



偉仕控股有限公司

VST HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

03/04

Interim Report

The Board of Directors of VST Holdings Limited (the “Company”) is pleased to present the Interim Report and the unaudited condensed consolidated accounts of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30th September 2003. The condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated cash flow statement and condensed consolidated statement of changes in equity for the Group for the six months ended 30th September 2003, all of which are unaudited, along with selected explanatory notes, are set out below:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September 2003

	Note	Unaudited Six months ended 30th September	
		2003 HK\$'000	2002 HK\$'000
Turnover		1,108,770	942,647
Cost of sales		(1,081,015)	(914,038)
Gross profit		27,755	28,609
General and administrative expenses		(10,420)	(13,747)
Other loss, net		–	(24)
Profit from operations	4	17,335	14,838
Finance costs, net	5	(1,681)	(1,371)
Profit before taxation		15,654	13,467
Taxation	6	(3,065)	(2,185)
Net profit attributable to shareholders		12,589	11,282
Dividends	7	3,500	3,500
Earnings per share	8		
– Basic		1.80 cents	1.70 cents
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September 2003

		Unaudited As at 30th September 2003 HK\$'000	Audited As at 31st March 2003 HK\$'000
	Note		
ASSETS			
Current assets			
Cash and bank deposits		24,543	39,947
Restricted cash deposits		24,203	24,203
Trade receivables, net	9	189,728	262,925
Prepayments and other receivables		715	960
Tax recoverable		–	1,701
Inventories		171,892	161,126
		<u>411,081</u>	<u>490,862</u>
Non-current assets			
Fixed assets	10	<u>16,466</u>	<u>17,011</u>
Total assets		<u><u>427,547</u></u>	<u><u>507,873</u></u>
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables, accruals and other payables	11	261,565	287,611
Bank loans and import loans, secured	12	41,393	105,000
Provision for taxation		1,352	–
		<u>304,310</u>	<u>392,611</u>
Non-current liabilities			
Bank loans, secured	12	3,915	4,305
Deferred taxation		296	320
		<u>4,211</u>	<u>4,625</u>
Capital and reserves			
Share capital	13	70,000	70,000
Share Premium		25,243	25,243
Retained Earnings		20,283	11,194
Proposed dividend		3,500	4,200
		<u>119,026</u>	<u>110,637</u>
Total liabilities and equity		<u><u>427,547</u></u>	<u><u>507,873</u></u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2003

	Unaudited	
	Six months ended	
	30th September	
	2003	2002
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from		
operating activities	54,267	(21,302)
Net cash inflow from investing activities	399	35,650
Net cash outflow from financing activities	(70,070)	(5,803)
	<hr/>	<hr/>
Increase (Decrease) in cash and		
bank deposits	(15,404)	8,545
Cash and bank deposits		
Beginning of period	39,947	16,749
	<hr/>	<hr/>
End of period	24,543	25,294
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2003

	Share capital HK\$'000	Share premium HK\$'000 (ii)	Retained earnings HK\$'000	Proposed dividends HK\$'000	Total HK\$'000
Balance at 1st April 2002 (i)	62,000	–	1,683	–	63,683
Pursuant to Reorganization (as explained in Note 1 to the unaudited condensed consolidated accounts)	(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
Interim dividend	–	–	(3,500)	3,500	–
Balance at 30th September 2002	<u>70,000</u>	<u>25,243</u>	<u>9,461</u>	<u>3,500</u>	<u>108,208</u>
Balance at 1st April 2003	70,000	25,243	11,194	4,200	110,637
Net profit for the period	–	–	12,589	–	12,589
Final dividend paid	–	–	–	(4,200)	(4,200)
Proposed dividend	–	–	(3,500)	3,500	–
Balance at 30th September 2003	<u><u>70,000</u></u>	<u><u>25,243</u></u>	<u><u>20,283</u></u>	<u><u>3,500</u></u>	<u><u>119,026</u></u>



Notes:

- (i) The share capital as at 1st April 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 unaudited condensed consolidated accounts) over the nominal value of the share capital of the Company issued in exchange; (b) the premium arising from the capitalization issue during the period; 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 UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS

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 ("IT") 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

The unaudited condensed 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") 25 (revised) "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The unaudited condensed consolidated interim accounts should be read in conjunction with the annual accounts of the Group for the year ended 31st March 2003 (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 adopted , for the first time, SSAP 12 (revised) "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.



