



**VASO DIGITAL INTERNATIONAL HOLDINGS LIMITED**  
**華索國際控股有限公司\***  
(incorporated in the Cayman Islands with limited liability)

Interim  
Report 2003

## **Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)**

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*This report, for which the directors of Vaso Digital International Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## FINANCIAL RESULTS

The board of directors (the "Board") of the Company announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three and six months ended 30th September, 2003 together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

	Notes	Six months ended 30th September,		Three months ended 30th September,	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Turnover	2	<b>45,251</b>	9,531	<b>21,023</b>	5,349
Cost of sales		<b>(41,381)</b>	(7,371)	<b>(19,473)</b>	(4,147)
Gross profit		<b>3,870</b>	2,160	<b>1,550</b>	1,202
Other revenue		<b>9</b>	–	–	–
Distribution costs		<b>(65)</b>	(43)	<b>(25)</b>	(29)
Administrative expenses		<b>(1,256)</b>	(1,166)	<b>(664)</b>	(614)
Other operating expenses		<b>(647)</b>	(259)	<b>(210)</b>	(136)
Profit from operations		<b>1,911</b>	692	<b>651</b>	423
Finance costs		<b>(44)</b>	–	–	–
Profit before taxation	3	<b>1,867</b>	692	<b>651</b>	423
Taxation	4	<b>(341)</b>	–	<b>(128)</b>	–
Profit attributable to shareholders		<b>1,526</b>	692	<b>523</b>	423
Dividend	6	–	–	–	–
Earnings per share	5				
– Basic (cent)		<b>0.29</b>	0.16	<b>0.10</b>	0.10
– Diluted (cent)		<b>N/A</b>	N/A	<b>N/A</b>	N/A

## Consolidated Balance Sheet

	<i>Notes</i>	<b>As at 30th September, 2003 (Unaudited) HK\$'000</b>	As at 31st March, 2003 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets		<b>2,767</b>	842
Non-trading securities		<b>4,000</b>	4,000
		<b>6,767</b>	4,842
<b>CURRENT ASSETS</b>			
Trade receivables	7	<b>15,746</b>	22,138
Prepayments, deposits and other receivables		<b>3,025</b>	3,083
Pledged bank deposits		–	1,722
Cash and bank balances		<b>8,812</b>	8,540
		<b>27,583</b>	35,483
<b>CURRENT LIABILITIES</b>			
Trade payables	8	<b>8,375</b>	14,410
Accrued liabilities and other payables		<b>634</b>	719
Tax liabilities		<b>547</b>	206
Bank overdraft		–	1,722
		<b>9,556</b>	17,057
<b>NET CURRENT ASSETS</b>		<b>18,027</b>	18,426
<b>NET ASSETS</b>		<b>24,794</b>	23,268
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>5,200</b>	5,200
Reserves		<b>19,594</b>	18,068
<b>SHAREHOLDERS' FUNDS</b>		<b>24,794</b>	23,268

**Condensed Consolidated Cash Flow Statement**

	<b>Six months ended 30th September, 2003 (Unaudited) HK\$'000</b>	Six months ended 30th September, 2002 (Unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	<b>2,264</b>	(589)
Net cash (outflow)/inflow from investing activities	<b>(270)</b>	388
Net cash from financing activity	<u>—</u>	<u>—</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<b>1,994</b>	(201)
Cash and cash equivalents at beginning of period	<u>6,818</u>	<u>244</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>8,812</b>	<b>43</b>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u>8,812</u>	<u>43</u>

**Consolidated Statement of Changes in Equity**

	<b>Share capital HK\$'000</b>	<b>Share premium HK\$'000</b>	<b>Accumulated (losses)/profits HK\$'000</b>	<b>Total HK\$'000</b>
At 1st April, 2002	78	3,930	(2,634)	1,374
Net profit for the period	<u>—</u>	<u>—</u>	<u>692</u>	<u>692</u>
At 30th September, 2002	<u>78</u>	<u>3,930</u>	<u>(1,942)</u>	<u>2,066</u>
At 1st April, 2003	5,200	17,816	252	23,268
Net profit for the period	<u>—</u>	<u>—</u>	<u>1,526</u>	<u>1,526</u>
At 30th September, 2003	<u>5,200</u>	<u>17,816</u>	<u>1,778</u>	<u>24,794</u>

Notes:

#### **1. Group reorganisation and basis of preparation**

The Company was incorporated in the Cayman Islands on 27th June, 2002 as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands. Pursuant to a group reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the companies now comprising the Group on 19th October, 2002. Further details of the Group Reorganisation are set out in the Company's prospectus dated 30th October, 2002 (the "Prospectus"). The shares of the Company were listed on GEM on 12th November, 2002.

