## 1 GENERAL INFORMATION

VST Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") are principally engaged in the distribution of information technology ("IT") products.

The Company is a limited liability company incorporated in the Cayman Islands. Its principal place of business is at unit 1901, 19th Floor, West Tower, Shun Tak Centre, 168 Connaught Road Central, Hong Kong.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated accounts are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated accounts have been approved for issue by the Board of Directors on 19 June 2006.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated accounts of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

*The adoption of new/revised HKFRS*

In the current year, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. Last year's comparatives have been amended as required, in accordance with the relevant requirements.

| | |
|---|---|
| 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 |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

*The adoption of new/revised HKFRS (continued)*

| | |
|---|---|
| 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 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS 39 (Amendment) | Transition and Initial Recognition of Financial Assets and Financial Liabilities |
| 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 and 37; HKAS-Ints 15 and 21 and HKFRSs 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 accounts.

– HKASs 2, 7, 8, 10, 16, 17, 23, 27, 33, 36 and 37; HKAS-Ints 15 and 21 and HKFRSs 2 and 3 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 in the revised standard. All the Group entities have the same functional currency as the presentation currency for the respective entity accounts.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

*The adoption of new/revised HKFRS (continued)*

The adoption of HKAS 39 resulted in an increase in opening retained earnings at 1 April 2005 by HK$1,941,000, which related to derivative financial instruments (forward contracts not qualified as hedges). The details of the adjustments to the profit and loss account for the year then ended are as follows:

| | **For the year ended 31 March 2006** *HK$'000* |
|---|---|
| Decrease in other gains, net | **1,941** |
| Decrease in basic earnings per share | **HK0.2 cents** |
| Decrease in diluted earnings per share | **HK0.2 cents** |

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities (including derivative financial instruments) in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for Investments in Securities" to hedge relationships for the last year's comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 were determined and recognised at 1 April 2005;

– HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 April 2005;

– HKFRS 2 – retrospective application is only required for equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

– HKFRS 3 – prospectively applied after 1 April 2005.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

*The adoption of new/revised HKFRS (continued)*

The Group has not early adopted the following new standards or interpretations that have been issued and are not yet effective, which are relevant to the operations of the Group. It is expected that the adoption of such standards or interpretations will not result in substantial changes to the Group's accounting policies.

| | |
|---|---|
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures |
| HKAS 39 and HKFRS 4 (Amendment) | Transition and Initial Recognition of Financial Liabilities and Financial Guarantee Contracts |
| HKFRS 7 | Financial Instruments: Disclosures |
| HKFRS-Int 4 | Determining whether an Arrangement Contains a Lease |

### 2.2 Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

### 2.3 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 Hong Kong dollars ("HK dollars"), which is the Company's functional and presentation currency.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.3 Foreign currency translation *(continued)*

*(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 profit and loss account.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

*(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 profit and loss account 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 recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the profit and loss account as part of the gain or loss on sale.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.4 Property, plant and equipment

The property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Leasehold improvements | 20% |
| Furniture and fixtures | 20% |
| Office equipment | 20% |
| Motor vehicles | 20% |

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

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (Note 2.5).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated profit and loss account.

### 2.5 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.6 Financial assets

From 1 April 2005 onwards:

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. The management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

*(a) Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" in the balance sheet (Note 2.8).

*(c) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held to maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets. During the year, the Group did not hold any investments in this category.

*(d) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.6 Financial assets *(continued)*

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category including interest and dividend income, are presented in the profit and loss account within "other (expenses)/gains, net", in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as "gains and losses from investment securities". Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.6 Financial assets *(continued)*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade receivables is described in Note 2.8.

### 2.7 Inventories

Inventories comprise IT products for distribution and are stated at the lower of cost and net realisable value.

Cost is determined using the first-in, first-out method. The cost of finished goods comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. It excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.8 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

### 2.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings under current liabilities on the balance sheet.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.10 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### 2.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Translation costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 2.12 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax assets are realised or the deferred income tax liabilities are settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.13 Employee benefits

(a) *Pension obligations*

For eligible employees in Hong Kong, the Group operates defined contribution plans, the assets of which are held in separate trustee-administered funds. The retirement plans are generally funded by payments from employees and by the relevant Group companies. For employees in the People's Republic of China (the "PRC"), the Group participates in defined contribution retirement schemes organised by the relevant local government.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

### 2.14 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.15 Leases (as the lessee)

(a) *Operating lease*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the profit and loss account on a straight-line basis over the period of the lease.