The changes to the Group's accounting policy and the effect of adopting this new policy is as follows:

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantially enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of temporary differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy and should be applied retrospectively. However, since the effect on prior periods was not material, no prior period adjustment has been made.

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 2003 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\$647,832 (2002: HK\$602,000).

5) Finance costs, net

Analysis of net finance costs is as follows:

	Unaudited Six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000
Interest expense on		
– bank loans and import loans	1,801	1,850
– finance leases	–	23
	<u>1,801</u>	<u>1,873</u>
Interest income from		
– bank deposits	(120)	(502)
	<u>(120)</u>	<u>(502)</u>
	<u>1,681</u>	<u>1,371</u>

6) Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period.

As mentioned in Note 2 above, the Group has adopted SSAP 12 (revised) during the six months ended 30th September 2003. Deferred tax assets and liabilities have been calculated using the tax rate of 17.5% (2002: 16%) enacted by the balance sheet date.

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:

	Unaudited	
	Six months ended	
	30th September	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong profits tax	3,054	2,135
Deferred tax	(24)	–
PRC tax	35	50
	<u>3,065</u>	<u>2,185</u>

7) Dividends

	Unaudited	
	Six months ended	
	30th September	
	2003	2002
	HK\$'000	HK\$'000
Proposed interim dividend of 0.5 HK cents (2002: 0.5 HK cents) per share	<u>3,500</u>	<u>3,500</u>

At a meeting held on 19th November 2003, 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 2003 to those shareholders whose names appear on the register of members on 18th December 2003. This proposed dividend is not reflected as a dividend payable in these unaudited condensed consolidated interim accounts, but is reflected as an appropriation of retained earnings for the six months ended 30th September 2003.

8) Earnings per share

The calculation of basic earnings per share for the six months ended 30th September 2003 was based on the Group's net profit attributable to shareholders of HK\$12,589,000 (2002: HK\$11,282,000) and the weighted average number of 700,000,000 (2002: 663,661,202) ordinary shares of the Company in issue during the period.

No dilutive financial instrument is outstanding or deemed to be outstanding throughout the periods ended 30th September 2003 and 2002 and accordingly, no diluted earnings per share has been presented.

9) Trade receivables, net

The Group grants credit period to customers ranging from 7 to 40 days which may be extended to selected customers depending on their trade volume and settlement history with the Group. The aging analysis of trade receivables (net of provision for doubtful debts) is summarized as follows:

	Unaudited As at 30th September 2003 HK\$'000	Audited As at 31st March 2003 HK\$'000
1 to 30 days	118,159	178,140
31 to 60 days	43,002	69,287
61 to 90 days	28,567	14,959
Over 90 days	—	539
	189,728	262,925

10) Fixed assets

During the period, the Group acquired fixed assets amounting to approximately HK\$103,000 (2002: HK\$12,607,000).

