

Report of the Directors

The Directors are pleased to present their annual report together with the audited accounts of VST Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31st March, 2003.

Group reorganization and basis of presentation

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. 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 16th April, 2002.

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

Please refer to Note 1 to the audited accounts for the basis of presentation and further details of the group reorganization.

Principal activities

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

The Group is operating in a single business segment of distribution of IT products and all of the sales of the Group’s inventories are concluded in Hong Kong. Therefore, no analysis on turnover and contributions to profit before taxation by principal activity and by geographical location for the year ended 31st March, 2003 of the Group is presented in this report.

Major customers and suppliers

The largest customer for the year ended 31st March, 2003 represented approximately 24% (2002: approximately 26%) of the Group’s total turnover, and the combined total of the five largest customers accounted for approximately 53% (2002: approximately 54%) of the Group’s total turnover for the year under review.

In addition, the largest supplier for the year ended 31st March, 2003 represented approximately 87% (2002: approximately 69%) of the Group’s total purchases, and the combined total of the five largest suppliers accounted for approximately 99% (2002: approximately 99%) of the Group’s total purchases for the year under review.

None of the Directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the company’s share capital) had an interest in the major suppliers or customers noted above during the year under review.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 30.

The Directors declared an interim dividend of HK0.5 cents per ordinary share, totalling HK\$3,500,000, which was paid on 20th December, 2002.

Final Dividend

The Directors have recommended the payment of a final dividend of HK0.6 cents per share for the year under review (2002: HK\$ Nil) to be declared at the forthcoming annual general meeting. Subject to the approval at the annual general meeting, the final dividend will be payable on or about 3rd September, 2003 to shareholders whose name appear on the Register of Members at the close of the business on 22nd August, 2003.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 13 to the accounts.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$71,000.

Fixed assets

Details of the movements in fixed assets of the Group are set out in note 5 to the accounts.

Subsidiaries

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

Bank loans

Particulars of the Group's bank loans as at 31st March, 2003 are set out in note 9 to the accounts.

Share capital

Details of the movements in share capital of the Company are set out in note 11 to the accounts.

Distributable reserves

At 31st March, 2003, the Company's reserves available for distribution amounted to approximately HK\$4,751,000 (2002: HK\$ Nil). In addition, the Company's share premium account, in the amount of approximately HK\$26,926,000, may be distributed in the form of fully paid bonus shares in accordance with the Companies Law (revised) of the Cayman Islands.

Pre-emptive rights

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

Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 56.

Purchase, sale or redemption of securities

Since the listing of the Company's shares on the Stock Exchange on 9th May, 2002 and upon 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.

Share options

Under the terms of the Company's share option scheme approved by the shareholders on 17th April, 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 9th May, 2002. No options have been granted up to the date of this report.

Save as disclosed above, and other than the group reorganization in preparation for the listing of the Company's shares, at no time during the year 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, had any right to subscribe for the securities of the Company, or had exercised any such right during the year under review.

Share options (Cont'd)

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

Purpose	:	To award participants as incentive or rewards for their contribution to the Group
Participants	:	<p>(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, any of such subsidiaries or any Invested Entity;</p> <p>(b) any non-executive Directors (including independent non-executive Directors), any subsidiary or any Invested Entity;</p> <p>(c) any supplier of goods or services to any member of the Group or any Invested Entity;</p> <p>(d) any customer of the Group or any Invested Entity; and</p> <p>(e) any consultants, advisers, managers, officers or entity that provides research, development or other technological support to the Group or any Invested Entity;</p> <p>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.</p>
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 representing 10% of the issued share capital
Maximum entitlement of each participant	:	Shall not exceed 1% of the issued share capital of the Company in any 12-month period
Period within which the securities must be taken up under an option	:	Not applicable
Minimum period an option must be held before it can be exercised	:	Not applicable



Share options (Cont'd)

Amount payable on acceptance of the option	:	HK\$1
Period within which payments/calls/loans must be made/repaid	:	Not applicable
Basis of determining the exercise price	:	To be determined by the Board of Directors and will not be less than the higher of (i) the nominal value of the Company's ordinary share; (ii) the closing price of the Company's ordinary share as stated in the daily quotation sheets issued by the Stock Exchange on the date of offer; and (iii) the average closing price of the Company's ordinary share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer.
The remaining life of the Share Option Scheme	:	The Share Option Scheme remains in force for a period of 10 years from the date of its adoption on 17th April, 2002.

Directors

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

Executive directors:

Mr. Li Jialin (*Chairman and Chief Executive Officer*)

Mr. Cheng Kam Chung (*Vice Chairman*)

Mr. Lam Hin Chi (Resigned on 28th November, 2002)

Non-executive director:

Madam Sun Ali (Appointed on 15th April, 2002)

Independent non-executive directors:

Mr. Phileas Fok Kwan Wing BH (Appointed on 15th April, 2002)

Dr. Liu Yongping (Appointed on 15th April, 2002)

In accordance with Article 87 of the Company's articles of association, Mr. Cheng Kam Chung will retire from office at the forthcoming annual general meeting and, being eligible, will offer himself 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 9th May, 2002 and expiring on 8th May 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 equals to 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.

