



**VST 偉仕**

**VST HOLDINGS LIMITED**

**偉仕控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

TECHNOLOGY

FUTURE

**2004/2005**

Interim Report

## **CORPORATE INFORMATION**

### **Executive Directors**

Mr. Li Jialin

*(Chairman and Chief Executive Officer)*

Mr. Cheng Kam Chung *(Vice Chairman)*

### **Non-executive Director**

Madam Sun Ali

### **Independent Non-executive Director**

Mr. Phileas Fok Kwan Wing, BH

Dr. Liu Yongping

Mr. Ni Zhenwei

*(Appointed on 1st June, 2004)*

### **Company Secretary**

Mr. Lung Cheuk Wah

### **Auditors**

PricewaterhouseCoopers

### **Principal Bankers**

The Hongkong and Shanghai Banking Corporation Ltd.

Standard Chartered Bank

### **Website Address**

<http://www.vstholdings.com>

### **Stock Code**

856

### **Investor and Media Relations**

#### **Consultant**

Quam (H.K.) Limited

### **Head Office and Principal Place of Business in Hong Kong**

Unit 1901, 19/F

West Tower

Shun Tak Centre

168 Connaught Road Central  
Hong Kong

### **Registered Office**

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681GT

George Town

Grand Cayman

Cayman Islands

British West Indies

### **Cayman Islands Principal Share Registrar and Transfer Office**

Bank of Butterfield International  
(Cayman) Ltd.

Butterfield House

68 Fort Street

P.O. Box 705

George Town

Grand Cayman

Cayman Islands

British West Indies

### **Hong Kong Branch Share Registrar and Transfer Office**

Abacus Share Registrars Limited

G/F., Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

The Board of Directors (the "Directors") of VST Holdings Limited (the "Company") is pleased to present the interim report (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 2004. The condensed consolidated profit and loss account, 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 2004, all of which are unaudited, along with selected explanatory notes, are set out below:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th September 2004

	Note	Unaudited	
		Six months ended	
		30th September	
		2004	2003
		HK\$'000	HK\$'000
Turnover		<b>1,336,138</b>	1,108,770
Cost of sales		<b>(1,301,680)</b>	(1,081,015)
Gross profit		<b>34,458</b>	27,755
General and administrative expenses		<b>(16,545)</b>	(10,420)
Other income		<b>410</b>	–
Operating profit	3	<b>18,323</b>	17,335
Finance costs, net	4	<b>(1,633)</b>	(1,681)
Profit before taxation		<b>16,690</b>	15,654
Taxation	5	<b>(3,072)</b>	(3,065)
Profit attributable to shareholders		<b>13,618</b>	12,589
Dividends	6	<b>3,500</b>	3,500
Earnings per share	7		
– Basic		<b>1.95 cents</b>	1.80 cents
– Diluted		<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September 2004

		Unaudited As at 30th September 2004 HK\$'000	Audited As at 31st March 2004 HK\$'000
Non-current assets			
Fixed assets	8	3,029	13,057
Current assets			
Bank balances and cash		34,751	27,841
Restricted cash deposits		25,694	24,744
Trade receivables, net	9	179,696	233,561
Prepayments and other current assets		953	1,768
Inventories		108,358	196,945
		<u>349,452</u>	<u>484,859</u>
Current liabilities			
Trade payables, accruals and other payables	10	147,311	252,508
Bank loans and import loans, secured	11	68,055	118,625
Taxation payable		4,516	1,514
Current portion of obligation under finance lease		124	122
		<u>220,006</u>	<u>372,769</u>
Net current assets		<u>129,446</u>	<u>112,090</u>
Total assets less current liabilities		<u>132,475</u>	<u>125,147</u>
Non-current liabilities			
Bank loans, secured	11	–	2,057
Deferred tax liabilities		31	–
Obligation under finance lease		32	96
		<u>63</u>	<u>2,153</u>
Net assets		<u>132,412</u>	<u>122,994</u>
Capital and reserves			
Share capital	12	70,000	70,000
Share Premium		25,243	25,243
Retained Earnings		33,669	23,551
Proposed dividend		3,500	4,200
		<u>132,412</u>	<u>122,994</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2004

