

05/06

Interim
Report



VST HOLDINGS LIMITED
偉仕控股有限公司

(incorporated in the Cayman Islands with limited liability)

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Li Jialin

(Chairman and Chief Executive Officer)

Mr. Cheng Kam Chung, MH

(Vice Chairman)

Non-executive Director

Madam Sun Ali

Independent Non-executive Directors

Mr. Ni Zhenwei

Dr. Chan Po Fun Peter

(Appointed on 16th April 2005)

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

Company Secretary

Mr. Lung Cheuk Wah

Qualified Accountant

Mr. Chow Yiu Tat

Audit Committee

Dr. Chan Po Fun Peter *(Chairman)*

Mr. Ni Zhenwei

Mr. Hu Yebi

Remuneration Committee

Mr. Hu Yebi *(Chairman)*

Mr. Ni Zhenwei

Dr. Chan Po Fun Peter

Auditors

PricewaterhouseCoopers

Principal Bankers

The Hongkong and Shanghai Banking Corporation Ltd.

Standard Chartered Bank

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

Stock Code

Hong Kong Stock Exchange: 856

Website

<http://www.vstholdings.com>

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 2005. 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 2005, 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 2005

		Unaudited	
		Six months ended	
		30th September	
		2005	2004
	Note	HK\$'000	HK\$'000
Sales		1,822,093	1,336,138
Cost of goods sold		(1,761,123)	(1,301,680)
Gross profit		60,970	34,458
Other (expenses)/gains, net	4	(51)	410
Administrative expenses		(12,869)	(16,545)
Operating profit	5	48,050	18,323
Finance costs, net	6	(3,471)	(1,633)
Profit before income tax		44,579	16,690
Income tax expense	7	(8,002)	(3,072)
Profit for the period attributable to equity holders of the Company		36,577	13,618
Dividends	8	12,600	3,500
Earnings per share for profit attributable to equity holders of the Company during the period (expressed in HK\$ per share)	9		
– Basic		4.35 cents	1.95 cents
– Diluted		4.35 cents	1.95 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September 2005

	Note	Unaudited As at 30th September 2005 HK\$'000	Audited As at 31st March 2005 HK\$'000
ASSETS			
Non-current assets			
Property and equipment	10	2,711	2,868
		2,711	2,868

Current assets			
Trade receivables	11	257,326	211,790
Prepayments and other receivables		1,273	1,296
Derivative financial instruments	12	506	–
Inventories		151,962	179,134
Pledged bank deposits		–	19,244
Cash and cash equivalents		64,897	46,884
		475,964	458,348
		478,675	461,216

EQUITY			
Capital and reserves attributable to the company's equity holders			
Share capital	15	84,000	84,000
Reserves		97,924	72,006
Proposed interim dividend		12,600	5,880
		194,524	161,886

LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		171	171
		171	171

Current liabilities			
Trade payables, accruals and other payables	13	119,906	207,519
Bank loans, unsecured	14	154,175	89,636
Taxation payable		9,867	1,907
Current portion of obligation under finance lease		32	97
		283,980	299,159
		284,151	299,330

Total equity and liabilities			
		478,675	461,216

Net current assets			
		191,984	159,189

Total assets less current liabilities			
		194,695	162,057

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2005

	Unaudited	
	Six months ended	
	30th September	
	2005	2004
	HK\$'000	HK\$'000
Net cash (used in)/generated from operating activities	(59,879)	55,076
Net cash generated from investing activities	19,298	8,723
Net cash generated/(used in) from financing activities	58,594	(56,889)
Net increase in cash and cash equivalents	18,013	6,910
Cash and cash equivalents at 1st April	46,884	27,841
Cash and cash equivalents at 30th September	64,897	34,751
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	54,133	34,751
Short-term bank deposits	10,764	–
	64,897	34,751

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2005

	Share capital (unaudited) HK\$'000	Share premium (unaudited) HK\$'000	Retained earnings (unaudited) HK\$'000	Proposed dividends (unaudited) HK\$'000	Total (unaudited) HK\$'000
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	–
Balance at 30th September 2004	70,000	25,243	33,669	3,500	132,412
Balance at 31st March 2005, as previously reported	84,000	30,411	41,595	5,880	161,886
Effect of initial adoption of HKAS39 (Note 2.4)	–	–	1,941	–	1,941
Balance at 1st April 2005, as restated	84,000	30,411	43,536	5,880	163,827
Net profit for the period	–	–	36,577	–	36,577
Final dividend paid	–	–	–	(5,880)	(5,880)
Interim proposed dividend	–	–	(12,600)	12,600	–
Balance at 30th September 2005	84,000	30,411	67,513	12,600	194,524

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 Hong Kong Accounting Standard 34 “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 2005.