(b) *Finance lease*

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

### 2.16 Derivative financial instruments

From 1 April 2004 to 31 March 2005:

The derivative financial instruments were previously recorded as off balance sheet items. The actual gains or losses realised upon settlement were included in the profit and loss account on maturity.

From 1 April 2005 onwards:

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. As the Group's derivative contracts do not qualify for hedge accounting, changes in the fair value of these derivative contracts are recognised immediately in the profit and loss account within "other gains, net".

### 2.17 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown, net of returns and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

*(i)* *Sales of goods*

Sales of goods are recognised when products have been delivered to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

*(ii)* *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

### 2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to foreign exchange risk, interest rate risk, credit risk and liquidity risk.

*(a)* *Foreign exchange risk*

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar and the PRC Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group enters into foreign currency forward contracts to reduce foreign exchange risk.

*(b)* *Interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from bank borrowings. As at 31 March 2006, the Group has no outstanding bank borrowings. The Group generally has not used interest rate swaps to hedge its exposure to interest rate risk.

## 3 FINANCIAL RISK MANAGEMENT *(continued)*

### 3.1 Financial risk factors *(continued)*

*(c) Credit risk*

The carrying amount of trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets.

The Group has put in place policies to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the Directors are of the opinion that adequate provision for uncollectible trade receivables has been made.

*(d) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Directors aim to maintain flexibility in funding by keeping credit lines available.

### 3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices on the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair values of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing on each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debts. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of foreign currency forward contracts is determined using quoted forward exchange rates at the balance sheet date.

The nominal values less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements are continually 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 are discussed below.

### (a) Income taxes

The Group is subject to income taxes in Hong Kong and the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### (b) Estimated provision for doubtful debts

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade receivables. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible.

The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade receivables and doubtful debt expense in the period in which such estimate has been changed.

### (c) Estimated write-down of inventories to net realisable value

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs of inventories are recorded where events or changes in circumstances indicate that the balances may not be realised.

The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the period in which such estimate has been changed.

## 5 FIXED ASSETS

| | Leasehold land and buildings HK$'000 (Note) | Leasehold improve-ments HK$'000 | Group Furniture and fixtures HK$'000 | Office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **At 1 April 2004** | | | | | | |
| Cost | 12,274 | 2,771 | 1,180 | 5,759 | 1,485 | 23,469 |
| Accumulated depreciation | (1,574) | (2,415) | (1,153) | (4,186) | (1,084) | (10,412) |
| Net book amount | 10,700 | 356 | 27 | 1,573 | 401 | 13,057 |
| **Year ended 31 March 2005** | | | | | | |
| Opening net book amount | 10,700 | 356 | 27 | 1,573 | 401 | 13,057 |
| Additions | – | 917 | 203 | 361 | – | 1,481 |
| Disposals | (10,700) | – | – | (2) | – | (10,702) |
| Depreciation | – | (224) | (53) | (596) | (95) | (968) |
| Closing net book amount | – | 1,049 | 177 | 1,336 | 306 | 2,868 |
| **At 31 March 2005** | | | | | | |
| Cost | – | 1,525 | 362 | 6,110 | 1,485 | 9,482 |
| Accumulated depreciation | – | (476) | (185) | (4,774) | (1,179) | (6,614) |
| Net book amount | – | 1,049 | 177 | 1,336 | 306 | 2,868 |
| **Year ended 31 March 2006** | | | | | | |
| Opening net book amount | – | 1,049 | 177 | 1,336 | 306 | 2,868 |
| Additions | – | 228 | 131 | 472 | – | 831 |
| Disposals | – | – | – | (4) | – | (4) |
| Depreciation | – | (303) | (68) | (593) | (78) | (1,042) |
| Closing net book amount | – | 974 | 240 | 1,211 | 228 | 2,653 |
| **At 31 March 2006** | | | | | | |
| Cost | – | 1,753 | 493 | 6,567 | 1,485 | 10,298 |
| Accumulated depreciation | – | (779) | (253) | (5,356) | (1,257) | (7,645) |
| Net book amount | – | 974 | 240 | 1,211 | 228 | 2,653 |

*Note:*

The leasehold land and buildings, with net book value of HK$10,700,000, were disposed of during the year ended 31 March 2005.

