long-term bank loans, secured	<b>6,117</b>	1,074
Current portion of long-term bank loans	<b>(1,197)</b>	(522)
	<b><u>4,920</u></b>	<u>552</u>

As at 30th September 2002, the Group's bank loans and import loans were payable as follows:

	<b>Unaudited</b>	Audited
	<b>As at 30th</b>	As at 31st
	<b>September</b>	March
	<b>2002</b>	2002
	<b>HK\$'000</b>	HK\$'000
On demand or within one year	<b>123,853</b>	126,636
More than one year but not exceeding two years	<b>3,364</b>	522
More than two years but not exceeding five years	<b>1,556</b>	30
	<b><u>128,773</u></b>	<u>127,188</u>

### 13) Share capital

		<b>Unaudited</b>	
		<b>As at 30th September 2002</b>	
	<i>Note</i>	<b>Number of shares issued</b>	<b>Total par value</b>
		'000	HK\$'000
Authorized (ordinary share of HK\$0.10 each)			
Upon incorporation		1,000	100
Increase in authorized share capital	<i>(i)</i>	1,999,000	199,900
		<u>2,000,000</u>	<u>200,000</u>
Shares allotted and issued nil paid upon incorporation		1,000	–
Shares issued as consideration for the acquisition of the entire issued share capital of VST Group Limited	<i>(ii)</i>	1,000	100
Credited as fully paid as consideration for the acquisition of the entire issued share capital of VST Group Limited	<i>(ii)</i>	–	100
Capitalization issue of shares	<i>(iii)</i>	523,000	52,300
New issue on public listing	<i>(iv)</i>	175,000	17,500
		<u>700,000</u>	<u>70,000</u>

The share capital as at 31st March 2002 represented the aggregate amount of the nominal value of the share capital of the companies comprising the Group as at that date.

- (i) On 16th April 2002, the authorized share capital of the Company was increased from HK\$100,000 to HK\$200,000,000, by the creation of additional 1,999,000,000 shares of HK\$0.10 each, ranking pari passu with the then existing shares of the Company.
- (ii) On 16th April 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 HK\$0.10 each credited as fully paid by the Company, and (ii) credited as fully paid 1,000,000 shares of HK\$0.10 each issued on 18th March 2002.
- (iii) On 17th April 2002, 523,000,000 shares of HK\$0.10 each were allotted as fully paid to the holders of the shares of the Company that appeared on the register of members of the Company in proportion to their respective shareholdings as at the close of business on 17th April 2002, by capitalization issue of shares.
- (iv) On 9th May 2002, 175,000,000 shares of HK\$0.10 each were issued to the public at HK\$0.25 each resulting in total net cash proceeds of approximately HK\$33,243,000.

### **Share Option:**

On 17th April 2002, the Company approved a share option scheme (the "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, which shall be a business day; 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 Share Option Scheme became effective upon the listing of the Company's shares on 9th May 2002. No options pursuant to the Share Options Scheme have been granted for the six months ended 30th September 2002.

#### **14) Additional financial information on balance sheet**

As at 30th September 2002, the net current assets of the Group amounted to approximately HK\$95,627,000 (31st March 2002 : HK\$58,637,000). On the same date, the total assets less current liabilities of the Group was approximately HK\$113,128,000 (31st March 2002 : HK\$64,235,000).

#### **15) Pledge of assets**

Leasehold land and buildings and investment properties in Hong Kong with carrying value of approximately HK\$6,995,000 and HK\$1,720,000 respectively and cash deposits of approximately HK\$24,203,000 held by the Group as at 30th September 2002 were pledged to certain banks to secure certain banking facilities granted to the Group.

#### **16) Contingent liabilities**

The Group had no significant contingent liabilities as at 30th September 2002.

#### **17) Related party transactions**

In the normal course of business, the Group had certain significant transactions with related parties during the six months ended 30th September 2001. The Directors confirmed that the related party transactions had ceased subsequent to the listing of the shares of the Company.

On 17th April 2002 and prior to the listing of the Company's shares on 9th May 2002, the Group purchased six properties in Hong Kong for use as the Group's storage and ancillary office from a related company at a cash consideration based on an open market valuation as at 28th February 2002 performed by LCH (Asia-Pacific) Surveyors Limited, an independent valuer, of approximately HK\$11,880,000.

## INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Directors have declared an interim dividend of 0.5 HK cents (2001: nil) per share for the six months ended 30th September 2002. The interim dividend will be payable on or around 23rd December 2002 to those shareholders whose names appear on the register of members on 19th December 2002. The register of members of the Company will be closed from 16th December 2002 to 19th December 2002, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch registrars in Hong Kong, Abacus Share Registrars Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration no later than 4:00 p.m. on Friday, 13th December 2002.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

The Group's unaudited consolidated turnover for the six months ended 30th September 2002 amounted to approximately HK\$942,647,000 (2001: HK\$818,354,000), representing an increase of approximately 15.2% compared with the corresponding period last year. Unaudited consolidated net profit attributable to shareholders for the six months ended 30th September 2002 amounted to approximately HK\$11,282,000 (2001: HK\$12,124,000), representing a decrease of around 6.9% as compared with the corresponding period last year. The basic earnings per share for the six months ended 30th September 2002 amounted to approximately 1.70 HK cents (2001: 2.31 HK cents) per share, representing a decrease of around 26.4% as compared with the same period last year.

## Business Review

During the period under review, the domestic demand for IT products in the People's Republic of China (the "PRC") had grown steadily despite the continuous downturn of the global economy. However, the overall profit margin decreased generally as compared with the same period last year.

The Group remained focusing on the distribution business of IT products and continued to act as the authorized distributor for five internationally renowned IT product manufacturers, namely Seagate, AMD, Aztech, Guillemot and Supermicro. During the period, the Group's marketing activities in the PRC showed excellent performance. Also, the Group actively sought distribution rights of other products, including CD-ROM, DVD and CD-RW under the brandname "EBrick", CPU under the brandname "VIA", and LCD monitors under the brandname "Hercules", all of them have received good market response, which also contributed to the increase in the Group's turnover. However, the weak economy as a whole dragged the overall profit margin. During the period, the management continued to strengthen the Group's management of fund application and cost control in an effort to enhance its competitiveness.

Since the Group has seen the PRC as its major market of distribution, six representative offices have been set up in the PRC. During the period under review, the Group endeavored to formulate various marketing strategies and managed to increase the market share of its products while providing various value-added and after-sale services for the resellers and end-users of its products, thus further consolidated the Group's customer network.

## Prospects

Capitalised on the PRC's admission to the World Trade Organization ("WTO") and the growing volume of foreign investment in the PRC, the Group anticipates that the demand for IT products in the PRC will progressively increase and is positioned to take advantage of this great opportunity. Building on the foundation of its established and extensive distribution network, the Group will actively identify more potential suppliers to acquire distribution rights of more diversified product range with good qualities. The Group will also try its best to expand its distribution network and customer network proactively to keep pace with the rapid development of the increasingly sophisticated IT industry of the PRC.

On the other hand, the Group will continue to maintain a good and close relationship with its suppliers. In collaboration with these suppliers, the Group will formulate the most effective marketing strategy for the products it distributed, so that each product launched will be well-received by the market, and thus raise the sales and profit margin of the Group. Besides, a partner relationship built on mutual trust between the Group and its suppliers will enhance a reliable supply of goods for the Group, which in fact, will consolidate the Group's business operations.

Looking forward, the PRC will still be the major market of the Group's products. The Group will continue to launch various marketing activities in order to strengthen the connection between the Group and its clients and end-users. The Group will also provide more comprehensive value-added services, such as consultancy and technical support services to broaden its customer base, and in turn further penetrate into the PRC market.

The Group will further implement cost control measures and enhance its operational efficiency and improve its internal resources allocation in the future. The Group will also continue to develop its inherent advantages in order to enhance its market niche in the PRC. The Group aims at becoming a leading distributor of IT products in the PRC and thus generating a more promising return to its shareholders.

## Liquidity and Financial Resources

The Group's treasury policies adopted for the six months ended 30th September 2002 are consistent with those disclosed in the Annual Accounts.

The Group recorded total current assets of approximately HK\$344.5 million as at 30th September 2002 (31st March 2002 : HK\$291.3 million) and total current liabilities of approximately HK\$248.9 million as at 30th September 2002 (31st March 2002: HK\$232.7 million). Current assets included restricted cash deposits of approximately HK\$24.2 million (31st March 2002: nil) and cash and bank deposits of approximately HK\$25.3 million (31st March 2002: HK\$16.7 million) which were mainly denominated in Hong Kong dollars and United States dollars. The Group's bank borrowings, which were mainly denominated in Hong Kong dollars and United States dollars, amounted to approximately HK\$128.8 million as at 30th September 2002 (31st March 2002: HK\$127.3 million). The maturity of bank borrowings comprised approximately HK\$123.9 million (31st March 2002: HK\$126.7 million) and HK\$4.9 million (31st March 2002: HK\$0.6 million) repayable within one year and repayable more than one year as at 30th September 2002 respectively. The bank borrowings of the Group are predominantly subject to floating interest rates.