The accounting policies and methods of computation used in the preparation of these condensed unaudited consolidated accounts are consistent with those used in the annual accounts for the year ended 31st March 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively “HKFRS”) which are effective from accounting periods commencing on or after 1st January 2005.

(2) Changes in accounting policies

(a) Effect of adopting new HKFRS

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2005 comparatives have been re-classified as required, in accordance with the relevant requirements and current year presentation.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 27, 33, 36, 38; HKAS-Ints 15, 21, HKFRS 2 and 3 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of the disclosures of financial statements.
- HKASs 2, 7, 8, 10, 16, 17, 23, 27, 33, 36, 38 and HKAS-Ints 15 and 21 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

All changes in the accounting policy have been made in accordance with the transition provisions in the respective standards. The adoption of HKAS 32 and 39 does not permit the Group to recognise, derecognise and measure derivative financial instruments on a retrospective basis. The adjustments required for adoption of HKAS 32 and 39 are determined and recognised at 1st April 2005.

The adoption of HKAS 39 resulted in an increase in opening reserves at 1st April 2005 by HK1,940,932 and the details of the adjustments to the balance sheet at 30th September 2005 and the income statement for the six months ended 30th September 2005 are as follows:

	As at 30th September 2005 HK\$'000
Increase in derivative financial instruments (assets)	506
Increase in retained earnings	1,941
	For the six months ended 30th September 2005 HK\$'000
<u>Increase in other expenses, net</u>	<u>1,435</u>

(b) *New Accounting Policies*

The accounting policies used for the condensed consolidated accounts for the six months ended 30th September 2005 are the same as those set out in note 2 to the 2005 annual accounts except for the following:

(2.1) Foreign currency translation

(a) *Functional and presentation currency*

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated accounts are presented in HK dollars, which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognized as a separate component of equity.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss.

(2.2) Property and equipment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(2.3) Impairment of assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(2.4) Derivative financial instruments

From 1st April 2004 to 31st March 2005:

The derivative financial instruments were previously recorded as off balance sheet items. The actual gains or losses realized upon settlement and included in the income statement on maturity.

From 1st April 2005 onwards:

Derivatives are recognised at fair value in the balance sheet at 1st April 2005 with a corresponding adjustment to retained earnings and subsequently remeasured at their fair value. As the Group's derivatives do not qualify for hedge accounting, changes in the fair value of these derivatives are recognised immediately in the income statement.

(2.5) Critical accounting estimates and judgements

Estimates and judgements used in preparing the accounts are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include those related to provision for doubtful receivable, provision for inventory, fair value of derivative financial instruments, and the estimated useful lives of property and equipment and the related depreciation charges.

(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 sales and consolidated contributions to profit before taxation by principal activity and by geographical location for the six months ended 30th September 2005 of the Group is presented in this report.

(4) Other (expenses)/gains, net

	Unaudited	
	Six months ended	
	30th September	
	2005	2004
	HK\$'000	HK\$'000
Derivative financial instruments: forward contracts, transactions not qualifying as hedges		
– Changes in fair value of forward contracts during the period	(1,435)	–
– Gain on settlement of forward contracts upon maturity	1,387	260
Loss on disposal of property and equipment	(3)	–
Others	–	150
	(51)	410

(5) Operating profit

Operating profit is stated after charging the following:

	Unaudited	
	Six months ended	
	30th September	
	2005	2004
	HK\$'000	HK\$'000
Provision for bad and doubtful receivable	–	8,291
Depreciation	516	448
Inventory provision	17	565

(6) Finance costs, net

Analysis of net finance costs is as follows:

	Unaudited	
	Six months ended	
	30th September	
	2005	2004
	HK\$'000	HK\$'000
Interest expense on		
– import loans	3,886	1,723
– finance lease	1	3
	<hr/> 3,887	<hr/> 1,726
Interest income from		
– bank deposits	(416)	(93)
	<hr/> 3,471	<hr/> 1,633

(7) Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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:

	Unaudited	
	Six months ended	
	30th September	
	2005	2004
	HK\$'000	HK\$'000
Hong Kong profits tax	7,961	3,002
Deferred tax	–	31
PRC tax	41	39
	8,002	3,072

No provision for deferred tax has been made for the six months ended 30th September 2005 as the effect of all the temporary differences are immaterial at the respective balance sheet date.

