



**I am pleased to report that VST Holdings Limited continued to achieve significant progress for the year ended 31 March 2006. Our group managed to maintain its sustainable growth and attain another record high during the year under review.**

### RESULTS

For the year ended 31 March 2006, sales of our core products achieved outstanding performance, together with our continuous effort in enhancing the product mix and distribution network, our turnover surged by 32.3% to HK\$3,705,633,000 as compared with the same period last year. During the year under review, the Group proactively strengthened the operational management, dedicated to lowering the inventory turnover, and exercised strict credit control on customers. Hence, our net profit attributable to shareholders rose approximately 307.6% to approximately HK\$111,768,000 compared with the same period last year (2005: approximately HK\$27,424,000). Basic earnings per share was approximately HK13.31 cents (2005: approximately HK3.71 cents), while diluted earnings per share was approximately HK13.24 cents (2005: approximately HK3.71 cents).

### DIVIDEND

In light of our stupendous performance, the Board proposed to distribute a final dividend of HK4.5 cents (2005: HK0.7 cents) per share for the year ended 31 March 2006. Together with the paid interim dividend of HK1.5 cents, dividend per share in aggregate for the reporting period amounted to HK6 cents (2005: HK1.2 cents) representing approximately 45.1% of our earnings per share for profit attributable to equity holders (2005: approximately 32.4%) of the same year.

## BUSINESS REVIEW

As the prevalence of information technology ("IT") is deemed as booming industry globally, the PRC is also emerging as the world's fastest growing IT market. According to International Data Corporation statistics, the PRC consumed more than 19.04 million personal computers in 2005, representing a growth of 19.6% when compared with that of the previous year. In line with its rapid urbanization and surging per capita income, IT market in the PRC has been expanded continuously. Together with the rapid development in first and second tier cities that boosted the replacement demand, the overall market maintained its tremendous potential. However, as technology level elevates and new products hit the market every day, fierce competition is triggered among market players and profit margins of products shrank. For enterprises to survive, they must be able to respond quickly to the ever-changing market.

Keeping pace with the changing business environment, the Group continued to implement its "3 Strengths" development strategy to enhance management, extend product range and expand sales network. By strengthening its operational management, the Group maximized the synergies with distributors; meanwhile, secured the customers' interests and maintained the Group's profitability. That explained the rise in the Group's profit margin and its significant decrease in inventory turnover despite the drop in the average market price. The closer ties with distributors enabled the Group to enhance credit control management, which was reflected in markedly improved account receivables turnover. Our excellent management model not only pushed up sales of our core products, but also won supplier acclaims including the "Outstanding Contributions: Key Market Segments FY2005" from Seagate and the "AMD PC Best PIB Distributor 2005" from AMD.

During the year under review, the Group actively optimized its product mix and maximized economies of scale by diversifying its product range to more computer hardware and peripheral products. The Group cooperated with certain global IT giants, and obtained authorized distributorships of world-renowned brands in the PRC. These products included hard disk drives of Maxtor Corporation, USB flash memory, MP3 Players and "Kodak" memory cards of Lexar Media, Inc., PC mother-boards of AsRock, PC memory products of Corsair Memory. Supported by the Group's extensive distribution network, Maxtor Corporation's hard disk drives quickly penetrated the market and the Group became one of the largest distributors of Maxtor Corporation in the PRC in a short period of time.

Extensive and solid distribution network is crucial for our group to maintain its market leading position. During the year under review, apart from radioactively expanding our network in major cities including Beijing, Shanghai and Shenzhen, we also set up more sales points in second and third tier cities and recruited more distributors and end-customers to boost our market influence. Furthermore, the Group successfully expanded its sales network from computer hardware to digital products to promote its own brand "KISS" MP3 players and other computer peripheral products. With our dedicated efforts during the year under review, "KISS" products are now available at more than 200 sales points in Hong Kong. Though its sales was yet to be significant for the Group, it has laid a vital foundation for our future expansion in digital products.

### PROSPECTS

Nowadays, IT and economic development advance very much hand in hand. According to the 11th Five-Year Plan announced by the PRC government, the IT market will be fully opened to cater the WTO and the 2008 Beijing Olympics. It is believed that the PRC will maintain its sustainable economic growth. In addition, globalized trading platform and rising living standard have turned IT into a daily necessity. All taken into account, the Group has full confidence in the IT market in the PRC. Nevertheless, given these promising market conditions, competition will be inevitably intensified. Market is expected to commence consolidation which will narrow the survival room for small-scale enterprises, while providing a more favorable environment for competitive and large-scale enterprises with economies of scale.

Our group is well prepared for the upcoming challenges and to explore more business opportunities. The Group will strive to attain a higher profit margin by maintaining its "Quick Response" strategy, and enhancing its inventory as well as procurement control. Furthermore, the Group will deepen its "3 Strengths" development strategy to strengthen its competitiveness by "enhancing management, extending product range and expanding sales network". Riding on the economies of scale, we believe that sales of core products will maintain sustainable growth while new products will soon become another major source of income for our Group.

### APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express my deepest gratitude to our shareholders for their continuous support, and our staff for their valuable contributions in the past.

**Li Jialin**

*Chairman and Chief Executive Officer*

Hong Kong, 19 June 2006