Depreciation expense of HK$1,042,000 (2005: HK$968,000) has been expensed in administrative expenses.

## 6 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group 2006 *HK$'000* |
|---|---|
| Beginning of the year | – |
| Additions | **10,000** |
| End of the year | **10,000** |

There was no impairment provision on available-for-sale financial assets in 2006.

Available-for-sale financial assets include the following:

| | Group 2006 *HK$'000* |
|---|---|
| Unlisted equity securities: | |
| – Hong Kong | **488** |
| – PRC | **9,512** |
| | **10,000** |

## 7 INVESTMENT IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2006** *HK$'000* | 2005 *HK$'000* |
| Unlisted shares, at cost | **63,683** | 63,683 |
| Amounts due from subsidiaries | **180,426** | 81,309 |

## 7 INVESTMENT IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries as at 31 March 2006:

| Name | Place of incorporation | Principal activities and place of operations | Particulars of issued share capital | Percentage of interest held Directly | Indirectly |
|---|---|---|---|---|---|
| VST Group Limited | British Virgin Islands | Investment holding, British Virgin Islands | 4 ordinary shares of US$1 each | 100% | – |
| VST Computers (H.K.) Limited | Hong Kong | Distribution of IT products, Hong Kong | 2 ordinary shares of HK$1 each<br>62,000,000 non-voting deferred shares of HK$1 each | – | 100% |

There was no amount due from VST Group Limited as at 31 March 2006. The amount due from VST Group Limited of HK$48,506,000 as at 31 March 2005 was unsecured and non-interest bearing.

The amount due from VST Computers (H.K.) Limited of HK$180,426,000 (2005: HK$32,803,000) is unsecured, interest bearing at a rate between 4.42% and 8.00% per annum (2005: 3.06% and 4.57% per annum) and is repayable on demand.

## 8 TRADE RECEIVABLES

| | Group 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Trade receivables | **141,740** | 216,075 |
| Less: Provision for impairment of receivables | **(537)** | (4,285) |
| | **141,203** | 211,790 |

There is concentration of credit risk with respect to trade receivables as the Group's sales are concentrated on several key customers. The Group's control over credit risk is disclosed in Note 3.

## 8 TRADE RECEIVABLES *(continued)*

The Group grants a credit period to third party customers ranging from 7 to 60 days, which may be extended for selected customers depending on their trade volume and settlement history with the Group. However, sales to new customers are only conducted on a cash basis in accordance with the Group's credit control policy. The aging analysis of gross trade receivables as at 31 March 2006 was as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| 0 – 30 days | **140,388** | 210,468 |
| 31 – 60 days | **427** | 1,098 |
| 61 – 90 days | **550** | 52 |
| Over 90 days | **375** | 4,457 |
| | **141,740** | 216,075 |

The Group has recognised a loss of HK$537,000 (2005: HK$6,730,000) for impairment of its trade receivables during the year ended 31 March 2006. The loss has been included in administrative expenses in the consolidated profit and loss account.

The carrying amounts of trade receivables approximate their fair values.

## 9 INVENTORIES

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Inventories on hand | | |
| – Held for re-sale | **122,483** | 126,763 |
| – Held for return to suppliers or exchange to customers | **7,365** | 4,465 |
| Inventories-in-transit | **36,879** | 48,274 |
| Less: Inventory provision | **(3,308)** | (368) |
| | **163,419** | 179,134 |

The cost of inventories recognised as expense and included in cost of goods sold amounted to HK$3,818,784,000 (2005: HK$2,881,375,000).

## 10 CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Cash at bank and in hand | **174,129** | 46,884 | **83** | 64 |
| Short-term bank deposits | **45,000** | – | **–** | – |
| | **219,129** | 46,884 | **83** | 64 |

The effective interest rate on short-term bank deposits was 3.65% per annum (2005: Nil); these deposits have an average maturity of 7 days (2005: Nil).