(8) Dividends

	Unaudited	
	Six months ended	
	30th September	
	2005	2004
	HK\$'000	HK\$'000
Interim, proposed dividend of HK 1.5 cents per share (2004: HK0.5 cents)	12,600	3,500

At a meeting held on 20th June 2005, the directors of the Company (the "Directors") proposed a final dividend of HK0.7 cents per share for the year ended 31st March 2005, which was paid on 18th August 2005 and has been reflected as an appropriation of retained earnings for the six months ended 30th September 2005.

At a meeting held on 1st December 2005, the Directors recommended an interim dividend of HK1.5 cents per share for the six months ended 30th September 2005 payable on 6th January 2006 to those shareholders whose names appear on the register of members on 30th December 2005. 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 2006.

(9) Earnings per share

The calculation of basic earnings per share for the six months ended 30th September 2005 was based on the Group's net profit attributable to equity holders of HK\$36,577,000 (2004: HK\$13,618,000) and the number of 840,000,000 (2004: 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 2005 and 2004 and accordingly the diluted earnings per share is the same as the basic earnings per share.

(10) Property and equipment

During the period, the Group acquired property and equipment amounting to approximately HK\$363,000 (31st March 2005: HK\$1,481,000). The disposal of property and equipment during the period amounted to HK\$6,000 (31st March 2005: HK\$15,468,000).

(11) Trade receivables

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 receivable) is summarized as follows:

	Unaudited As at 30th September 2005 HK\$'000	Audited As at 31st March 2005 HK\$'000
1 to 30 days	256,200	210,468
31 to 60 days	1,098	1,098
61 to 90 days	28	52
Over 90 days	–	172
	257,326	211,790

(12) Derivative financial instruments

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 7.68 to 7.73. The aforesaid agreements will expire by February 2006. As at 30th September 2005, the fair value of such derivative financial instruments is HK\$506,000.

(13) Trade payables, accruals and other payables

	Unaudited As at 30th September 2005 HK\$'000	Audited As at 31st March 2005 HK\$'000
Trade payables	117,405	204,390
Accruals and other payables	2,501	3,129
	119,906	207,519

The aging analysis of trade payables is summarized as follows:

	Unaudited As at 30th September 2005 HK\$'000	Audited As at 31st March 2005 HK\$'000
1 to 60 days	117,405	204,390

(14) Bank loans, unsecured

	Unaudited As at 30th September 2005 HK\$'000	Audited As at 31st March 2005 HK\$'000
Import loans	154,175	89,636

The maturity of the above loans is:

On demand or within one year	154,175	89,636
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(15) Share capital

	As at 30th September 2005 and 31st March 2005	
	Number of shares issued	Total par value HK\$'000
Authorized (ordinary shares of HK\$0.10 each)	2,000,000,000	200,000
Issued and fully paid (ordinary shares of HK\$0.10 each)	840,000,000	84,000

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 option pursuant to the Share Option Scheme has been granted for the period ended 30th September 2005.

(16) Pledge of assets

As at 30th September 2005, the Group did not have any pledged deposits placed with banks to secure the banking facilities granted to the Group. (31st March 2005: HK\$19,244,000).

(17) Contingent liabilities

The Group did not have any significant contingent liabilities as at 30th September 2005 (31st March 2005: Nil).

18) Related party transactions

The following transactions were carried out with related parties during the period:

(i) Key management compensation

	Unaudited	
	Six months ended	
	30th September	
	2005	2004
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	1,716	1,716

(ii) Rental agreement

On 31st March 2005, 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 2005 to 31st March 2006.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's unaudited consolidated turnover for the six months ended 30th September 2005 amounted to approximately HK\$1,822,093,000 (2004: approximately HK\$1,336,138,000), representing an increase of approximately 36% compared with that of the corresponding period last year. Unaudited consolidated net profit attributable to equity holders for the six months ended 30th September 2005 amounted to approximately HK\$36,577,000 (2004: approximately HK\$13,618,000), representing an increase of around 169% as compared with that of the corresponding period last year. The basic earnings per share for the six months ended 30th September 2005 amounted to approximately HK4.35 cents (2004: approximately HK1.95 cents) per share, representing an increase of around 123% as compared with that of the same period last year.