11) Trade payables, accruals and other payables

The aging analysis of trade payables is summarized as follows:

	Unaudited As at 30th September 2003 HK\$'000	Audited As at 31st March 2003 HK\$'000
1 to 60 days	258,421	284,140
61 to 120 days	650	333
Total trade payables	<u>259,071</u>	<u>284,473</u>
Accruals and other payables	<u>2,494</u>	<u>3,138</u>
	<u><u>261,565</u></u>	<u><u>287,611</u></u>

12) Bank loans and import loans, secured

	Unaudited As at 30th September 2003 HK\$'000	Audited As at 31st March 2003 HK\$'000
Long-term bank loans	4,627	5,522
Short-term bank loans	1,982	4,887
Import loans	38,699	98,896
	<u>45,308</u>	<u>109,305</u>

The maturity of the above loans is as follows:

On demand or within one year	41,393	105,000
More than one year but not exceeding two years	749	760
More than two years but not exceeding five years	2,485	2,423
More than five years	681	1,122
	<u>45,308</u>	<u>109,305</u>
Less: Amounts due within one year included in current liabilities	<u>(41,393)</u>	<u>(105,000)</u>
	<u><u>3,915</u></u>	<u><u>4,305</u></u>

13) Share capital

	Unaudited	
	As at 30th September 2003 and 31st March 2003	
	Number of shares issued	Total par value
	'000	HK\$'000
Authorized (ordinary share of HK\$0.10 each)	2,000,000	200,000
Issued and fully paid	700,000	70,000

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 period ended 30th September 2003.

14) Additional financial information on balance sheet

As at 30th September 2003, the net current assets of the Group amounted to approximately HK\$106,771,000 (31st March 2003: HK\$98,251,000). On the same date, the total assets less current liabilities of the Group was approximately HK\$123,237,000 (31st March 2003: HK\$115,262,000).

15) Pledge of assets

Leasehold land and buildings in Hong Kong with carrying value of approximately HK\$8,330,000 and cash deposits of approximately HK\$24,203,000 held by the Group as at 30th September 2003 were pledged to certain banks to secure the banking facilities granted to the Group.

16) Contingent liabilities

The Group had no significant contingent liabilities as at 30th September 2003.

17) Related party transactions

1. *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.

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 April 2003, the Group entered into a rental agreement with Mr. Li Jialin, the Chairman and an executive Director of the Company, in respect of a director quarter. Pursuant to the agreement, the Group paid a monthly rental of HK\$80,000 to Mr. Li Jialin for a term of 12 months from 1st April 2003 to 31st March 2004.

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.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Directors have declared an interim dividend of 0.5 HK cents (2002: 0.5 HK cents) per share for the six months ended 30th September 2003. The interim dividend will be payable on or around 23rd December 2003 to those shareholders whose names appear on the register of members on 18th December 2003. The register of members of the Company will be closed from 15th December 2003 to 18th December 2003, both days inclusive, during that 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, G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Friday, 12th December 2003.


MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER INFORMATION

Financial Review

The Group's unaudited consolidated turnover for the six months ended 30th September 2003 amounted to approximately HK\$1,108,770,000 (2002: approximately HK\$942,647,000), representing an increase of approximately 18% compared with the corresponding period last year. Unaudited consolidated net profit attributable to shareholders for the six months ended 30th September 2003 amounted to approximately HK\$12,589,000 (2002: approximately HK\$11,282,000), representing an increase of around 12% as compared with the corresponding period last year. The basic earnings per share for the six months ended 30th September 2003 amounted to approximately 1.80 HK cents (2002: approximately 1.70 HK cents) per share, representing an increase of around 6% as compared with the same period last year.

Business Review

Despite the outbreak of Severe Acute Respiratory Syndrome ("SARS") which occurred in the late March 2003, our Group still marks an increase in turnover and net profit attributable to shareholders. The turnover for the period under review increased by 18% to approximately HK\$1,108.8 million (2002: approximately HK\$942.6 million) and the net profit attributable to shareholders increased by 12% to approximately HK\$12.6 million (2002: approximately HK\$11.3 million).



We believe that efficient sales channels and cost controls can raise the group's competitiveness, broaden its market share and enhance its profitability. To achieve these goals, we have, during the period under review, implemented measures including the expansion of sales network, strengthening its distribution efficiency, lowering the inventory level, strengthening the control of operating cost, and improving the quality of customer services to suit the needs of new customers as much as possible. These measures have proved to be effective and sharply increased the Group's market share. Although our profit margin continues to be pressured under the competitive environment, our Group's aggressiveness and dedicated effort have led to a remarkable increase in both market share and earnings. This has created a good foundation for the long-term development of the Group.

