

VST HOLDINGS LIMITED
偉仕控股有限公司
(incorporated in the Cayman Islands with limited liability)



(STOCK CODE: 0856)

INTERIM REPORT
2006/2007

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Li Jialin

(Chairman and Chief Executive Officer)

Mr. William Choo

*(Appointed on 1 March 2006
as Chief Operating Officer
and then designated as executive
director on 28 April 2006)*

Non-executive Directors

Mr. Cheng Kam Chung, MH

(Vice Chairman)

Madam Sun Ali

Independent Non-executive Directors

Mr. Ni Zhenwei

Dr. Chan Po Fun Peter

Madam Hui Hiu Fai

(Appointed on 9 May 2006)

Company Secretary

Mr. Lung Cheuk Wah

Qualified Accountant

Mr. Chow Yiu Tat

Audit Committee

Dr. Chan Po Fun Peter *(Chairman)*

Mr. Ni Zhenwei

Madam Hui Hiu Fai

Remuneration Committee

Madam Hui Hiu Fai *(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

Strategic Financial Relations (China)
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

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Cayman Islands Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman)
Limited

Butterfield House

68 Fort Street

P.O. Box 705 GT

George Town

Grand Cayman

Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Abacus Share Registrars Limited

26/F, Tesbury Centre

28 Queen's Road East

Hong Kong

Stock Code

Hong Kong Stock Exchange: 856

Website

<http://www.vst.com.hk>

The board of directors (the “Board”) 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 the “Group”) for the six months ended 30 September 2006 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 September 2006

		Unaudited Six months ended 30 September	
		2006	2005
	Note	HK\$'000	HK\$'000
Turnover	2	1,949,636	1,822,093
Cost of sales		(1,845,373)	(1,761,123)
Gross profit		104,263	60,970
Other gains/(expenses), net	3	2,862	(51)
Administrative expenses		(16,128)	(12,869)
Operating profit	4	90,997	48,050
Finance costs		(1,796)	(3,471)
Profit before taxation		89,201	44,579
Taxation	5	(15,498)	(8,002)
Profit for the period attributable to equity holders of the Company		73,703	36,577
Dividends	6	28,347	12,600
Earnings per share for profit attributable to equity holders of the Company	7		
– Basic		8.43 cents	4.35 cents
– Diluted		8.18 cents	4.35 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2006

		Unaudited As at 30 September 2006 HK\$'000	Audited As at 31 March 2006 HK\$'000
	<i>Note</i>		
NON-CURRENT ASSETS			
Fixed assets	8	2,723	2,653
Available-for-sale financial assets		10,000	10,000
		12,723	12,653
CURRENT ASSETS			
Bills receivable		-	17,908
Trade receivables	9	296,835	141,203
Prepayments and other receivables		4,706	1,708
Inventories		235,037	163,419
Cash and cash equivalents		135,323	219,129
		671,901	543,367
TOTAL ASSETS		684,624	556,020
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	10	88,583	84,000
Reserves		206,998	134,248
Proposed dividend		28,347	39,863
TOTAL EQUITY		323,928	258,111

		Unaudited As at 30 September 2006 HK\$'000	Audited As at 31 March 2006 HK\$'000
	<i>Note</i>		
NON-CURRENT LIABILITIES			
Convertible bonds		33,089	63,544
Deferred taxation		273	237
		33,362	63,781
CURRENT LIABILITIES			
Trade payables	11	247,614	213,233
Accruals and other payables		2,922	1,978
Borrowings	12	42,476	–
Taxation payable		34,322	18,917
		327,334	234,128
TOTAL LIABILITIES		360,696	297,909
TOTAL EQUITY AND LIABILITIES		684,624	556,020
NET CURRENT ASSETS		344,567	309,239
TOTAL ASSETS LESS CURRENT LIABILITIES		357,290	321,892

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 September 2006*

	Unaudited	
	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Net cash used in operating activities	(86,824)	(59,879)
Net cash generated from investing activities	404	19,298
Net cash generated from financing activities	2,614	58,594
Net (decrease)/increase in cash and cash equivalents	(83,806)	18,013
Cash and cash equivalents at the beginning of the period	219,129	46,884
Cash and cash equivalents at the end of the period	135,323	64,897