Business Review

As we continue to observe the booming information technology ("IT") industry in the People's Republic of China (the "PRC"), our group recorded remarkable results during the period under review as detailed in the Financial Review section. The Group successfully increased its net profit through the introduction of new product lines and provision of value-added services to its clients.

In keeping abreast of the fast-changing market conditions and product trend in the IT industry, the Group has closely monitored its performance and aligned itself by undertaking various measures. Our Group has established representative offices and liaison points throughout major cities including Beijing, Shanghai and Shenzhen in the PRC so as to strengthen ties with its customers. This allowed the Group to be closer to its end-users thus enabling it to react swiftly to the changing market demands and continuously provide customized value-added services.

In order to strengthen our market competitiveness, we aimed to widen our product range and provide more choices in the information technology and multimedia products market for our customers. The maiden launch of our digital electronics products including MP3 and Portable Multimedia Players have been trading under the brand name "KISS" since last year. Such products have generated a positive and warm response from the market in light of its advanced functions and customized features which include lighting, handy size and fashionable outlook

In the past few years, there has been intense competition in the global IT industry, and many IT companies continuously adjusted their products, prices and service strategies in an attempt to stay competitive. The Group not only expanded its sales and distribution network and enriched its product portfolio, but also enhanced its distribution efficiency with improved after-sales service and other value-added services, so as to boost its market competitiveness. In 2005, the Group was once again honorably bestowed by Seagate the “Outstanding Contributions: Key Market Segments FY2005” award. Moreover, during 2005, the Group was also awarded the “AMD PC Best PIB Distributor 2004” for the recognition of the Group’s outstanding performance.

As a result of the Group’s dedicated efforts, in July 2005, we successfully obtained the authorized distributorship for Maxtor Corporation’s award-winning storage products – Maxtor® DiamondMax®, MaXLine® and Atlas® hard drives, in the PRC and Hong Kong. Maxtor Corporation is one of the world’s leading suppliers of hard disk drives and data storage solutions. Subsequent to the end of the period under review, our Group also secured the authorized distributorship for Lexar Media, Inc’s complete line of memory cards, USB Flash Drives, MP3 Players and “Kodak” memory cards in the PRC, as well as the exclusive distributorship for Corsair Memory’s XMS™ series and Value Select™ series of personal computer memory products in the PRC. Lexar Media, Inc. is the leading US-based manufacturer and marketer of award-winning high performance digital media products and accessories, whilst Corsair Memory Inc. is the worldwide leader in high performance memory products.

Prospects

The IT sector has been one of the fastest growing industries and the PRC will remain as one of the vital supply bases for the semiconductor and IT industry in the world. Under the development blueprint for the 11th Five-Year Plan of the PRC, the mainland is set to fully open its market to foreign competitors by the end of next year under the agreements it made to the World Trade Organization for membership. Moreover, the organization of Beijing 2008 Olympic Games, the Shanghai 2010 World Expo as well as the PRC government’s determination to move the whole nation into the “Digital Age”, the huge potential which has risen from this burgeoning market has attracted many foreign as well as local players to set foot in the mainland market to grab new business opportunities. Major foreign manufacturers including Seagate and AMD are targeting the PRC to be their key growth driver.

The governments of Hong Kong and the PRC have mutually announced further liberalization measures under the third phase of the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA III) on 18th October 2005, which will take effect on 1st January 2006. Given the PRC's continuous and concrete economy, whilst coupled with the improving global economic outlook, Hong Kong's economy has in return exhibited a solid upturn. Real GDP surged by 8.2% in the third quarter of 2005, marking its ninth consecutive quarterly growth since mid-2003. Our Group will capitalize such positive sentiment and increase its sales by proactively seeking opportunities to strengthen our distribution network by expanding the sales network in Hong Kong and the PRC.

Leveraging on its internationally reputable IT product manufacturers including Seagate, AMD, and Maxtor in the global IT market, our Group has positioned itself as the distributor of high-quality and reliable IT products and has earned considerable trust from its customers. Besides, our Group will continue to gauge the market demand and source for reputable IT and digital products to enrich its distribution portfolio. In order to provide superior value-added services, our Group will continually improve the before-sale, after-sale and technical support services to our customers.

