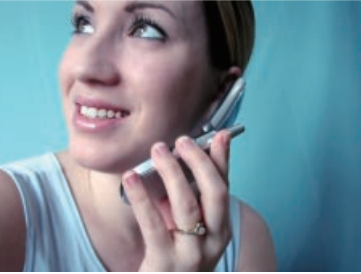




VST HOLDINGS LIMITED  
(incorporated in the Cayman Islands with limited liability)

STOCK CODE: 856



INTERIM REPORT  
2007/ 2008

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## CORPORATE INFORMATION

### Board of Directors

#### **Executive Directors**

Mr. Li Jialin

*(Chairman and Chief Executive Officer)*

Mr. William Choo

#### **Independent Non-executive Directors**

Mr. Ni Zhenwei

Dr. Chan Po Fun Peter

Madam Hui Hiu Fai

Mr. Li Wei

*(Appointed on 11 August 2007)*

#### **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

Mr. Li Wei

*(Appointed on 11 August 2007)*

#### **Remuneration Committee**

Madam Hui Hiu Fai *(Chairman)*

Mr. Ni Zhenwei

Dr. Chan Po Fun Peter

Mr. Li Wei

*(Appointed on 11 August 2007)*

#### **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**

Cricknet 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

Grand Cayman KY1-1107

Cayman Islands

#### **Hong Kong Branch Share Registrar and Transfer Office**

Tricor Abacus Limited

26/F, Tesbury Centre

28 Queen's Road East

Hong Kong

#### **Stock Code**

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 2007 as follows:

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 September 2007

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2007</b>	<b>2006</b>
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	2	<b>2,803,160</b>	1,949,636
Cost of sales		<b>(2,664,258)</b>	(1,845,373)
Gross profit		<b>138,902</b>	104,263
Other gains, net	3	<b>9,513</b>	2,862
Administrative expenses		<b>(20,921)</b>	(16,128)
Operating profit	4	<b>127,494</b>	90,997
Finance costs		<b>(2,147)</b>	(1,796)
Profit before taxation		<b>125,347</b>	89,201
Taxation	5	<b>(21,154)</b>	(15,498)
Profit for the period attributable to equity holders of the Company		<b>104,193</b>	73,703
Dividend	6	–	28,347
Earnings per share for profit attributable to equity holders of the Company	7		
– Basic		<b>11.18 cents</b>	8.43 cents
– Diluted		<b>11.18 cents</b>	8.18 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**
*As at 30 September 2007*

		<b>Unaudited As at 30 September 2007 HK\$'000</b>	Audited As at 31 March 2007 HK\$'000
	<i>Note</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	<b>2,430</b>	2,793
Available-for-sale financial assets		<b>24,954</b>	9,467
Deposit	9	<b>66,247</b>	–
		<b>93,631</b>	12,260
<b>CURRENT ASSETS</b>			
Trade receivables	10	<b>500,058</b>	346,434
Prepayments and other receivables		<b>5,646</b>	3,620
Inventories		<b>220,080</b>	287,661
Pledged bank deposits		<b>10,300</b>	10,000
Cash and cash equivalents		<b>84,491</b>	113,926
		<b>820,575</b>	761,641
<b>TOTAL ASSETS</b>		<b>914,206</b>	773,901
<b>EQUITY</b>			
Capital and reserves attributable to the equity holders of the Company			
Share capital	11	<b>93,167</b>	93,167
Reserves		<b>390,450</b>	283,069
Proposed dividend		–	42,857
<b>TOTAL EQUITY</b>		<b>483,617</b>	419,093

		<b>Unaudited As at 30 September 2007 HK\$'000</b>	Audited As at 31 March 2007 HK\$'000
	<i>Note</i>		
<b>NON-CURRENT LIABILITIES</b>			
Deferred taxation		<b>257</b>	200
		<b>257</b>	200
<b>CURRENT LIABILITIES</b>			
Trade payables	12	<b>309,171</b>	333,235
Borrowings	13	<b>84,571</b>	–
Accruals and other payables		<b>3,759</b>	3,691
Taxation payable		<b>32,831</b>	17,682
		<b>430,332</b>	354,608
<b>TOTAL LIABILITIES</b>		<b>430,589</b>	354,808
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>914,206</b>	773,901
<b>NET CURRENT ASSETS</b>		<b>390,243</b>	407,033
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>483,874</b>	419,293