## 11 SHARE CAPITAL

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Authorised: | | |
| 2,000,000,000 (2005: 2,000,000,000) ordinary shares of HK$0.10 each | **200,000** | 200,000 |
| Issued and fully paid: | | |
| 840,000,000 (2005: 840,000,000) ordinary shares of HK$0.10 each | **84,000** | 84,000 |

A summary of the movements in issued share capital of the Company is as follows:

| | | **2006** | | 2005 | |
|---|---|---|---|---|---|
| | *Note* | **Number of issued ordinary shares of HK$0.10 each** | **Par value** ***HK$'000*** | Number of issued ordinary shares of HK$0.10 each | Par value *HK$'000* |
| Beginning of year | | **840,000,000** | **84,000** | 700,000,000 | 70,000 |
| Issue of shares | *(a)* | **–** | **–** | 140,000,000 | 14,000 |
| End of year | | **840,000,000** | **84,000** | 840,000,000 | 84,000 |

*Note:*

(a) On 20 December 2004, to provide additional working capital for the Group, the Company issued 140,000,000 ordinary shares of HK$0.10 each at HK$0.139 per ordinary share under a placement arrangement with an independent placement agent. This resulted in a net cash proceed of approximately HK$19,168,000.

## 12 SHARE OPTION SCHEME

On 17 April 2002, the Company approved a 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 shares; (ii) the closing price of the Company's ordinary shares 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 shares 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 9 May 2002.

As at 31 March 2006, no options have been granted pursuant to the above share option scheme.

## 13 RESERVES

### (a) The Group

| | Convertible bonds HK$'000 (Note ii) | Share premium HK$'000 (Note i) | Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Balance at 1 April 2004 | – | 25,243 | 27,751 | 52,994 |
| Net profit for the year | – | – | 27,424 | 27,424 |
| Issue of shares | – | 5,460 | – | 5,460 |
| Share issuance costs | – | (292) | – | (292) |
| 2004 final dividend paid | – | – | (4,200) | (4,200) |
| 2005 interim dividend paid | – | – | (3,500) | (3,500) |
| Balance at 31 March 2005 | – | 30,411 | 47,475 | 77,886 |
| Balance at 1 April 2005, as previously reported | – | 30,411 | 47,475 | 77,886 |
| Effect of initial adoption of HKAS 39 *(Note 2.1)* | – | – | 1,941 | 1,941 |
| Balance at 1 April 2005, as restated | – | 30,411 | 49,416 | 79,827 |
| Net profit for the year | – | – | 111,768 | 111,768 |
| Convertible bonds, equity component *(Note 17)* | 996 | – | – | 996 |
| 2005 final dividend paid | – | – | (5,880) | (5,880) |
| 2006 interim dividend paid | – | – | (12,600) | (12,600) |
| Balance at 31 March 2006 | 996 | 30,411 | 142,704 | 174,111 |
| Representing: | | | | |
| Reserves | | | 102,841 | |
| 2006 final dividend proposed *(Note 25)* | | | 39,863 | |
| Balance at 31 March 2006 | | | 142,704 | |

*Notes:*

(i) The share premium account of the Group includes: (a) the difference between the nominal values of the share capital of the subsidiaries acquired and that of the Company issued in exchange pursuant to the group reorganisation in April 2002; (b) the capitalisation issue in April 2002; and (c) the premium arising from the new issue of shares, net of share issuance costs.

(ii) Convertible bonds in reserves represent the value of the equity conversion component. Details of the convertible bonds are set out in Note 17.

## 13 RESERVES *(continued)*

### (b) The Company

| | Convertible bonds<br>*HK$'000* | Share premium<br>*HK$'000* | Retained earnings<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|
| Balance at 1 April 2004 | – | 26,926 | 442 | 27,368 |
| Net profit for the year | – | – | 36,396 | 36,396 |
| Issue of shares | – | 5,460 | – | 5,460 |
| Share issuance costs | – | (292) | – | (292) |
| 2004 final dividend paid | – | – | (4,200) | (4,200) |
| 2005 interim dividend paid | – | – | (3,500) | (3,500) |
| Balance at 31 March 2005 | – | 32,094 | 29,138 | 61,232 |
| Balance at 1 April 2005 | – | 32,094 | 29,138 | 61,232 |
| Net profit for the year | – | – | 52,701 | 52,701 |
| Convertible bonds, equity component *(Note 17)* | 996 | – | – | 996 |
| 2005 final dividend paid | – | – | (5,880) | (5,880) |
| 2006 interim dividend paid | – | – | (12,600) | (12,600) |
| Balance at 31 March 2006 | 996 | 32,094 | 63,359 | 96,449 |
| Representing: | | | | |
| Reserves | | | 23,496 | |
| 2006 final dividend proposed *(Note 25)* | | | 39,863 | |
| Balance at 31 March 2006 | | | 63,359 | |

The share premium account of the Company represents: (a) the difference between the book values of the underlying net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal values of the Company's shares issued under the group reorganisation in April 2002; (b) the capitalisation issue in April 2002; and (c) the premium arising from the new issue of shares, net of share issuance costs.