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2006

	Share capital (unaudited) HK\$'000	Other reserves (unaudited) HK\$'000	Retained earnings (unaudited) HK\$'000	Proposed dividends (unaudited) HK\$'000	Total (unaudited) HK\$'000
Balance at 1 April 2006	84,000	31,407	102,841	39,863	258,111
Net profit for the period	-	-	73,307	-	73,307
New issue of ordinary shares upon conversion of convertible bonds	4,583	28,341	-	-	32,924
Convertible bonds, equity component, net of tax	-	(498)	-	-	(498)
Exchange differences	-	(53)	-	-	(53)
2006 final dividend paid	-	-	-	(39,863)	(39,863)
2007 interim dividend proposed	-	-	(28,347)	28,347	-
Balance at 30 September 2006	<u>88,583</u>	<u>59,197</u>	<u>147,801</u>	<u>28,347</u>	<u>323,928</u>
Balance at 1 April 2005, as previously reported	84,000	30,411	41,595	5,880	161,886
Effect of initial adoption of HKAS 39	-	-	1,941	-	1,941
Balance at 1 April 2005, as restated	84,000	30,411	43,536	5,880	163,827
Net profit for the period	-	-	36,577	-	36,577
2005 final dividend paid	-	-	-	(5,880)	(5,880)
2006 interim dividend proposed	-	-	(12,600)	12,600	-
Balance at 30 September 2005	<u>84,000</u>	<u>30,411</u>	<u>67,513</u>	<u>12,600</u>	<u>194,524</u>

NOTES TO UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS

1. Basis of presentation and accounting policies

The unaudited condensed consolidated interim financial statements for the six months ended 30 September 2006 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

In preparing the unaudited condensed consolidated interim financial statements, the same basis of presentation, accounting policies and methods of computation as set out in the annual financial statements for the year ended 31 March 2006 had been consistently applied except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and has adopted the first time for the current period's condensed consolidated interim financial statements:

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new and revised HKFRSs has no material impact on the Group's condensed consolidated interim financial statements.

2. 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 turnover and consolidated contributions to profit before taxation by principal activity and by geographical location for the six months ended 30 September 2006 of the Group is presented in this report.

3. Other gains/(expenses), net

	Unaudited	
	Six months ended	
	30 September	
	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 period	–	(1,435)
– Gain on settlement of forward contracts upon maturity	–	1,387
Loss on disposal of fixed assets	(135)	(3)
Bank interest income	2,997	–
	<hr/> 2,862 <hr/>	<hr/> (51) <hr/>

4. Operating profit

Operating profit is stated after charging/(crediting) the following:

	Unaudited	
	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Depreciation	520	516
Provision and write-off of doubtful debts	1,226	–
Provision for/(written-back) of obsolete inventories	(2,726)	17
	<hr/> – <hr/>	<hr/> – <hr/>

5. Taxation

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

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

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 profit and loss account represents:

	Unaudited	
	Six months ended	
	30 September	
	2006	2005
	HK\$'000	<i>HK\$'000</i>
Hong Kong profits tax	15,406	7,961
Deferred taxation	36	–
PRC tax	56	41
	15,498	8,002

6. Dividends

	Unaudited	
	Six months ended	
	30 September	
	2006	2005
	HK\$'000	<i>HK\$'000</i>
Interim, proposed dividend of HK3.2 cents (2005: HK1.5 cents) per ordinary share	28,347	12,600

7. Earnings per share for profit attributable to equity holders of the Company

The calculation of basic earnings is based on the profit attributable to equity holders of the Company for the six months ended 30 September 2006 of approximately HK\$73,703,000 (six months ended 30 September 2005: approximately HK\$36,577,000), and weighted average of 874,312,386 (six months ended 30 September 2005: 840,000,000) ordinary shares in issue during the period.

The calculation of diluted earnings is based on the profit attributable to equity holders of the Company for the six months ended 30 September 2006, after adjustment for the interest expense on the convertible bonds of approximately HK\$1,576,000 (six months ended 30 September 2005: Nil), of approximately HK\$75,279,000 (six months ended 30 September 2005: approximately HK\$36,577,000) and weighted average of 920,145,719 (six months ended 30 September 2005: 840,000,000) ordinary shares assuming conversion of all outstanding dilutive potential ordinary shares.

8. Fixed assets

During the period, the Group acquired fixed assets amounting to approximately HK\$725,000 (31 March 2006: HK\$831,000). The disposal of fixed assets during the period amounted to HK\$135,000 (31 March 2006: HK\$4,000).