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2007

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net cash used in operating activities	<b>(1,790)</b>	(86,824)
Net cash (used in)/generated from investing activities	<b>(69,550)</b>	404
Net cash generated from financing activities	<b>41,714</b>	2,614
Net decrease in cash and cash equivalents	<b>(29,626)</b>	(83,806)
Cash and cash equivalents at the beginning of the period	<b>113,926</b>	219,129
Effect of foreign exchange rate changes	<b>191</b>	–
Cash and cash equivalents at the end of the period	<b>84,491</b>	135,323

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2007

	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 2007	93,167	91,565	191,504	42,857	419,093
Net profit for the period	-	-	104,193	-	104,193
Exchange differences	-	701	-	-	701
Realisation of reserve upon disposal of available-for-sale financial assets	-	(2,467)	-	-	(2,467)
Increase in fair value of available-for-sale financial assets	-	4,954	-	-	4,954
2007 final dividend – paid	-	-	-	(42,857)	(42,857)
Balance at 30 September 2007	93,167	94,753	295,697	-	483,617
Balance at 1 April 2006	84,000	31,407	102,841	39,863	258,111
Net profit for the period	-	-	73,703	-	73,703
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	-	-	(396)	(39,863)	(40,259)
2007 interim dividend – proposed	-	-	(28,347)	28,347	-
Balance at 30 September 2006	88,583	59,197	147,801	28,347	323,928



## NOTES TO UNAUDITED CONDENSED CONSOLIDATED ACCOUNTS

### 1. Basis of presentation and accounting policies

The unaudited condensed consolidated accounts for the six months ended 30 September 2007 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 accounts, the same basis of presentation, accounting policies and methods of computation as set out in the annual report for the year ended 31 March 2007 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 accounts:

- Amendment to HKAS 1, “Capital disclosures”
- HKFRS 7, “Financial statements: Disclosures”
- HK(IFRIC)-Int 8, “Scope of HKFRS 2”
- HK(IFRIC)-Int 9, “Reassessment of embedded derivatives”
- HK(IFRIC)-Int 10, “Interim financial reporting and impairment”
- HK(IFRIC)-Int 11, “HKFRS 2 – Group and treasury share transactions”

The adoption of the above standard, amendment to standard and interpretations has no material impact on the Group’s condensed consolidated accounts.

### 2. Segment information

The Group is operating in a single business segment of distribution of information technology products and most 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 2007 is presented in this report.

### 3. Other gains, net

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Gain on disposal of available-for-sale financial assets	<b>8,035</b>	–
Bank interest income	<b>1,478</b>	2,997
Loss on disposal of property, plant and equipment	–	(135)
	<b>9,513</b>	2,862

### 4. Operating profit

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

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Depreciation	<b>460</b>	520
Provision and write-off of doubtful debts	<b>245</b>	1,226
Write-back of obsolete inventories	<b>(263)</b>	(2,726)

### 5. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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% (2006: 17.5%).

Taxation in the People's Republic of China ("PRC") represents the Enterprise Income Tax ("EIT") related to two subsidiaries and certain representative offices established by the Group in the PRC. The subsidiaries in the PRC are subject to EIT rate of 15% (2006: 15%). The EIT for the representative offices has been calculated based on the estimated deemed taxable profit for the period 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:

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Hong Kong profits tax	<b>21,050</b>	15,406
PRC income tax	<b>47</b>	56
Deferred taxation	<b>57</b>	36
	<b>21,154</b>	15,498

On 16 March 2007, the National People's Congress of the PRC approved the Corporate Income Tax Law (the "new CIT Law"). The new CIT Law reduces or increases the corporate income tax rate for domestic enterprises or foreign invested enterprises from 33% or 24% or 15% to a fixed rate of 25% with effect from 1 January 2008. The new CIT Law provides that further detailed measures and regulations on the determination of taxable profit, tax incentives and grandfathering provisions will be issued by the State Council in due course. As and when the State Council announces the additional regulations, the Group will assess their impact, if any, and this change in accounting estimate will be accounted for prospectively.