On the product front, the Group will also continue its endless pursuit to source for a variety of modern and functional digital products for its customers. Through the introduction of new products, the Group is able to diversify its revenue stream and appeal to a wide range of customer tastes. During the period under review, our Group has successfully obtained the authorized distributorships for Maxtor Corporation's storage products in the PRC and Hong Kong as well as Lexar Media, Inc.'s digital media products in the PRC. Subsequent to the period under review, our Group has also secured the exclusive distributorship for Corsair Memory's personal computer memory products in the PRC. As a result, our Group will grow our business with existing customers and is able to attract more customers by offering them with the latest and a wider range of high quality IT products.

In view of the Group's highly responsive and efficient management team together with its extensive distribution network, our suppliers will continue to rank the Group as one of their chosen authorized distributors for internationally reputable IT and digital media products. Not resting on its laurels, the Group will continually look for opportunities to further expand its supplies and network in the region so as to reinforce its competitive edge in the marketplace and bring even more sales revenue and profits to the Group. Without losing focus, our Group will continue to make use of these competitive advantages and expand our core business of distributing computer, digital and multimedia products business.

Whilst the IT industry in the PRC is still enjoying a stable and healthy growth, the management admits that the competitive landscape remains tough and our Group is fully prepared to meet the challenges. Nevertheless, the management firmly believes that the IT industry in the PRC will continue to be one of the fastest growing area in the world and will offer great potential and opportunities. Based on sound experience in the IT Industry, the Group will endeavour to enhance its value by various measures including effective cost control, risk management, acute responsiveness to market changes, strong capabilities in sales and marketing in order to stay ahead of the competition and achieve even more promising returns for its shareholders in the coming years.

Liquidity and Financial Resources

The Group's treasury policies adopted for the six months ended 30th September 2005 are consistent with those disclosed in the annual report of the Company for the year ended 31st March 2005.

The Group recorded total current assets of approximately HK\$476.0 million as at 30th September 2005 (31st March 2005: approximately HK\$458.3 million) and total current liabilities of approximately HK\$284.0 million as at 30th September 2005 (31st March 2005: approximately HK\$299.2 million). Current assets included cash and cash equivalents of approximately HK\$64.9 million (31st March 2005: HK\$46.9 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\$154.2 million as at 30th September 2005 (31st March 2005 HK\$89.6 million), and are repayable within one year. The bank borrowings of the Group are predominantly subject to floating interest rates.

As at 30th September 2005, the gearing ratio, calculated as the bank borrowings less pledged bank deposits divided by shareholders' equity, was approximately 0.79 (31st March 2005: approximately 0.43).

The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 1.68 times as at 30th September 2005 (31st March 2005: approximately 1.53 times).

During the period under review, the increase in gearing ratio was mainly due to the increase in purchases which resulted in the increase in bank loans whereas the improvement in current ratio was mainly owing 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. The Group has also entered into foreign exchange forward agreements with some banks for purchasing foreign currency to settle foreign currency transactions. These foreign exchange forward agreements do not meet the definition of hedge under the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

Pledge of Assets

As at 30th September 2005, no cash deposit (31st March 2005: approximately HK\$19,244,000) held by the Group was pledged to banks to secure the banking facilities granted to the Group.

Employees

As at 30th September 2005, the Group had 65 (2004: 42) full time employees. The remuneration paid for the six months ended 30th September 2005 amounted to approximately HK\$ 6,287,000 (2004: HK\$3,937,000).

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 option 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 option 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 2005.

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

As at 30th September 2005, 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	Approximate percentage of shareholding
Mr. Li Jialin	Company	Interest of a controlled corporation	241,500,000 ordinary shares Long position (Note 1)	28.75%
	Company	Family interest	165,000,000 ordinary shares Long position (Note 2)	19.64%
	VST Computers (H.K.) Limited	Interest of a controlled corporation	31,000,000 ordinary shares Long position (Note 3)	50%
Mr. Cheng Kam Chung	Company	Beneficial owner	9,000,000 ordinary shares Long position	1.07%
	Company	Family and other ordinary	143,500,000 shares Long position (Note 4)	17.08%
	VST Computers (H.K.) Limited	Interest of a controlled corporation	31,000,000 ordinary shares Long position (Note 3)	50%

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 Executive Director of the Company) and his spouse, Madam Liu Li.
2. 165,000,000 shares of the Company are held by Madam Liu Li, the spouse of Mr. Li Jialin (the Chairman, Chief Executive Officer and Executive Director of the Company)
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.
4. 143,500,000 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 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. In addition, 9,000,000 shares of the Company are held by Mr. Cheng Kam Chung.