9. 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 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
0 to 30 days	296,381	140,397
31 to 60 days	220	247
61 to 90 days	–	422
Over 90 days	234	137
	296,835	141,203

10. Share capital

	Unaudited 30 September 2006		Audited 31 March 2006	
	<i>Number of shares</i>	<i>HK\$'000</i>	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised (ordinary shares of HK\$0.10 each)	2,000,000,000	200,000	2,000,000,000	200,000
Issued and fully paid (ordinary shares of HK\$0.10 each)	885,833,333	88,583	840,000,000	84,000

Share option scheme:

On 17 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 Board of the Company 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 9 May 2002. No option pursuant to the Share Option Scheme has been granted for the period ended 30 September 2006.

11. Trade payables

The aging analysis of trade payables is summarized as follows:

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
1 to 60 days	247,614	213,233

12. Borrowings

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Bank import loans, unsecured	42,476	–
The maturity of the above loans:		
Within one year	42,476	–

13. Events after the balance sheet date

Subsequent to the period ended 30 September 2006, the Company disposed of its 10% shareholding interests in each of Dic Video Technology Company Limited (“DIC”) and 迪科視像技術有限公司 (“DVT”) at a total consideration of HK\$8,000,000 on 26 October 2006.

14. Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 September 2006 (31 March 2006: Nil).

15. Commitments under operating leases

As at 30 September 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Not later than one year	3,048	2,983
Later than one year but not later than five years	3,194	678
	6,242	3,661

16. Related party transactions

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

- (i) Key management compensation

	Unaudited Six months ended 30 September 2006 HK\$'000	2005 HK\$'000
Salaries and other short-term employee benefits	1,707	1,716

(ii) Rental agreement

On 31 March 2006, 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 1 April 2006 to 31 March 2007.

The above constituted connected transaction under the Listing Rules. The Directors are of the opinion that the above transaction was entered into on normal commercial terms and on an arm's length basis and 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.

17. Seasonality of interim operations

The effect of seasonal fluctuation on the Group's interim operations was immaterial.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's unaudited consolidated turnover for the six months ended 30 September 2006 amounted to approximately HK\$1,949,636,000 (2005: approximately HK\$1,822,093,000), representing an increase of approximately 7% compared with that of the corresponding period last year. Unaudited consolidated net profit attributable to equity holders for the six months ended 30 September 2006 amounted to approximately HK\$73,703,000 (2005: approximately HK\$36,577,000), representing an increase of around 102% as compared with that of the corresponding period last year. The basic earnings per share for the six months ended 30 September 2006 amounted to approximately HK8.43 cents (2005: approximately HK4.35 cents) per share, representing an increase of around 94% 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 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 customers.

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 launch of premium memory modules under our brand name “KISS” have evoked positive and enthusiastic response from the market in light of its high reliability and outstanding quality.

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. The Group was once again honorably bestowed by Seagate the “Distributor of The Year Award FY 2006” award. Moreover, the Group was also awarded by AMD as the “Top Performing Distributor 2005 (China)” for recognition of the Group’s outstanding performance.

As a result of the Group’s dedicated efforts, in September 2006, we successfully obtained two authorized distributorship for IT products. The first one is Western Digital (“WD”)’s disk drive products and such other products as may from time to time be designated by WD which is one of the world’s leading suppliers of hard disk drives and data storage solutions. The second is the appointment by PDP Systems Inc. as the exclusive distributor in the territory of China to sell and distribute the Patriot memory and flash memory modules.

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 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 PRC and Hong Kong have mutually announced further liberalization measures under the third phase of the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA III) which have been effective since 1 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.

Leveraging on its internationally reputable IT product manufacturers including Seagate, AMD, and Western Digital 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 WD's disk drive products plus PDP Systems Inc.'s Patriot memory and flash memory modules. As a result, the business of our Group will grow 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.

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, our 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 30 September 2006 are consistent with those disclosed in the annual report of the Company for the year ended 31 March 2006.

The Group recorded total current assets of approximately HK\$671.9 million as at 30 September 2006 (31 March 2006: approximately HK\$543.4 million) and total current liabilities of approximately HK\$327.3 million as at 30 September 2006 (31 March 2006: approximately HK\$234.1 million). Current assets included cash and cash equivalents of approximately HK\$135.3 million (31 March 2006: HK\$219.1 million) 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\$42.5 million as at 30 September 2006 (31 March 2006: nil), and are repayable within one year.