In accordance with the Companies Law (revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

## 14 TRADE PAYABLES

The Group's suppliers grant credit periods ranging from 30 to 90 days to the Group. The aging analysis of trade payables as at 31 March 2006 was as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| 0 – 60 days | **213,233** | 204,390 |

The carrying amounts of trade payables approximate their fair values.

## 15 BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Non-current | | | | |
| Convertible bonds *(Note 17)* | **63,544** | – | **63,544** | – |
| Current | | | | |
| Import loans | **–** | 89,636 | **–** | – |
| Total borrowings | **63,544** | 89,636 | **63,544** | – |

The maturity of borrowings is as follows:

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Convertible bonds | | Import loans | | Convertible bonds | | Import loans | |
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Within 1 year | **–** | – | **–** | 89,636 | **–** | – | **–** | – |
| Between 1 and 2 years | **63,544** | – | **–** | – | **63,544** | – | **–** | – |
| Wholly repayable within 5 years | **63,544** | – | **–** | 89,636 | **63,544** | – | **–** | – |

## 15 BORROWINGS *(continued)*

The effective interest rates at the balance sheet date were as follows:

| | **2006** | 2005 |
|---|---|---|
| | **%** | % |
| Convertible bonds *(Note 17)* | **10.15** | – |
| Bank borrowings | **7.82** | 5.83 |

The carrying amounts of the borrowings are denominated in the following currencies:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong dollar | **63,544** | – | **63,544** | – |
| US dollar | **–** | 89,636 | **–** | – |
| | **63,544** | 89,636 | **63,544** | – |

The carrying amounts of bank loans approximate their fair values. Refer to Note 17 for the fair value of convertible bonds as at 31 March 2006.

As at 31 March 2006, the Group has undrawn bank loan and overdraft facilities of HK$260,580,000 (2005: HK$149,204,000).

## 16 OBLIGATION UNDER FINANCE LEASE

As at 31 March 2006, the Group did not have any obligation under finance leases:

| | **Group** | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **–** | 99 |
| In the second year | **–** | – |
| | **–** | 99 |
| Future finance charges on finance lease | **–** | (2) |
| Present value of obligation under finance lease | **–** | 97 |

The present value of obligation under finance lease is as follows:

| | | |
|---|---|---|
| Within one year | **–** | 97 |
| In the second year | **–** | – |
| | **–** | 97 |

## 17 CONVERTIBLE BONDS

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 a conversion price of HK$0.72 per share.

At any time prior to the maturity date, the Company may redeem the convertible bonds at the redemption price and in the specified redemption period pursuant to the convertible bond subscription agreement.

The conversion price will be subject to adjustment for consolidation, subdivision or reclassification of shares, capitalisation of profits or reserves, capital distributions, rights issues, issues at less than current market price, modification of rights of conversion, and other dilutive events.

The fair values of the liability component and the equity conversion component were determined at date of issuance of the bonds.

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the fair value of the equity conversion component, is included in shareholders' equity, net of tax (Note 13).

| | **Group and Company** | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Equity component | **996** | – |
| Liability component on initial recognition at 2 March 2006 | **63,024** | – |
| Interest expense *(Note 22)* | **520** | – |
| Liability component at 31 March 2006 *(Note 15)* | **63,544** | – |

The fair value of the liability component of the convertible bonds at 31 March 2006 amounted to HK$64,765,000. The fair value is calculated using all future cash flows discounted at a rate based on the prevailing market rate of interest of 8.32% for a similar instrument with a similar credit rating.

Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 10.15% to the liability component.

## 18 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

The movement of the deferred tax liability during the year is as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| **Accelerated tax depreciation** | ***HK$'000*** | *HK$'000* |
| At beginning of the year | **171** | – |
| Charged to profit and loss account | **66** | 171 |
| At end of the year | **237** | 171 |

There was no significant unprovided deferred taxation as at 31 March 2006 (2005: Nil).