Non-executive Directors

Each of the non-executive Directors (including independent non-executive Directors), had received an appointment letter from the Company and was appointed by the Board of Directors on 15th April, 2002 for a term of 2 years commencing from 9th May, 2002 and expiring on 8th May 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 terminable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Directors' interests in contracts

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

Biographical details of directors and company secretary

Brief biographical details of directors and company secretary are set out on page 15 to 16.



Directors' interests in equity or debt securities

As at 31st March, 2003, the interests of the Directors and chief executive in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

(a) Ordinary shares of HK\$0.10 each 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:

- 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 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.

(b) Ordinary shares of HK\$1 each in VST Computes (H.K.) Limited, a wholly owned subsidiary of the Company

Name of Director	Type of interest	Number of ordinary shares
Mr. Li Jialin	Corporate (Note 1)	31,000,000
Mr. Cheng Kam Chung	Corporate (Note 1)	31,000,000

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 27th June 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 as at 31st March, 2003.

Substantial shareholders

As at 31st March, 2003, 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% or more in the issued share capital of the Company:

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

Notes :

- (a) The entire issued share capital of L & L Limited is equally held by Mr. Li Jialin (the Chairman and Chief Executive Officer of the Company) and his spouse, Madam Liu Li.
- (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 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' interest in competing business

As at the date of this report, each of CKC Holdings Limited and L & L Limited was indirectly interested in the following companies which are principally engaged in the business of distribution of IT 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

* A company incorporated in Hong Kong

The Directors consider that the interests of CKC Holdings Limited and L & L Limited in the above companies are 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 and Malaysia 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 IT 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 annual report.

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 under review.

Connected transactions

During the year ended 31st March, 2003, the Group has entered into the following connected transactions:

1. Purchase of property interests

On 17th April, 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 consideration based on an open market valuation as at 28th February, 2002 performed by LCH (Asia-Pacific) Surveyors Limited, an independent property valuers, of approximately HK\$11,880,000 which was settled by the Group's internal resources in cash derived mainly from the repayment of advances from related parties. Such acquisition can (i) secure the place of the Group's operation; and (ii) lower the Group's operating expenses in the long run because the rental expenses from such premises are eliminated.

2. Licensing of trademarks

On 17th April, 2002, the Group entered into a trademark licensing agreement with VST Group Limited, a company incorporated in Hong Kong ("VST Group Hong Kong"), whereby VST Group Hong Kong agreed to grant a non-exclusive licence to the Group to use certain trade/service marks as the Group's logo on the letterheads, name cards and other stationery of the Group for an initial term of 20 years from the date of the agreement at a nominal consideration of HK\$1.

3. Rental agreement

On 28th May, 2002, the Group entered into a rental agreement with Mr. Li Jialin, the Chairman and an executive Director of the Company, in respect of a director quarter. Pursuant to the agreement, the Group paid a monthly rental of HK\$80,000 to Mr. Li Jialin for a term of 10 months from 1st June, 2002 to 31st March, 2003.

The above constituted connected transactions under the Listing Rules. The Directors are of the opinion that the above transactions were entered into on normal commercial terms and on an arm's length basis and are fair and reasonable so far as the shareholders of the Company, taken as a whole, are concerned.

Exempted connected transactions

Each of the above connected transaction constituted an exempted connected transaction under the Listing Rules as the total consideration involved in each of the transaction was less than the higher of HK\$1 million or 0.03% of the net tangible assets of the Group.

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 during the year under review.

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 and annual accounts before recommending them to the Board of Directors for approval).

Use of proceeds

The net proceeds from the new issue of the Company's shares by way of public offering and placing amounted to approximately HK\$33.2 million. As at 31st March, 2003, approximately HK\$20.0 million, HK\$1.3 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 of the Group respectively. The remaining balance will be applied to further enhance the function of the Group's representative offices in the PRC to undertake promoting, marketing and providing supporting services in relation to the products distributed by the Group in the PRC market.

Auditors

Arthur Andersen & Co., the auditors of the Company for the year ended 31st March, 2002, had retired at the annual general meeting of the Company on 15th August, 2002. Arthur Andersen & Co. have combined their practices with PricewaterhouseCoopers. Accordingly, during the year under review, PricewaterhouseCoopers were appointed as auditors of the Company at the annual general meeting held on 15th August, 2002. The accompanying accounts have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Li Jialin

Chairman and Chief Executive Officer

Hong Kong, 9th July, 2003