## 6. Dividend

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Interim, proposed dividend of HK\$Nil (2006: HK3.2 cents) per ordinary share	<b>–</b>	28,347

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

### Basic

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

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Profit attributable to equity holders of the Company	<b>104,193</b>	73,703
Weighted average number of ordinary shares in issue (thousand)	<b>931,667</b>	874,312

### Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares.

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Profit attributable to equity holders of the Company	<b>104,193</b>	73,703
Interest expense on convertible bonds (net of tax)	<b>–</b>	1,576
Profit used to determine diluted earnings per share	<b>104,193</b>	75,279
Weighted average number of ordinary shares in issue (thousand)	<b>931,667</b>	874,312
Adjustment for – assumed conversion of convertible bonds (thousand)	<b>–</b>	45,834
	<b>931,667</b>	920,146

During the six months period ended 30 September 2006, the Company had one category of dilutive potential ordinary shares which is convertible bonds.

The convertible bonds were assumed to have been converted into ordinary shares and the net profit was adjusted to eliminate the interest expense less the tax effect. The weighted average number of ordinary shares in issue was compared with the number of shares that would have been issued assuming the conversion of the convertible bonds.

Up to 21 December 2006, all the convertible bonds had been converted into new shares. Thereafter, the Company did not have dilutive potential ordinary shares.

## 8. Property, plant and equipment

During the period, the Group acquired property, plant and equipment amounting to approximately HK\$233,000 (31 March 2007: HK\$1,580,000). The disposal of property, plant and equipment during the period amounted to HK\$136,000 (31 March 2007: HK\$317,000).

## 9. Deposit

It represents a deposit paid to certain shareholders ("the Vendors") of ECS Holdings Limited ("ECS"), a company listed on Singapore Exchange Securities Trading Limited, for the acquisition of ECS by the Company. On 7 August 2007, the Company and the Vendors of ECS entered into an agreement ("Agreement") to purchase 191,604,009 shares in ECS ("ECS Shares") representing approximately 52.5% of the entire issued capital of ECS at a price per ECS Share of S\$0.668 (approximately HK\$3.55).

## 10. Trade receivables

The Group grants credit period to 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. The ageing analysis of trade receivables (net of provision for doubtful receivable) is summarised as follows:

	<b>Unaudited 30 September 2007 HK\$'000</b>	Audited 31 March 2007 HK\$'000
0 to 30 days	<b>473,603</b>	345,209
31 to 60 days	<b>26,406</b>	25
61 to 90 days	<b>–</b>	–
Over 90 days	<b>49</b>	1,200
	<b>500,058</b>	346,434

## 11. Share capital

	Unaudited 30 September 2007		Audited 31 March 2007	
	<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)	<b>2,000,000,000</b>	<b>200,000</b>	2,000,000,000	200,000
Issued and fully paid (ordinary shares of HK\$0.10 each)	<b>931,666,666</b>	<b>93,167</b>	931,666,666	93,167

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 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. No option pursuant to the Share Option Scheme has been granted up to 30 September 2007.

## 12. Trade payables

The ageing analysis of trade payables is summarised as follows:

	<b>Unaudited</b> <b>30 September</b> <b>2007</b> <b>HK\$'000</b>	Audited 31 March 2007 HK\$'000
0 to 60 days	<b>309,171</b>	333,235

## 13. Borrowings

	<b>Unaudited</b> <b>30 September</b> <b>2007</b> <b>HK\$'000</b>	Audited 31 March 2007 HK\$'000
Short-term bank loan, unsecured	<b>65,832</b>	–
Import bank loans, unsecured	<b>18,739</b>	–
	<b>84,571</b>	–
The maturity of the above loans:		
Within one year	<b>84,571</b>	–

Interest expense on the above borrowings amounted to HK\$2,147,000 (six months ended 30 September 2006: HK\$1,796,000) has been charged in the profit and loss account.