## 19 TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in the distribution of IT products. Turnover represents gross invoiced sales, net of discounts and returns. Revenues recognised during the year are as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Turnover – Sales of goods | **3,705,633** | 2,801,165 |

No business segment information (primary segment information) is presented as the Group is operating in a single business segment which is the distribution of IT products.

The Group's operation is conducted in Hong Kong. All of the sales of the Group's inventories are delivered in Hong Kong and therefore no geographical segment information is presented.

## 20 OTHER GAINS, NET

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Derivative financial instruments: forward contracts, transactions not qualifying as hedges | | |
| – Changes in fair value of forward contracts during the year | **(1,941)** | – |
| – Gain on settlement of forward contracts upon maturity | **1,906** | 1,728 |
| Interest income | **1,524** | 280 |
| Loss on disposal of fixed assets | **(4)** | (2) |
| | **1,485** | 2,006 |

## 21 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Crediting** | | |
| Net exchange gain | **–** | 1,938 |
| Rebates and discounts from suppliers | **302,470** | 157,909 |
| **Charging** | | |
| Cost of inventories | **3,818,784** | 2,881,375 |
| Inventory provision | **2,940** | 305 |
| Provision for bad and doubtful debts | **537** | 6,730 |
| Staff costs, including directors' emoluments | | |
| – Salaries, allowance and welfare | **17,542** | 12,223 |
| – Provident fund contributions (net of forfeitures) | **664** | 556 |
| Auditors' remuneration | **700** | 490 |
| Operating lease rentals in respect of premises and warehouse | **2,744** | 2,294 |
| Depreciation | | |
| – Owned fixed assets | **964** | 890 |
| – Leased fixed assets | **78** | 78 |
| Loss on disposal of fixed assets | **4** | 2 |
| Net exchange loss | **150** | – |

## 22 FINANCE COSTS

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest expense on: | | |
| – Bank loans, overdrafts and import loans | **5,146** | 2,979 |
| – Interest on convertible bonds *(Note 17)* | **520** | – |
| – Finance lease | **2** | 8 |
| | **5,668** | 2,987 |

No borrowing costs were capitalised during the years ended 31 March 2006 and 2005.

## 23 TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current taxation | | |
| – Hong Kong profits tax | **24,022** | 5,835 |
| – PRC tax | **82** | 74 |
| (Over)/under-provision of Hong Kong profits tax in prior years | **(79)** | 50 |
| Deferred taxation | **66** | 171 |
| | **24,091** | 6,130 |

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

PRC tax represents the Enterprise Income Tax of the representative offices established in the PRC and has been calculated based on the estimated deemed taxable profit for the year in accordance with the relevant PRC tax laws at the rate prevailing in the PRC municipal jurisdiction.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before taxation | **135,859** | 33,554 |
| Calculated at a taxation rate of 17.5% (2005: 17.5%) | **23,775** | 5,872 |
| Income not subject to taxation | **(236)** | (13) |
| Expenses not deductible for taxation purposes | **624** | 108 |
| (Over)/under-provision of current tax liabilities in prior years | **(79)** | 50 |
| Utilisation of previously unrecongised tax losses | **(75)** | – |
| Deemed Enterprise Income Tax in PRC | **82** | 74 |
| Others | **–** | 39 |
| Taxation charge | **24,091** | 6,130 |

## 24 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$52,701,000 (2005: HK$36,396,000).

## 25 DIVIDENDS

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Interim, paid, of HK1.5 cents (2005: HK0.5 cents) per ordinary share of the Company | **12,600** | 3,500 |
| Final, proposed, of HK4.5 cents (2005: HK0.7 cents) per ordinary share of the Company | **39,863** | 5,880 |
| | **52,463** | 9,380 |

At a meeting held on 19 June 2006, the directors proposed a final dividend of HK4.5 cents per ordinary share. The 2006 proposed final dividend is based on 885,833,333 shares in issue at 19 June 2006. This proposed dividend is not reflected as a dividend payable in these accounts.

Such dividend represented HK$37,800,000 for the 840,000,000 shares in issue as at 31 March 2006 and an additional amount of approximately HK$2,063,000 for the 45,833,333 shares allotted in May 2006 upon the conversion of convertible bonds.

## 26 EARNINGS PER SHARE

**Basic**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Profit attributable to equity holders of the Company | **111,768** | 27,424 |
| Weighted average number of ordinary shares in issue *(thousands)* | **840,000** | 739,123 |
| Basic earnings per share *(HK cents per share)* | **13.31** | 3.71 |

## 26 EARNINGS PER SHARE *(continued)*

**Diluted**

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares which is convertible bonds. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the conversion of the convertible bonds.