We shall endeavor to reinforce the well-established connection with our customers and suppliers. Our target is to strengthen and further increase our market share which will in turn strengthen our foundation for the long-term investment with an ultimate goal of generating better returns on investment to our shareholders.

In 2003, our Group was granted two Awards by Seagate Singapore International Headquarters Pte. Limited ("Seagate"), one of our major suppliers. The Awards, namely "Outstanding Achievement: Personal Storage FY2003" and "No Limits Challenge Award Asia Pacific FY2003". The latter is the first ever in Asia Pacific by Seagate to award an Authorised Distributor in the best performance of promoting and selling hard disk drives in the Consumer Electronic market. Traditionally, a hard disk drive is used in Personal Computer. The latest technology has expanded its usage into Consumer Electronic market for products such as DVD player, digital recorder and TV set-top box. As a proof of our ability under this challenge, we have successfully sold the hard disk drives in these new market segments.

Prospect

With the PRC's admission to the World Trade Organization, foreign companies have sped up their business development in the PRC, inducing positive competition between foreign and local enterprises. This has accelerated the operation efficiency in the IT technology industry in the PRC. According to the PRC's tenth "Five Year Plan", the PRC government will invest about 1 billion Chinese Yuan to establish a scientific administrative management system. This will certainly create greater demand for IT products and generate more opportunities for the Group.



In light of the Closer Economic Partnership Arrangement (CEPA) recently signed by Hong Kong Special Administrative Region and the PRC, the Group expects to quicken its development in IT products and strengthen its sales network. Since the IT product market is growing at a rapid pace, we plan to expand into other potential PRC cities so as to widen our distribution channels.

With a focus on IT product sales, our Group is an Authorized Distributor and/or product developer for six internationally reputable IT product manufacturers including Seagate, AMD, Ebrick, Guillemot, Supermicro and VIA. In order to be more competitive, we have been offering our customers with first-rate value-added services and providing our customers and end-users with superior before-sale, after-sale services and technical support, through which we have built up close and long-lasting relationship with our principal suppliers and customers.

Whilst we have reduced our staff headcount, we have enlarged our sales engineer team to focus on design-in business with Consumer Electronic customers. The success is reflected by Seagate's Award of "No Limits Challenge Award Asia Pacific FY2003" as mentioned above. With these new customers, we are also planning to carry new products that have synergy effect, for example, the flash memory products. This has increased our opportunity of sales and profits which means better returns to our shareholders.

Besides Hong Kong, PRC remains the core of our markets. During the period under review, we have been providing our customers with consultancy and technical support, improving marketing efficiency. Owing to the in-depth knowledge of its management team and effective cost control, our business has grown steadily.

As Hong Kong's economy is recovering gradually, coupled with the earnest desire for IT products in the PRC, we believe that we can take advantage of the enormous market potential in the PRC market by offering diverse products and maximizing our expertise through integrating our upstream and downstream marketing channels. The combination of diverse products and an efficient market infrastructure should positively impact the Group as the PRC IT market grows, generating even better returns to our shareholders.

Liquidity and Financial Resources

The Group's treasury policies adopted for the six months ended 30th September 2003 are consistent with those disclosed in the annual report of the Company for the year ended 31st March 2003.

The Group recorded total current assets of approximately HK\$411.1 million as at 30th September 2003 (31st March 2003: approximately HK\$490.9 million) and total current liabilities of approximately HK\$304.3 million as at 30th September 2003 (31st March 2003: approximately HK\$392.6 million). Current assets included restricted cash deposits of approximately HK\$24.2 million (31st March 2003: 24.2 million) and cash and bank deposits of approximately HK\$24.5 million (31st March 2003: HK\$39.9 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\$45.3 million as at 30th September 2003 (31st March 2003: HK\$109.3 million). The maturity of bank borrowings comprised approximately HK\$41.4 million (31st March 2003: approximately HK\$105.0 million) and HK\$3.9 million (31st March 2003: HK\$4.3 million) repayable within one year and repayable more than one year as at 30th September 2003 respectively. The bank borrowings of the Group are predominantly subject to floating interest rates.