	Unaudited	
	Six months ended	
	30th September	
	2004	2003
	HK\$'000	HK\$'000
Net cash inflow from operating activities	55,076	54,267
Net cash inflow from investing activities	8,723	399
Net cash outflow from financing activities	(56,889)	(70,070)
	<hr/>	<hr/>
Increase/(Decrease) in bank balances and cash	6,910	(15,404)
Bank balances and cash		
Beginning of period	27,841	39,947
	<hr/>	<hr/>
End of period	34,751	24,543
	<hr/>	<hr/>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2004

	Share capital HK\$'000	Share premium HK\$'000	Retained earnings HK\$'000	Proposed dividends HK\$'000	Total HK\$'000
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)
Interim proposed dividend	–	–	(3,500)	3,500	–
Balance at 30th September 2003	<u>70,000</u>	<u>25,243</u>	<u>20,283</u>	<u>3,500</u>	<u>119,026</u>
Balance at 1st April 2004	70,000	25,243	23,551	4,200	122,994
Net profit for the period	–	–	13,618	–	13,618
Final dividend paid	–	–	–	(4,200)	(4,200)
Interim proposed dividend	–	–	(3,500)	3,500	–
<b>Balance at 30th September 2004</b>	<u><b>70,000</b></u>	<u><b>25,243</b></u>	<u><b>33,669</b></u>	<u><b>3,500</b></u>	<u><b>132,412</b></u>

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS

### 1) 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 Institute of Certified Public Accountants ("HKICPA").

The unaudited condensed consolidated interim accounts should be read in conjunction with the annual accounts of the Group for the year ended 31st March 2004 (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.

### 2) 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 2004 of the Group is presented in this report.

### 3) Operating profit

Operating profit is stated after charging the following:

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th September</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Provision for bad and doubtful debts	<b>8,291</b>	3,060
Depreciation	<b>448</b>	648
Inventory provision	<b>565</b>	1,872
	<b>9,304</b>	5,580

#### 4) Finance costs, net

Analysis of net finance costs is as follows:

	Unaudited Six months ended 30th September	
	2004 HK\$'000	2003 HK\$'000
Interest expense on		
– bank loans and import loans	1,723	1,801
– finance leases	3	–
	<u>1,726</u>	<u>1,801</u>
Interest income from		
– bank deposits	(93)	(120)
	<u>1,633</u>	<u>1,681</u>

#### 5) Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Hong Kong profits tax	<b>3,002</b>	3,054
Deferred tax	<b>31</b>	(24)
PRC tax	<b>39</b>	35
	<b><u>3,072</u></b>	<u>3,065</u>

#### 6) Dividends

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Interim, proposed dividend of HK0.5 cents per share (2003: HK0.5 cents)	<b><u>3,500</u></b>	<u>3,500</u>

At a meeting held on 7th July 2004, the directors of the Company (the "Directors") proposed a final dividend of HK0.6 cents per share for the year ended 31st March 2004, which was paid on 2nd September 2004 and has been reflected as an appropriation of retained earnings for the six months ended 30th September 2004.

At a meeting held on 17th November 2004, the Directors recommended an interim dividend of HK0.5 cents per share for the six months ended 30th September 2004 to those shareholders whose names appear on the register of members on 16th December 2004. 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 year ending 31st March 2005.

## 7) Earnings per share

The calculation of basic earnings per share for the six months ended 30th September 2004 was based on the Group's net profit attributable to shareholders of HK\$13,618,000 (2003: HK\$12,589,000) and the weighted average number of 700,000,000 (2003: 700,000,000) ordinary shares of the Company in issue during the period.

No dilutive potential ordinary share is outstanding or deemed to be outstanding throughout the periods ended 30th September 2004 and 2003 and accordingly, no diluted earnings per share has been presented.