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit attributable to equity holders of the Company | **111,768** | 27,424 |
| Interest expense on convertible bonds (net of tax) | **429** | – |
| Profit used to determine diluted earnings per share | **112,197** | 27,424 |
| Weighted average number of ordinary shares in issue *(thousands)* | **840,000** | 739,123 |
| Adjustments for | | |
| – assumed conversion of convertible bonds *(thousands)* | **7,534** | – |
| Weighted average number of ordinary shares for diluted earnings per share *(thousands)* | **847,534** | 739,123 |
| Diluted earnings per share *(HK cents per share)* | **13.24** | 3.71 |

## 27 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The aggregate amounts of emoluments paid or payable to directors of the Company during the year are as follows:

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Fees | **335** | 306 |
| Other emoluments | | |
| – Basic salaries and housing allowances | **3,718** | 3,718 |
| – Discretionary bonuses | **1,000** | 200 |
| – Contributions to pension schemes | **186** | 196 |
| | **5,239** | 4,420 |

The remuneration of every director for the year ended 31 March 2006 is set out below:

| **Name of Director** | **Fees** ***HK$'000*** | **Basic salaries and housing allowance** ***HK$'000*** | **Discretionary bonus** ***HK$'000*** | **Contribution to pension scheme** ***HK$'000*** | **Total** ***HK$'000*** |
|---|---|---|---|---|---|
| Executive Directors | | | | | |
| Li Jialin | **–** | **1,924** | **1,000** | **96** | **3,020** |
| Cheng Kam Chung | **–** | **1,794** | **–** | **90** | **1,884** |
| Non-executive Director | | | | | |
| Sun Ali | **60** | **–** | **–** | **–** | **60** |
| Independent Non-executive Directors | | | | | |
| Chan Po Fan Peter *(a)* | **115** | **–** | **–** | **–** | **115** |
| Hu Yebi *(b)* | **89** | **–** | **–** | **–** | **89** |
| Liu Yong Ping *(c)* | **11** | **–** | **–** | **–** | **11** |
| Ni Zhenwei | **60** | **–** | **–** | **–** | **60** |
| | **335** | **3,718** | **1,000** | **186** | **5,239** |

## 27 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

### (a) Directors' emoluments *(continued)*

The remuneration of every director for the year ended 31 March 2005 is set out below:

| Name of Director | Fees *HK$'000* | Basic salaries and housing allowance *HK$'000* | Discretionary bonus *HK$'000* | Contribution to pension scheme *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| Executive Directors | | | | | |
| Li Jialin | – | 1,924 | 200 | 106 | 2,230 |
| Cheng Kam Chung | – | 1,794 | – | 90 | 1,884 |
| Non-executive Director | | | | | |
| Sun Ali | 60 | – | – | – | 60 |
| Independent Non-executive Directors | | | | | |
| Phileas Fok Kwan Wing | 96 | – | – | – | 96 |
| Liu Yong Ping | 100 | – | – | – | 100 |
| Ni Zhenwei | 50 | – | – | – | 50 |
| | 306 | 3,718 | 200 | 196 | 4,420 |

*Notes:*

(a) Appointed on 16 April 2005.

(b) Appointed on 9 May 2005 and resigned on 8 May 2006.

(c) Resigned on 8 May 2005.

Directors' emoluments disclosed above include approximately HK$275,000 (2005: HK$246,000) paid to independent non-executive directors.

During the year, no director of the Company waived any emoluments (2005: Nil).

## 27 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2005: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2005: three) individuals during the year are as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Basic salaries and allowances | **1,602** | 1,485 |
| Discretionary bonuses | **450** | 150 |
| Contributions to pension schemes | **81** | 82 |
| | **2,133** | 1,717 |

The emoluments fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| **Emolument band** | **2006** | 2005 |
| Nil – HK$1,000,000 | **3** | 3 |

## 28 RETIREMENT SCHEME ARRANGEMENTS

The Group arranges for the employees of its subsidiaries and representative offices to join retirement schemes operated in Hong Kong and the PRC.