As at 30 September 2006, the gearing ratio, calculated as the total borrowings less pledged bank deposits and divided by shareholders' equity, was approximately 0.23 (31 March 2006: 0.25).

The current ratio of the Group, calculated as the total current assets divided by the total current liabilities, was approximately 2.05 times as at 30 September 2006 (31 March 2006: approximately 2.32 times).

During the period under review, ABN AMRO Bank NV have exercised its option to convert HK\$33,000,000.00 zero coupon convertible bonds at conversion price of HK\$0.72 into 45,833,333 conversion shares.

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.

Available-for-sale Financial Assets

Subsequent to the period ended 30 September 2006, the Company disposed of its 10% shareholding interests in each of Dic Video Technology Company Limited ("DIC") and 迪科視像技術有限公司 ("DVT") at a total consideration of HK\$8,000,000 on 26 October 2006. 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.

Employees

As at 30 September 2006, the Group had 64 (2005: 65) full time employees. The remuneration paid for the six months ended 30 September 2006 amounted to approximately HK\$7,003,000 (2005: HK\$6,287,000).

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 31 March 2006.

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

As at 30 September 2006, the interests of the directors (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	Beneficial owner	38,132,000	4.30%
	Company	Interest of a controlled corporation	241,500,000 ordinary shares Long position (Note 1)	27.26%
	Company	Family interest	165,000,000 ordinary shares Long position (Note 2)	18.63%
Mr. Cheng Kam Chung	Company	Beneficial owner	9,000,000 ordinary shares Long position	1.01%
	Company	Family and other	97,500,000 ordinary shares Long position (Note 3)	11.01%

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 an 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. 97,500,000 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 non-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 30 September 2006, 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' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2006, so far 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 (<i>Note 1</i>)	27.26%
Liu Li	Beneficial owner	165,000,000 ordinary shares Long position	18.63%
	Family and other	241,500,000 ordinary shares Long position (<i>Note 2</i>)	27.26%
CKC Holdings Limited	Beneficial owner	97,500,000 ordinary shares Long position (<i>Note 3</i>)	11.01%
ABN AMRO Bank N.V.	Interest of controlled corporation	107,075,333 ordinary shares Long position (<i>Note 4</i>)	12.09%
Deutsche Bank Aktiengesellschaft	Beneficial owner	53,150,000 ordinary shares Long position (<i>Note 5</i>)	6.00%
Zhang Qing	Beneficial owner	3,040,000 ordinary shares Long position	0.34%
	Interest of controlled corporation	47,521,333 ordinary shares Long position (<i>Note 6</i>)	5.37%

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 non-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 shareholding held by CKC Holdings Limited and Mr. Cheng Kam Chung as at 30 September 2006 is approximately 12.02%.
4. These shares are held beneficially by ABN AMRO Holding NV.
5. These shares are held beneficially by Deutsche Bank Aktiengesellschaft.
6. These shares are held by Potent Holdings Limited, the entire issued share capital of which is held by Mr. Zhang Qing.

Save as disclosed above, as at 30 September 2006, 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 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 9 May 2002. No option has been granted to the Directors during the period under review.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 30 September 2006, each of CKC Holdings Limited and L & L Limited was indirectly interested in the following company that was involved in the business of distribution of IT products:

Company	Name of direct shareholder	Interests	Place of operation
VST Technology Sdn Bhd	VST Group Limited ⁽¹⁾	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:

- 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
- The business of the above company is restricted exclusively in Malaysia by its major suppliers and to the best of the knowledge of the Directors, after making due and careful enquiries, the above company has not been, nor 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.

⁽¹⁾ A company incorporated in Hong Kong.

CORPORATE GOVERNANCE

Throughout the six months ended 30 September 2006, 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 1 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 separated 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.

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.

MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code as set out in appendix 10 of the Listing Rules. Following specific enquiry, each of the Directors confirmed that he has complied with the Model Code during the period.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Directors have declared an interim dividend of HK3.2 cents (2005: HK1.5 cents) per share for the six months ended 30 September 2006. The interim dividend will be payable on or around 12 January 2007 to those shareholders whose names appear on the register of members on 5 January 2007. The register of members of the Company will be closed from 3 January 2007 to 5 January 2007, 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, 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on Tuesday, 2 January 2007.

AUDIT COMMITTEE

The Company has established an audit committee on 17 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 30 September 2006 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 29 September 2005 consisting of three independent non-executive Directors 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, 11 December 2006