## 8) Fixed assets

During the period, the Group acquired fixed assets amounting to approximately HK\$1,120,000 (31st March 2004: HK\$1,015,000). The disposal of fixed assets during the period amounted to HK\$10,700,000 (31st March 04: HK\$2,525,000).

## 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:

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>30th September</b>	31st March
	<b>2004</b>	2004
	<b>HK\$'000</b>	HK\$'000
1 to 30 days	<b>173,475</b>	228,503
31 to 60 days	<b>3,912</b>	3,020
61 to 90 days	<b>1,080</b>	1,074
Over 90 days	<b>1,229</b>	964
	<b><u>179,696</u></b>	<u>233,561</u>

### 10) Trade payables, accruals and other payables

The aging analysis of trade payables is summarized as follows:

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>30th September</b>	31st March
	<b>2004</b>	2004
	<b>HK\$'000</b>	HK\$'000
1 to 60 days	<b>145,710</b>	247,921
61 to 120 days	–	890
	<hr/>	<hr/>
Total trade payables	<b>145,710</b>	248,811
Accruals and other payables	<b>1,601</b>	3,697
	<hr/>	<hr/>
	<b>147,311</b>	252,508
	<hr/>	<hr/>

### 11) Bank loans and import loans, secured

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>30th September</b>	31st March
	<b>2004</b>	2004
	<b>HK\$'000</b>	HK\$'000
Long-term bank loans	–	2,860
Short-term bank loans	–	–
Import loans	<b>68,055</b>	117,822
	<hr/>	<hr/>
	<b>68,055</b>	120,682
	<hr/>	<hr/>

The maturity of the above loans is as follows:

	<b>Unaudited As at 30th September 2004 HK\$'000</b>	Audited As at 31st March 2004 HK\$'000
On demand or within one year	<b>68,055</b>	118,625
More than one year but not exceeding two years	–	844
More than two years but not exceeding five years	–	1,213
More than five years	–	–
	<b>68,055</b>	120,682
Less: Amounts due within one year included in current liabilities	<b>(68,055)</b>	(118,625)
	<b>–</b>	2,057

## 12) Share capital

	<b>As at 30th September 2004 and 31st March 2004</b>	
	<b>Number of shares issued</b>	<b>Total par value HK\$'000</b>
Authorized (ordinary shares of HK\$0.10 each)	<b>2,000,000,000</b>	200,000
Issued and fully paid (ordinary shares of HK\$0.10 each)	<b>700,000,000</b>	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 2004.

**13) Pledge of assets**

Cash deposits of approximately HK\$25,694,000 (31st March 2004: HK\$24,744,000) held by the Group as at 30th September 2004 were pledged to certain banks to secure the banking facilities granted to the Group.

**14) Contingent liabilities**

The Group had no significant contingent liabilities as at 30th September 2004.

**15) Related party transactions**

*1. 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.

## 2. *Rental agreement*

On 29th March 2004, 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 2004 to 31st March 2005.

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.

The above connected transaction constituted an exempted connected transaction under the Listing Rules as the total consideration involved in the transaction was less than HK\$1 million and 2.5% of the percentage ratio (as defined under the Listing Rules) of the Group.

## 16) **Commitments**

Since July 2004, the Group has entered into some agreements relating to the "Participating Forward Currency Option" with certain banks. The terms of the agreements enable the Group to sell Hong Kong dollars for designated amounts of United States dollars by applying forward rate ranging from 7.726 to 7.73. The United States dollars to be purchased range from US\$ 800,000 to US\$3,000,000 per each transaction. Depending on the strike level of exchange rate between the United States dollar and the Hong Kong dollar, the total outstanding commitments by the Group range from HK\$365,040,000 to HK\$1,095,120,000 as of 30th September 2004. The aforesaid agreements will expiry in February 2006.



## MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER INFORMATION

### Financial Review

The Group's unaudited consolidated turnover for the six months ended 30th September 2004 amounted to approximately HK\$1,336,138,000 (2003: approximately HK\$1,108,770,000), representing an increase of approximately 21% compared with the corresponding period last year. Unaudited consolidated net profit attributable to shareholders for the six months ended 30th September 2004 amounted to approximately HK\$13,618,000 (2003: approximately HK\$12,589,000), representing an increase of around 8% as compared with the corresponding period last year. The basic earnings per share for the six months ended 30th September 2004 amounted to approximately HK1.95 cents (2003: approximately HK1.80 cents) per share, representing an increase of around 8% as compared with the same period last year.

### Business Review

As the Information Technology ("IT") industry in the PRC continued to develop in an upward trend, our Group rode on the wave and delivered a satisfactory result. Turnover for the period under review grew by about 21% to approximately HK\$1,336.1 million (2003: approximately HK\$1,108.8 million) and net profit attributable to shareholders increased by about 8% to approximately HK\$13.6 million (2003: approximately HK\$12.6 million). The Group successfully increased its net profit through the introduction of higher-margin IT products and provision of value-added services that increased the value of the Group's services to its clients.

In keeping abreast with the fast-changing market conditions and product trend in the IT industry, the Group has constantly aligned itself by undertaking various measures. Firstly, the Group has established representative offices and liaison points so as to tie up with customers throughout the major cities in the PRC. This allowed the Group to be closer to its end-users thus enabling it to swiftly react to the market needs. Secondly, in view of the surging popularity of digital electronic products, the Group has already set up a Digital Products Department targeting the new digital electronic products ranging from MP3 players, PMP etc. We believe that the introduction of this new product line can broaden the Group's revenue base and enhance its profitability.

In the past few years, there has been intense competition in the global IT industry, and many IT companies continually adjusted their products, prices and service strategies, in an attempt to stay competitive. Without losing a beat, the Group not only expanded its sales and distribution network and enriched its product portfolio, but also enhanced its distribution efficiency, and improved its after-sales and other value-added services, for boosting its market competitiveness. As a result of the Group's aggressiveness and dedicated efforts, in 2004, our Group was once again honorably bestowed by Seagate Singapore International Headquarters Pte. Ltd., one of our major suppliers, an Award "Outstanding Achievement: Personal Storage FY2004".

### **Prospects**

Since the PRC's accession into the World Trade Organization, the entire consumer landscape in the PRC has embarked into a new era and both foreign and local players have been clamouring for a larger piece of the burgeoning market and trying to grab new business opportunities. With the PRC government's support and determination to move the whole nation into the "Digital Age", the IT sector has been one of the fastest growing industries and major foreign players such as Seagate and AMD are targeting the PRC to be their next key growth driver.

Benefited from the Closer Economic Partnership Arrangement (CEPA) signed by the Hong Kong Special Administrative Region ("HKSAR") and the PRC together with the introduction of the Individual Mainland Tourists Scheme which enables many PRC tourists visiting HKSAR to help stimulate HKSAR's economy, the Group expects to increase its sales through a better spending atmosphere in local market. Moreover, since the IT product market is moving at a rapid pace, the Group is planning to seek other potential PRC cities to expand its distribution channels.

Leveraging on its internationally reputable IT product manufacturers' (including Seagate and AMD) prominence in the global IT market, the Group has positioned itself to be the distributor of high-quality and reliable IT products and earned considerable trust from its customers. To that end, the Group will continue to gauge the market demand and source for reputable IT products to add to its portfolio, and provide superior value-added services including before-sale, after-sale and technical support services to its customers, so as to draw closer the relationship between the Group and its customers and increase their reliance on the Group.





As for the relationship with its suppliers, the Group's highly responsive and efficient management team and extensive distribution network will continue to rank the Group as one of the choice authorized distributors for internationally reputable IT product manufacturers which wish to enter the PRC market. Not resting on its laurels, the Group will continually look for opportunities to expand its distribution network so as to bring even more sales revenue and profit for both the Group and its suppliers.