## 14. Events after the balance sheet date

The following significant transactions took place subsequent to the period ended 30 September 2007:

### (a) Very Substantial Acquisition

On 30 October 2007, the purchase of the 191,604,009 ECS Shares were completed and the total consideration paid in cash to the Vendors was approximately S\$127,990,000 (or approximately HK\$680,907,000).

Upon completion of the purchase of the 191,604,009 ECS Shares, the Company made a mandatory cash offer ("Offer") in Singapore to acquire the remaining ECS Shares. The Offer was based on a price per ECS Share of S\$0.668 (approximately HK\$3.55).

The Offer is expected to be completed by the end of December 2007. Assuming that the Offer to the remaining shareholders of ECS is accepted in full, the total consideration to be paid in cash is approximately S\$118,749,000 (or approximately HK\$631,745,000).

The acquisition of the ECS Shares pursuant to the Agreement and the Offer constitutes a very substantial acquisition under the Listing Rules, which was approved by the shareholders of the Company in the extraordinary general meeting held on 23 October 2007.

(b) Placing of existing shares and top-up subscription of new shares

For the purpose of funding the acquisition described in the preceding paragraph, the Company entered into a placing agreement dated 10 October 2007 ("Placing Agreement") with, among others, L & L Limited (a shareholder of the Company) ("L & L Limited") and two placing agents namely Macquarie Securities Limited and Merrill Lynch Far East Limited ("Placing Agents"), and a subscription agreement dated 10 October 2007 ("Subscription Agreement") with L & L Limited. Pursuant to the Placing Agreement, L & L Limited placed 186,000,000 shares in the Company through the Placing Agents to independent third parties. Pursuant to the Subscription Agreement, L & L Limited then subscribed for the same number of shares in the Company by way of top-up subscription. The price for the shares placed and subscribed was HK\$3.05 per Share. The net proceeds received by the Company is approximately HK\$552,004,000.

The Shares issued pursuant to the Subscription Agreement ranked *pari passu* among themselves and with Shares in issue and the Placing was fully underwritten by the Placing Agents.

(c) Raising of a bridge loan

For the purpose of funding the acquisition described in the preceding paragraphs, the Company entered into a facility agreement on 23 October 2007 with ABN AMRO Bank N.V., Hong Kong branch, by which a bridge loan with a maximum amount of HK\$800,000,000 was arranged for partial settlement of cash consideration of the acquisition.

As security for the bridge loan, the ECS Shares acquired or to be acquired by the Company were pledged to the bank. The bridge loan bears interest at the Hong Kong Inter Bank Offered Rate plus 2% per annum for the first three months and at the Hong Kong Inter Bank Offered Rate plus 3% per annum for the second three months and is repayable in full on 30 April 2008.



### 15. Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 September 2007 (31 March 2007: Nil).

### 16. Commitments under operating leases

As at 30 September 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>Unaudited 30 September 2007 HK\$'000</b>	Audited 31 March 2007 HK\$'000
Not later than one year	<b>3,950</b>	4,723
Later than one year but not later than five years	<b>2,005</b>	3,191
	<b>5,955</b>	7,914

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

The Group's unaudited consolidated turnover for the six months ended 30 September 2007 amounted to approximately HK\$2,803,160,000 (2006: approximately HK\$1,949,636,000), representing an increase of approximately 44% compared with that of the corresponding period last year. Unaudited consolidated net profit attributable to equity holders for the six months ended 30 September 2007 amounted to approximately HK\$104,193,000 (2006: approximately HK\$73,703,000), representing an increase of around 41% as compared with that of the corresponding period last year. The basic earnings per share for the six months ended 30 September 2007 amounted to approximately HK11.18 cents (2006: approximately HK8.43 cents) per share, representing an increase of around 33% as compared with that of the same period last year.

### Business Review

The Group has consistently reported strong growth and fruitful returns to shareholders by adopting industry-leading management standard, introducing new product lines and delivering value-added services to customers along with the booming information technology ("IT") industry in the PRC. During the period under review, the Group recorded remarkable results as detailed in the Financial Review section.