As at 30th September 2003, the gearing ratio, calculated as the bank borrowings less restricted cash deposits divided by shareholders' equity, was approximately 0.18 (31st March 2003: approximately 0.77).

The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 1.35 times as at 30th September 2003 (31st March 2003: approximately 1.25 times).

The improvement in both gearing ratio and current ratio during the period under review was mainly due to tighter control of the working capital by the Group at a healthy level.

Transactions of the Group are mainly denominated either in Hong Kong dollars 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.

Pledge of Assets

As at 30th September 2003, leasehold land and buildings in Hong Kong with a carrying value of approximately HK\$8,330,000 (2002: approximately HK\$8,715,000) and cash deposits of approximately HK\$24,203,000 (2002: approximately HK\$24,203,000) held by the Group were pledged to certain banks to secure the banking facilities granted to the Group.

Contingent Liabilities

As at 30th September 2003, the Group did not have any significant contingent liabilities.

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 2003, approximately HK\$20.0 million, HK\$2.0 million and HK\$11.2 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.

Save as disclosed herewith, no information in relation to the Group's performance has changed materially from the information disclosed in the annual report of the Company for the year ended 31st March 2003.

Employees

As at 30th September 2003, the Group had 41 full time employees.

The Group remunerated its employees mainly based on 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 the individual 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.

Save as disclosed herewith, no information in relation to the Group's performance has changed materially from the information disclosed in the annual report of the Company for the year ended 31st March 2003.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th September 2003, the interests of the Directors and chief executive of the Company in shares, underlying shares or debentures of the company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") which would have to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions of which they were taken or deemed to have under such provisions of the SFO) and/or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which would have to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules were as follows:

Name of Director	Company/name of associated corporation	Capacity	Number and class of securities
Mr. Li Jialin	Company	Interest of a Controlled Corporation	241,500,000 ordinary shares Long position (Note 1)
	VST Computers (H.K.) Limited	Interest of a Controlled Corporation	31,000,000 ordinary shares Long position (Note 3)
Mr. Cheng Kam Chung	Company	Family and other	241,500,000 ordinary shares Long position (Note 2)
	VST Computers (H.K.) Limited	Interest of a Controlled Corporation	31,000,000 ordinary shares Long position (Note 3)
Mr. Phileas Fok Kwan Wing BH	Company	Beneficial owner	32,000 ordinary shares Long position

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.
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 limited liability company 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, as at 30th September 2003, none of the directors nor the chief executives of the Company had any interest or short positions in any shares, underlying shares or debentures of the company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions of which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange.



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 period ended 30th September 2003.

Save as disclosed above, 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 2003, so far as is known to the Directors, the following persons (not being a director or a chief executive of the Company) had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group:

Name	Capacity	Class and number of securities	Approximate percentage of shareholding
L & L Limited	Beneficial owner	241,500,000 ordinary shares Long position (Note a)	34.5%
CKC Holdings Limited	Beneficial owner	241,500,000 ordinary shares Long position (Note b)	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, as at 30th September 2003, so far is known to the directors, there were no person who had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group, or any options in respect of such capital.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 30th September 2003, 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:

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

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 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 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

During the period under review, 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). The Group's unaudited results for the six months ended 30th September 2003 have been reviewed by the audit committee of the Company, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Company is not or was not for any part of the period under review, in compliance with Appendix 14 of the Listing Rules.

By Order of the Board

Li Jialin

Chairman and Chief Executive Officer

Hong Kong, 19th November 2003.