

The directors (the “Directors”) of VST Holdings Limited (the “Company”) are pleased to present their annual report together with the audited accounts of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31st March 2005.

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 2005 of the Group is presented in this report.

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer for the year ended 31st March 2005 represented approximately 25% (2004: 23%) of the Group’s total turnover, and the combined total of the five largest customers accounted for approximately 60% (2004: 42%) of the Group’s total turnover for the year.

In addition, the largest supplier for the year ended 31st March 2005 represented approximately 79% (2004: 76%) of the Group’s total purchases, and the combined total of the five largest suppliers accounted for approximately 99% (2004: 99%) of the Group’s total purchases for the year.

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.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 33.

The directors declared an interim dividend of HK0.5 cents per ordinary share, totalling HK\$3,500,000, which was paid on 21st December 2004.

The directors recommend the payment of a final dividend of HK0.7 cents per ordinary share totalling HK\$5,880,000 for the year under review (2004: HK\$4,200,000) 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 18th August 2005 to shareholders whose names appear on the register of members of the Company at the close of business on 8th August 2005. The register of members of the Company will be closed from 9th August 2005 to 12th August 2005, both days inclusive during which no transfer of shares will be effected.

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 approximately HK\$2,000.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 3 to the accounts.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 6 to the accounts.

BANK LOANS

Particulars of the Group's bank loans as at 31st March 2005 are set out in note 8 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 2005, the Company's reserves available for distribution amounted to approximately HK\$29,138,000 (2004: HK\$442,000). In addition, the Company's share premium account, in the amount of HK\$32,094,000 (2004: 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 58.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

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 scheme became effective upon the listing of the Company's shares on 9th May 2002. No options have been granted to the Directors up to the date of this report.

Save as disclosed above, at no time during the year 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.

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	:	(a) any employee or prospective 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 of the Company, any of such subsidiaries or any Invested Entity;

- (b) any non-executive Directors (including independent non-executive Directors) of the Company, any subsidiary or any Invested Entity;
- (c) any supplier of goods or services to any member of the Group or any Invested Entity;
- (d) any customer of the Group or any Invested Entity; and
- (e) any consultants, advisers, managers, officers or entity that provides research, development or other technological support to the Group or any Invested Entity;

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.

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	:	84,000,000 ordinary shares and 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
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 of the Company 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*)

Non-executive director:

Madam Sun Ali

Independent non-executive directors:

Mr. Phileas Fok Kwan Wing BH (Deceased on 21st January 2005)

Dr. Liu Yongping (Resigned on 8th May 2005)

Mr. Ni Zhen Wei

Dr. Chan Po Fun Peter (Appointed on 16th April 2005)

Mr. Hu Yebi (Appointed on 9th May 2005)

In accordance with article 86(3) of the Company's articles of association, Dr. Chan Po Fun Peter and Mr. Hu Yebi, being the Directors newly appointed, will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

In accordance with Article 87 of the Company's Articles of Association, Madam Sun Ali will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer herself for re-election.

The Company confirms that it has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to the Listing Rules and the Company considers the independent non-executive Directors to be independent.

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, renewable automatically for successive years of one year each commencing from the day immediately after the expiry of the then current term of the directors' appointment, unless terminated by not less than 6 months' notice in writing served by either party on the other. 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 Director 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 Director by payment of a maximum sum equals to the remuneration payable to the executive Director for that restrictive period if the Company terminates the service contract other than, among others, by reason of any default of the executive Director.

Non-executive Directors

Madam Sun Ali's appointment as a non-executive Director has been extended by one year commencing from 9th May 2005 to 8th May 2006, whereas Mr. Ni Zhenwei's appointment as an independent non-executive Director has been extended by one year commencing from 1st June 2005 to 31st May 2006. Dr. Chan Po Fun Peter and Mr. Hu Yebi were appointed as independent non-executive Directors of the Company effective from 16th April 2005 and 9th May 2005 respectively for a fixed period of 1 year. Dr. Chan Po Fun Peter and Mr. Hu Yebi shall hold office until the next following annual general meeting of the Company and shall be eligible for re-election.

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 SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on page 17.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st March 2005, the interests and short positions of the Directors and the chief executives 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 interests 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)

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 and Chief Executive Officer 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 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.
3. 62,000,000 shares of non-voting deferred shares of HK\$1.00 each of VST Computers (H.K.) Limited were held by VST Group Limited, a company with limited liability incorporated in Hong Kong on 27th June 1995 with beneficial interest ultimately owned equally by L& L Limited and CKC Holdings Limited.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Save as disclosed above, as at 31st March 2005, none of the Directors nor the chief executives of the Company had any interests or short positions in any share, 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 interests and/or short positions 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND DEBENTURES

As at 31st March 2005, 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 of Director	Capacity	Class and number of securities	Approximate percentage of shareholding
L & L Limited	Beneficial owner	241,500,000 ordinary shares Long position (<i>Note a</i>)	28.75%
CKC Holdings Limited	Beneficial owner	241,500,000 ordinary shares Long position (<i>Note b</i>)	28.75%

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 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.

Save as disclosed above, as at 31st March 2005, so far is known to the Directors, there was 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 provision 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 336n of the SFO and/or was 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' INTEREST IN COMPETING BUSINESS

As at the date of this report, each of L & L Limited and CKC Holdings 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 ⁽¹⁾	10%	Singapore
VST Technology Sdn Bhd	VST Group Limited ⁽¹⁾	10%	Malaysia

(1) A company incorporated in Hong Kong

The Directors consider that the interests of L & L Limited and CKC Holdings Limited in the above companies are not likely to compete with the business of the Group for the following reasons:

- (a) Each of L & L Limited and CKC Holdings 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.

CONNECTED TRANSACTIONS

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

EXEMPTED CONNECTED TRANSACTIONS

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 net tangible assets of the Group or the total assets of the Group.

DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

A summary of the Directors and senior management's emoluments is set out in note 21 to the accounts.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float throughout the year under review.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted its own corporate governance practices which are no less exacting than the required standard applicable to be disclosed in this report under the Listing Rules. In the opinion of the Directors, the Company has complied with the applicable corporate governance practices.

AUDIT COMMITTEE

The Company has established an audit committee on 17th April 2002 with written terms of reference in compliance with the Code of Corporate Governance Practices 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. The Company's audited results for the year ended 31st March, 2005 have been reviewed by the audited committee who 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.

AUDITORS

The accounts of the Group for the year ended 31st March 2005 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Li Jialin

Chairman and Chief Executive Officer

Hong Kong, 20th June 2005