As at 30th September 2002, the gearing ratio, calculated as the bank borrowings less restricted cash deposits and cash and bank deposits divided by shareholders' equity, was approximately 0.73 (31st March 2002: 1.74).

The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 1.38 times as at 30th September 2002 (31st March 2002: 1.25 times).

The improvement in both gearing ratio and current ratio during the period under review was mainly due to controlling the working capital by the Group in a healthy level and the raising of approximately HK\$33.2 million through the shares issued under the initial public offering in May 2002.

Transactions of the Group are mainly denominated either in Hong Kong or United States dollars, such that the Group does not have significant exposure to foreign exchange fluctuation. No hedging for the foreign currency transaction has been carried out during the period under review.

### **Purchase of Property Interests**

On 17th April 2002 and prior to the listing of the Company's shares on 9th May 2002, the Group purchased six properties in Hong Kong for use as the Group's storage and ancillary office from a related company at a cash consideration based on an open market valuation as at 28th February 2002 performed by LCH (Asia-Pacific) Surveyors Limited, an independent valuer, of approximately HK\$11,880,000. Such acquisition can (i) secure the place of the Group's operations; and (ii) lower the Group's operating expenses in the long run because the rental expenses from such premises are eliminated.

### **Pledge of Assets**

As at 30th September 2002, leasehold land and buildings and investment properties in Hong Kong with carrying value of approximately HK\$6,995,000 and HK\$1,720,000 respectively and cash deposits of approximately HK\$24,203,000 held by the Group were pledged to certain banks to secure certain banking facilities granted to the Group.

### **Contingent Liabilities**

As at 30th September 2002, the Group did not have any significant contingent liabilities.

### **Employees**

As at 30th September 2002, the Group had 49 full time employees.

The Group remunerated its employees mainly based on the industrial practice, individual's performance and experience. Apart from the basic remuneration, discretionary bonus may be granted to eligible employees with reference to the Group's performance as well as to individuals performance. Other benefits included medical and retirement schemes. In addition, share options may also be granted from time to time in accordance with the term of the Company's approved Share Option Scheme. During the period under review, no share options had been granted under the Share Option Scheme.

### Use of Net Proceeds from Initial Public Offering

The net proceeds from the initial public offering amounted to approximately HK\$33.2 million. As at 30th September 2002, approximately HK\$20.0 million, HK\$0.7 million and HK\$8.2 million had been used to acquire and promote additional products distributed by the Group, enhance the function of the Group's representative offices in the PRC and finance working capital respectively. The remaining balance will be applied in accordance with the intended usage set out in the Prospectus of the Company dated 29th April 2002.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30th September 2002, the interests of the Directors and chief executives of the Company in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (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 (Note 1)	241,500,000
Mr. Cheng Kam Chung	Family and other (Note 2)	241,500,000
Mr. Phileas Fok Kwan Wing BH	Personal	32,000

*Notes:*

1. 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, Chief Executive Officer and an executive Director of the Company) and his spouse, Madam Liu Li.
2. 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 and an executive Director of the Company) 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.

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

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

*Note:*

3. 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 27th June 1995 with beneficial interest ultimately owned equally by L & L Limited and CKC Holdings Limited.

Save as 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 as at 30th September 2002.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES IN THE COMPANY

Under the terms of the Company's 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 9th May 2002. No options have been granted to the Directors during the six months ended 30th September 2002.

Save as disclosed above, and other than the group reorganization in preparation for the Company's listing of shares, at no time during the period under review 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 or any connected persons (as defined by the Listing Rules), had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

## SUBSTANTIAL SHAREHOLDERS

As at 30th September 2002, 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:

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

*Notes:*

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

Save as disclosed above, no person, other than the Directors, whose interests are set out in the paragraph headed "Directors' interests in securities" above, had registered an interest of 10% or more in the issued share capital of the Company as at 30th September 2002 that was required to be recorded under Section 16(1) of the SDI Ordinance.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 30th September 2002, 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 IT products:

<b>Company</b>	<b>Name of direct shareholder</b>	<b>Interests</b>	<b>Place of operation</b>
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 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 interim report.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

Upon listing of the Company's shares on the Stock Exchange on 9th May 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.

## **AUDIT COMMITTEE**

The Company has established an audit committee on 17th April 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 report before recommending them to the Board of Directors for approval).

## 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 Listing Rules since 9th May 2002.

By Order of the Board

**Li Jialin**

*Chairman and Chief Executive Officer*

Hong Kong, 20th November 2002.