Looking forward to the second half of the fiscal year, whilst the IT industry in the PRC is still enjoying stable and healthy growth, the management admits that the competitive landscape remains tough and the Group is fully prepared to meet the challenges. Nevertheless, the management firmly believes that the IT industry in the PRC will continue to be the fastest growing area in the world and offers great potential and opportunities. Taking appropriate and timely measures to stay ahead of the competition, the Group is confident to achieve even more attractive returns for its shareholders in the years to come. This confidence arises from the Group's proven formula in the past to weather the ups and downs in the industry, due to its sound experience in responding swiftly to market changes, strong capabilities in sales and marketing, and effective measures in controlling costs and risks.

### **Liquidity and Financial Resources**

The Group's treasury policies adopted for the six months ended 30th September 2004 are consistent with those disclosed in the annual report of the Company for the year ended 31st March 2004.

The Group recorded total current assets of approximately HK\$349.5 million as at 30th September 2004 (31st March 2004: approximately HK\$484.9 million) and total current liabilities of approximately HK\$220.0 million as at 30th September 2004 (31st March 2004: approximately HK\$372.8 million). Current assets included restricted cash deposits of approximately HK\$25.7 million (31st March 2004: HK\$24.7 million) and cash and bank deposits of approximately HK\$34.8 million (31st March 2004: HK\$27.8 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\$68.1 million as at 30th September 2004 (31st March 2004 HK\$120.7 million). The maturity of bank borrowings comprised approximately HK\$68.1 million (31st March 2004: approximately HK\$118.6 million) and HK\$ nil million (31st March 2004: HK\$2.1 million) repayable within one year and repayable more than one year as at 30th September 2004 respectively. The bank borrowings of the Group are predominantly subject to floating interest rates.

As at 30th September 2004, the gearing ratio, calculated as the bank borrowings less restricted cash deposits divided by shareholders' equity, was approximately 0.32 (31st March 2004: approximately 0.78).

The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 1.59 times as at 30th September 2004 (31st March 2004: approximately 1.30 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, forward rates have been arranged with banks for the foreign currency transactions during the period under review.

### **Pledge of Assets**

As at 30th September 2004, cash deposits of approximately HK\$25,694,000 (31st March 2004: approximately HK\$24,744,000) held by the Group were pledged to certain banks to secure the banking facilities granted to the Group.

### **Contingent Liabilities**

As at 30th September 2004, the Group did not have any significant contingent liabilities.



## **Employees**

As at 30th September 2004, the Group had 42 (2003: 41) full time employees. The remuneration paid for the six months ended 30th September 2004 amounted to approximately HK\$3,937,000 (2003: HK\$4,243,000).

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 2004.

## **DIRECTORS' INTERESTS IN SECURITIES**

As at 30th September 2004, 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:

<b>Name of Director</b>	<b>Company/name of associated corporation</b>	<b>Capacity</b>	<b>Number and class of securities</b>
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:**

- 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.
- 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 2004, 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 under review.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 30th September 2004, 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

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.

## SUBSTANTIAL SHAREHOLDERS

As at 30th September 2004, 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 2004, 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.

### **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.

### **INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS**

The Directors have declared an interim dividend of HK0.5 cents (2003: HK0.5 cents) per share for the six months ended 30th September 2004. The interim dividend will be payable on or around 21st December 2004 to those shareholders whose names appear on the register of members on 16th December 2004. The register of members of the Company will be closed from 13th December 2004 to 16th December 2004, 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, 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, 10th December 2004.





## **AUDIT COMMITTEE**

The Company has established an audit committee on 17th April 2002 consisting of three independent non-executive Directors, Mr. Phileas Fok Kwan Wing BH, Dr. Liu Yongping and Mr. Ni Zhenwei, 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 2004 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 AND MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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.

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the required standard set out in Appendix 10 of the Listing Rules and the code of conduct regarding Directors' securities transactions.

By Order of the Board

**Li Jialin**

*Chairman and Chief Executive Officer*

Hong Kong, 17th November 2004