



BUSINESS REVIEW

In keeping abreast of the fast-changing market conditions and product trend in the information technology (“IT”) industry, the Group has closely monitored its performance and aligned itself by undertaking various measures which include establishing representative offices and liaison points throughout major cities in the People’s Republic of China (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 needs 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 IT and multimedia products market for our customers. The introduction of our digital electronics products like MP3 and Portable Multimedia Players have been trading under the brand name “KISS” since 2004. 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. In order to stay in the market forefront, 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 services and other value-added services, so as to boost its market competitiveness. In 2005, the Group was once again honorably bestowed by its suppliers various awards which included Seagate’s “Outstanding Contributions: Key Market Segments FY2005”; AMD’s “PC Best PIB Distributor China” and “Top Performing Distributor 2005 (China)”; Maxtor’s “Outstanding Contributions: Key Market Segments FY2005” and also Corsair’s “Award for Outstanding Contribution and Co-operation” for the recognition of the Group’s outstanding performance.



During the year under review, our Group successfully obtained the authorized distributorship for four new international brands which included Maxtor’s hard disk drive in Hong Kong and the PRC, Lexar Media’s complete line of memory product in the PRC, Asrock’s motherboard in the PRC and the exclusive distributorship for Corsair memory products in the PRC. As a result of the Group’s dedicated efforts, the Group has achieved another record high in turnover and net profit during the year under review.

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 this year under the agreements it made for the membership of the World Trade Organization. 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 risen from this burgeoning market have 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.



With effect from 1 January 2006, Hong Kong and the PRC have commenced the third phase of Closer Economic Partnership Arrangement (CEPA III) which will result in further liberalization in the scope and depth of participation of Hong Kong business in the PRC market. 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. Our Group will capitalize such positive sentiment and increase its sales by proactively seeking opportunities to strengthen our distribution network through expanding the sales network in Hong Kong and the PRC.

Leveraging on its internationally reputable IT and digital media products manufacturers including Seagate, AMD, Maxtor, Lexar, Corsair and Asrock in the global IT and digital media market, our Group has positioned itself as the distributor of high-quality and reliable IT and digital media 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 year under review, our Group has successfully obtained the authorized distributorships for Maxtor Corporation's storage products in the PRC and Hong Kong, Lexar Media, Inc's digital media products in the PRC; exclusive distributorship for Corsair Memory's personal computer memory products in the PRC and also Asrock's motherboard in the PRC. As a result, our business will continue to expand and attract more customers through 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 the 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 and digital media industry in the PRC is still enjoying a fast 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 and digital media industry in the PRC will continue to be one of the fastest growing areas in the world and will offer great potential and opportunities. Based on sound experience in the IT and digital media 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 better returns for its shareholders in the coming years.

FINANCIAL REVIEW

The Group's turnover for the year ended 31 March 2006 amounted to approximately HK\$3,705,633,000 (2005: approximately HK\$2,801,165,000), representing an increase of approximately 32% as compared with that of last year. Profit attributable to shareholders amounted to approximately HK\$111,768,000 (2005: approximately HK\$27,424,000), representing an increase of approximately 308% as compared with that of last year. The main reason for the increase in net profit was mainly due to a marked increase in the sale of Seagate, AMD and KISS as well as the maiden launch of other new brand products including Maxtor and Corsair. The basic earnings per share for the year amounted to HK13.31 cents (2005: HK3.71 cents), while diluted earnings for share was approximately HK13.24 cents (2005: approximately HK3.71 cents).

The Group endeavoured to control its operating expenses and net finance cost during the year under review. The Group has implemented an effective control in operating costs. Furthermore, the continued improvement in the application of working capital have resulted in less reliance on interest-bearing advances.



LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2006, the Group's cash and bank deposits were approximately HK\$219.1 million (2005: approximately HK\$46.9 million).

As at 31 March 2006, the Group's borrowings were HK\$63.5 million (2005: HK\$89.6 million). The gearing ratio, calculated as the total borrowings less pledged bank deposits and divided by shareholders' equity, was approximately 0.25 (2005: approximately 0.43).

The Company issued to ABN AMRO Bank NV ("ABN") zero coupon convertible bonds at a nominal value of HK\$66,000,000 on 2 March 2006. Net proceeds from the convertible bonds amounted to HK\$64,020,000, after netting off the direct transaction costs of HK\$1,980,000.

The bonds mature two years from the issue date at their maturity value of approximately HK\$76,470,000 or can be converted into shares at the holder's option at conversion price of HK\$0.72 per share.

As at 31 March 2006, the Group recorded total current assets of approximately HK\$543.4 million (2005: approximately HK\$458.3 million) and total current liabilities of approximately HK\$234.1 million (2005: approximately HK\$299.2 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 2.32 times as at 31 March 2006 (2005: approximately 1.53 times).

The Group recorded an increase in shareholders' funds from approximately HK\$161.9 million as at 31 March 2005 to approximately HK\$258.1 million as at 31 March 2006. The increase was mainly derived from the net increase in net profit after tax.

TREASURY POLICIES

The Group generally finances its operations with internally generated resources and banking facilities provided by banks in Hong Kong. The bank borrowings of the Group were predominantly subject to floating interest rates.

Cash and bank deposits of the Group were mainly denominated in Hong Kong dollars and United States dollars.

Transactions of the Group are mainly denominated either in Hong Kong dollars or United States dollars. For hedging purpose, the Group entered into foreign exchange forward agreements with some banks during the year under review for purchasing foreign currency to settle foreign currency transactions.

MATERIAL ACQUISITION/DISPOSAL AND SIGNIFICANT INVESTMENTS

During the year under review, the Group has invested an aggregate of HK\$10,000,000 in two companies, namely Dic Video Technology Company Limited ("DIC") and 迪科視像技術有限公司 ("DVT Company Limited") for the acquisition of 10% of shareholding interests in each of these companies. The principal activity of DIC is the trading of hard disk drives whereas that of DVT is the trading of hard disk drives, motherboards and MP3.

Save as disclosed herewith, the Group did not have any material acquisition, disposal and significant investments during the year under review.

CHARGE ON ASSETS

The Group's banking facilities were not secured by pledged bank deposits as at 31 March 2006 (2005: approximately HK\$19,244,000).

CONTINGENT LIABILITIES

As at 31 March 2006, the Group did not have any significant contingent liabilities.

EVENTS AFTER THE BALANCE SHEET DATE

On 14 April 2006, the Company injected RMB20,000,000 as registered capital into a newly incorporated wholly foreign owned enterprise ("WFOE") named "深圳偉仕宏業電子有限公司" ("Shenzhen VST Wang Yip Electronic Company Limited"). Such WFOE will be engaged in wholesale and distribution of IT products within the PRC.

On 11 May 2006, the Company allotted 45,833,333 ordinary shares with par value of HK\$0.1 each upon the conversion of convertible bonds by ABN AMRO Bank NV. with the principal consideration of HK\$33,000,000 at the conversion price of HK\$0.72. Such ordinary shares rank pari passu with the existing ordinary shares.

Details of the convertible bonds are set out in the announcement of the Company dated 16 February 2006.

EMPLOYEES

As at 31 March 2006, the Group had 71 (2005: 56) full time employees.

In order to ensure a formal and transparent procedure for fixing the remuneration of Directors and senior management, a remuneration committee consisting of three independent non-executive directors and not more than two executive Directors was established on 29 September 2005.

The Group remunerated its employees mainly based on the industry practice, individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share option may be granted to eligible employees by reference to the Group's performance as well as individual's performance. Other benefits include medical, annual leave and retirement schemes.

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 31 March 2005.