Prior to 1 December 2000, certain companies now comprising the Group had arranged for their employees to join a defined contribution scheme in Hong Kong. The scheme covered full-time employees and provided for contributions ranging from 5% to 10% of the employees' earnings. Forfeited contributions made by the Group and the related accrued interest can be used to reduce the employer's contribution. During the year ended 31 March 2006, approximately HK$1,000 (2005: HK$5,000) of the aforesaid contributions were forfeited and utilised by the Group to reduce the employer's contribution.

Since 1 December 2000, the subsidiary in Hong Kong has arranged for its employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme") pursuant to the Mandatory Provident Fund Legislation. Under the MPF Scheme, the Group and each of the employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Legislation. For those employees who joined the Group on or before 1 December 2000, the employees' contribution is subject to a cap of monthly earnings of HK$20,000 per employee. For those employees who joined the Group after 1 December 2000, both the employer's and employees' contributions are subject to a cap of monthly earnings of HK$20,000 per employee.

## 28 RETIREMENT SCHEME ARRANGEMENTS *(continued)*

The Group's employees in the representative offices in the PRC participate in the retirement schemes regulated by the respective province and/or the state. In accordance with the respective provincial laws and regulations, the Group is required to contribute a sum of not more than 20% of the total wages payable to each employee of the registered representative offices established in the PRC whilst the relevant employees are required to contribute a sum of not more than 8% of their respective wages as the employees' basic contribution. The Group has no further retirement benefit obligation beyond the above required contributions to the retirement schemes.

The aggregate net amount of employer's contributions made by the Group to the retirement schemes for employees is approximately HK$664,000 (2005: HK$556,000).

## 29 CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit before taxation to cash generated from operations

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before taxation | **135,859** | 33,554 |
| Interest income | **(1,524)** | (280) |
| Interest expense | **5,668** | 2,987 |
| Depreciation of fixed assets | **1,042** | 968 |
| Loss on disposal of fixed assets | **4** | 2 |
| Fair value change on derivative financial instruments | **1,941** | – |
| Changes in working capital | | |
| Trade receivables | **70,587** | 21,771 |
| Bills receivable | **(17,908)** | – |
| Prepayments and other receivables | **(412)** | 472 |
| Inventories | **15,715** | 17,811 |
| Trade payables | **8,843** | (44,421) |
| Accruals and other payables | **(1,151)** | (568) |
| Cash generated from operations | **218,664** | 32,296 |

## 29 CONSOLIDATED CASH FLOW STATEMENT *(continued)*

### (b) Analysis of changes in financing activities

| | Share capital *HK$'000* | Share premium *HK$'000* | Bank loans and import loans *HK$'000* | Obligation under finance lease *HK$'000* |
|---|---|---|---|---|
| Balance at 1 April 2004 | 70,000 | 25,243 | 120,682 | 218 |
| Issue of ordinary shares | 14,000 | 5,460 | – | – |
| Share issuance costs | – | (292) | – | – |
| New import loans | – | – | 613,401 | – |
| Repayment of import loans | – | – | (641,587) | – |
| Repayment of long-term bank loans | – | – | (2,860) | – |
| Repayment of obligation under finance lease | – | – | – | (121) |
| As at 31 March 2005 | 84,000 | 30,411 | 89,636 | 97 |
| As at 1 April 2005 | 84,000 | 30,411 | 89,636 | 97 |
| New import loans | – | – | 723,861 | – |
| Repayment of import loans | – | – | (813,497) | – |
| Repayment of obligation under finance lease | – | – | – | (97) |
| As at 31 March 2006 | 84,000 | 30,411 | – | – |

## 30 COMMITMENTS UNDER OPERATING LEASES

As at 31 March 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | Land and buildings | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Not later than one year | **2,983** | 2,366 |
| Later than one year and not later than five years | **678** | 751 |
| | **3,661** | 3,117 |

## 31 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

### (a) Director's quarters

On 29 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 director's quarters. 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 1 April 2005 to 31 March 2006 (2005: monthly rental of HK$80,000 to Mr. Li Jialin for a term of 12 months from 1 April 2004 to 31 March 2005).

### (b) Key management compensation

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Basic salaries and allowances | **3,719** | 3,718 |
| Discretionary bonuses | **1,000** | 200 |
| Contribution to pension scheme | **186** | 196 |
| | **4,905** | 4,114 |

## 32 EVENTS AFTER THE BALANCE SHEET DATE

(a) 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.

(b) 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 N.V. 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.