In order to strengthen the Group's market competitiveness, we aimed to widen our product range and provide more choices in the IT products market for our customers. During the period under review, our Group has successfully obtained the authorised distributorship in the PRC from A-DATA Technology Co., which is Taiwan's largest and the world's second largest DRAM memory module provider. Furthermore, our group's distribution strength and brand promotion were recognised by the world's leading Personal Computer ("PC") manufacturers. In August 2007, our group secured the authorised distributorship for IBM ThinkPad notebook series in the PRC from Lenovo Group Ltd., the largest PC manufacturer in the PRC. For our current products distributed, the Group consistently strengthened the operations in the PRC and achieved outstanding performance, and our endeavors were recognised by our vendors. During the period under review, the Group was once again honorably bestowed by Seagate the "Outstanding Achievement: Personal Storage – Seagate FY 2007".

The Group's strong and sustainable growth is initiated by our well-rounded operational model and industry-leading management expertise. By effectively managing our distribution network, we have maximised synergies between our distribution channels, achieving "win-win" in terms of raising the Group's profit margin as well as protecting the interest of distributors. Riding on the solid cooperative relationships with our suppliers and distributors, our Group has mastered market dominance position that effectively enhanced gross margin of our products and at the same time maintained lower than industry average inventory and accounts receivable turnover days.

### Prospects

The robust economy in the PRC makes PRC the focus of the world. With the steps of Beijing 2008 Olympic Games and the Shanghai 2010 World Expo, the IT sector has been one of the fastest growing industries. At the same time, pursuant to the release of the Microsoft Vista during early 2007, there will be a large demand for IT products in the region. Our Group will capitalise such positive sentiment and increase its sales by proactively seeking opportunities to strengthen our distribution network through expanding the sales network in Hong Kong and the PRC.

Leveraging on its internationally reputable IT 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. In order to enhance the market share of our products distributed, our Group will closely cooperate with our suppliers, and consistently strengthen and optimise the operations in the PRC.

During the period under review, our Group has obtained the authorised distributorship for A-DATA Technology Co.'s A-DATA memory and successfully expanded our product line to PC. These demonstrated our powerful capabilities of distributing IT products. Our 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, our Group is able to diversify its revenue stream and appeal to a wide range of customer preferences. At the same time, our Group will increase the profitability by reaching economies of scale.

During the period under review, our Group announced a very substantial acquisition of a Singapore listed Company, ECS Holdings Limited (“ECS”). On 7 August 2007, the Company and the vendor entered into an agreement to purchase 52.5% of the entire issued capital of ECS. ECS is an investment holding company and its subsidiaries are principally engaged in the business of distribution of IT products and provision of a range of enabling infrastructure products, IT services and IT products. Headquartered in Singapore, it has 32 branches locating in the PRC, Indonesia, Malaysia, Philippine and Thailand. We believe that through the acquisition, the Group should be able to effectively expand its range of products and services as well as increase its penetration into different Asian markets. The acquisition of ECS is expected to create synergies due to economies of scale and sharing of costs and also enhance our overall relationships with certain customers and suppliers. Upon the completion of acquisition, the Group will become one of the largest IT products distributors in Asia Pacific region.

The Group’s experienced management has persistently improved and streamlined the managing method to reach industry-leading standard. The management believes the Group will seize the opportunities of robust economy growth in the PRC and strengthen the operations in PRC market. In addition to the rapidly expansion of geographical coverage and enrichment of product portfolio through acquisition, the Group will endeavour to enhance its value by various measures including effective cost control, risk management, acute responsiveness to market changes, strong capabilities in sales and marketing in order to stay ahead of the competition and achieve even more promising returns for its shareholders in the coming years.

### Liquidity and Financial Resources

The Group’s treasury policies adopted for the six months ended 30 September 2007 are consistent with those disclosed in the annual report of the Company for the year ended 31 March 2007.

The Group recorded total current assets of approximately HK\$820.6 million as at 30 September 2007 (31 March 2007: approximately HK\$761.6 million) and total current liabilities of approximately HK\$430.3 million as at 30 September 2007 (31 March 2007: approximately HK\$354.6 million). Current assets included cash and cash equivalents of approximately HK\$84.5 million (31 March 2007: HK\$113.9 million) were mainly denominated in Hong Kong dollars and United States dollars. The Group’s bank borrowings, which were denominated in United States dollars, amounted to approximately HK\$84.6 million as at 30 September 2007 (31 March 2007: nil), and are repayable within one year.