Save as disclosed above, as at 30th September 2005, none of the directors nor the chief executive 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.

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

As at 30th September 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 5% 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 1)	28.75%
Liu Li	Beneficial owner	165,000,000 ordinary shares Long position	19.64%
	Family and other	241,500,000 ordinary shares Long position (Note 2)	28.75%
CKC Holdings Limited	Beneficial owner	143,500,000 ordinary shares Long position (Note 3)	17.08%

Notes:

1. 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.
2. 241,500,000 shares of the Company are held by L & L Limited, the entire issued share capital of which is equally held by Madam Liu Li. and her husband, Mr. Li Jialin (the Chairman, Chief Executive Officer and an executive Director of the Company).

3. 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. In addition, 9,000,000 shares of the Company are held by Mr. Cheng Kam Chung. The total approximate shareholding held by CKC Holdings Limited and Mr. Cheng Kam Chung as at 30th September 2005 is 18.15%.

Save as disclosed above, as at 30th September 2005, 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 5% 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' 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 option has been granted to the Directors during the period under review.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 30th September 2005, 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.

CORPORATE GOVERNANCE

Throughout the six months ended 30th September 2005, the Company has complied with the code provisions on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules which came into effect on 1st January 2005, with deviations from certain code provisions as explained below.

Under the code provision A.2.1, the roles of chairman and chief executive officer (“CEO”) should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing. The roles of the Chairman and the CEO of the Company are not separated and are performed by the same individual, Mr. Li Jialin. The Directors will meet regularly to consider major matters affecting the operations of the Company. The Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of Company and believes that this structure will enable the Group to make and implement decisions promptly and efficiently.

Under the code provision A.5.4, the board of Directors should establish written guidelines on no less exacting terms than the required standard of dealings for relevant employees in respect of any employee of the Company or a Director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Company or its securities. The Company has established written guidelines for the Directors but the application of the guidelines has not yet been extended to the employees as stated in the code provision A.5.4.

Under the code provision B.1.1, a listed issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. The Company has already set up its remuneration committee on 29th September 2005.

Under the code provision D.1.2, the Company should formalise the functions reserved to the board of Directors and those delegated to management. The Company has not yet established written guidelines as to the functions and delegation between the board of Directors and the management of the Company.

To replace the vacancy arisen from the passing away of Mr. Phileas Fok Kwan Wing, an independent non-executive Director of the Company, on 21st January 2005, the Company has appointed Dr. Chan Po Fan Peter as an independent non-executive Director on 16th April 2005 to comply with the requirements as set out under Rules 3.10 and 3.21 of the Listing Rules. Reference is made to the announcement made by the Company on 18th April 2005 pursuant to which the Company announced that following the passing away of Mr. Phileas Fok Kwan Wing, the Company had only two independent non-executive Directors and two audit committee members which fell below the minimum number of three independent non-executive Directors and three audit committee members as required under Rules 3.10 and 3.21 of the Listing Rules respectively. The Directors confirmed that upon the appointment of Dr. Chan Po Fan Peter as an independent non-executive Director and a member of the audit committee of the Company, the Company had satisfied the requirements under Rules 3.10 and 3.21 of the Listing Rules.

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

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 HK1.5 cents (2004: HK0.5 cents) per share for the six months ended 30th September 2005. The interim dividend will be payable on or around 6th January 2006 to those shareholders whose names appear on the register of members on 30th December 2005. The register of members of the Company will be closed from 28th December 2005 to 30th December 2005, 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, 23rd December 2005.

AUDIT COMMITTEE

The Company has established an audit committee on 17th April 2002 consisting of three independent non-executive Directors with written terms of reference in compliance with appendix 16 of 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 2005 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.

REMUNERATION COMMITTEE

The Company has established a remuneration committee on 29th September 2005 consisting of three independent non-executive Directors, namely Mr. Ni Zhenwei, Dr. Chan Po Fun Peter and Mr. Hu Yebi with written terms of reference in compliance with the Code on Corporate Governance Practices of the Listing Rules. The primary duties of the remuneration committee regarding the remuneration of directors and senior management include making remuneration recommendations, determining the specific remuneration packages, reviewing and approving performance-based remuneration, termination compensation, dismissal or removal compensation arrangements, and ensuring that no director or any of his associates is involved in deciding his own remuneration.

By Order of the Board

Li Jialin

Chairman and Chief Executive Officer

Hong Kong, 1st December 2005