As at 30 September 2007, the gearing ratio, calculated as the total borrowings less pledged bank deposits and divided by shareholders' equity, was 0.15 (31 March 2007: Nil).

The current ratio of the Group, calculated as the total current assets divided by the total current liabilities, was approximately 1.91 times as at 30 September 2007 (31 March 2007: approximately 2.15 times).

### **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 in Hong Kong dollars and United States dollars.

### **Employees**

As at 30 September 2007, the Group had 181 (2006: 64) full time employees. The remuneration paid for the six months ended 30 September 2007 amounted to approximately HK\$8,249,000 (2006: HK\$7,003,000).

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 existing 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 2007.

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

As at 30 September 2007, the interests of the directors (the "Directors") and chief executives 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	42,296,000 ordinary shares Long position	4.54%
	Company	Interest of a controlled corporation	241,500,000 ordinary shares Long position ( <i>Note 1</i> )	25.92%
	Company	Family interest	165,000,000 ordinary shares Long position ( <i>Note 2</i> )	17.71%

*Notes:*

- 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.
- 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).

Save as disclosed above, as at 30 September 2007, 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 2007, 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> )	25.92%
Liu Li	Beneficial owner	165,000,000 ordinary shares Long position	17.71%
	Family interest	42,296,000 ordinary shares Long position ( <i>Note 2</i> )	4.54%
	Interest of a controlled corporation	241,500,000 ordinary shares Long position ( <i>Note 3</i> )	25.92%
CKC Holdings Limited	Beneficial owner	62,950,000 ordinary shares Long position ( <i>Note 4</i> )	6.76%
ABN AMRO Bank N.V.	Interest of controlled corporation	90,805,333 ordinary shares Long position ( <i>Note 5</i> )	9.75%
Zhang Qing	Beneficial owner	3,040,000 ordinary shares Long position	0.32%
	Interest of controlled corporation	47,521,333 ordinary shares Long position ( <i>Note 6</i> )	5.10%
Atlantis Investment Management Limited	Beneficial owner	51,822,000 ordinary shares Long Position	5.56%



*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. 42,296,000 shares of the Company are held by Mr. Li Jialin (the Chairman, Chief Executive Officer and an executive Director of the Company), the spouse of Madam Liu Li.
3. 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).
4. 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 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 2007 is approximately 7.72%. Mr. Cheng Kam Chung was a Vice Chairman and non-executive Director of the Company until he resigned on 10 August 2007. Neither Mr. Cheng Kam Chung nor Madam Kwan How Yin currently holds any position or role in the Group.
5. These shares are held beneficially by ABN AMRO Holding NV.
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 2007, 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.

## **CORPORATE GOVERNANCE**

Throughout the six months ended 30 September 2007, 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 the 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.

## **CONNECTED TRANSACTION**

On 1 April 2007, 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\$150,000 to Mr. Li Jialin for a term of 12 months from 1 April 2007 to 31 March 2008.

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 the terms of the above transaction are fair and reasonable so far as the shareholders of the Company are concerned and in the interests of the Company and the shareholders of the Company taken as a whole.

The above connected transaction constituted an exempted connected transaction under the Listing Rules as each of the percentage ratios is less than 0.1% as defined under the Listing Rules.

## **SEASONALITY OF INTERIM OPERATIONS**

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

## **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**

The Directors do not recommend any interim dividend for the six months ended 30 September 2007 (2006: interim dividend of HK3.2 cents per share).

## **AUDIT COMMITTEE**

The Company has established an audit committee on 17 April 2002 consisting of four 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 2007 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 four 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, 19 November 2007

*As at the date hereof, the Board comprises Mr. Li Jialin and Mr. William Choo as executive directors; and Mr. Ni Zhenwei, Dr. Chan Po Fun Peter, Madam Hui Hiu Fai, and Mr. Li Wei as independent non-executive directors.*