The unaudited consolidated results have been prepared using the merger basis of accounting as a result of the Group Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries since their respective dates of incorporation rather than from the date of their acquisition pursuant to the Group Reorganisation.

The unaudited consolidated interim accounts have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The accounting policies and methods of computation adopted in the preparation of these unaudited consolidated interim accounts are consistent with those adopted in the annual accounts for the year ended 31st March, 2003 except for the new adoption of Statement of Standard Accounting Practice No. 12 (Revised) "Accounting for Income Taxes" issued by the Hong Kong Society of Accountants, which has no significant impact on the unaudited consolidated results for the six months ended 30th September, 2003.

#### **2. Turnover and segment information**

The Group's turnover represents the net invoiced value of goods sold, after allowance for returns and trade discount, when applicable. All significant intra-group transactions have been eliminated on consolidation.

The Group is currently organised into the following business segments – integrated circuit recorder ("IC Recorders") product segment, mpeg-1 audio layer-3 players ("MP3 players") product segment, digital versatile disc ("DVD players") product segment and other products segment. These divisions are the basis on which the Group reports its primary segment information.

(a) *Business segments*

The following tables present turnover, results and certain assets, liabilities and capital expenditure information for the Group's business segments.

	Six months ended 30th September,									
	IC Recorders		MP3 players		DVD players		Others		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover:										
External sales	<b>6,081</b>	4,119	<b>2,947</b>	3,854	<b>29,019</b>	1,558	<b>7,204</b>	-	<b>45,251</b>	9,531
Segment results	<b>1,319</b>	924	<b>83</b>	845	<b>2,279</b>	391	<b>130</b>	-	<b>3,811</b>	2,160
Interest income									9	-
Net unallocated expenses									<b>(1,909)</b>	<b>(1,468)</b>
Profit from operations									<b>1,911</b>	692
Finance costs									<b>(44)</b>	-
Profit before taxation									<b>1,867</b>	692
Taxation									<b>(341)</b>	-
Profit attributable to shareholders									<b>1,526</b>	692
ASSETS										
Segment assets	<b>1,522</b>	1,741	<b>862</b>	1,080	<b>16,529</b>	323	<b>2,572</b>	-	<b>21,485</b>	3,144
Unallocated assets									<b>12,865</b>	1,265
Total assets									<b>34,350</b>	4,409
LIABILITIES										
Segment liabilities	-	1,197	-	446	<b>7,534</b>	-	<b>841</b>	-	<b>8,375</b>	1,643
Unallocated liabilities									<b>1,181</b>	700
Total liabilities									<b>9,556</b>	2,343
Other segment information:										
Capital expenditure	-	-	-	-	<b>2,000</b>	-	-	-	<b>2,000</b>	-
Unallocated capital expenditure									-	12
									<b>2,000</b>	12
Unallocated depreciation									<b>75</b>	19

(b) *Geographical segments*

In determining the Group's geographical segments, revenue is attributable to segments based on the location of customers and assets are attributable to segments based on the location of the assets.

The following table presents revenue, certain assets and capital expenditure information for the Group's geographical segments.

	Six months ended 30th September,							
	The People's Republic of China ("PRC") (including Hong Kong)		Japan		Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER								
External sales	<u>42,968</u>	6,274	<u>170</u>	3,141	<u>2,113</u>	116	<u>45,251</u>	9,531
OTHER SEGMENT INFORMATION:								
Segment assets	<u>34,350</u>	3,774	-	479	-	156	<u>34,350</u>	4,409
Capital expenditure	<u>2,000</u>	12	-	-	-	-	<u>2,000</u>	12

**3. Profit before taxation**

The Group's profit before taxation is arrived at after charging the following:

	For the six months ended 30th September, 2003		For the three months ended 30th September, 2003	
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest on bank overdrafts	<u>44</u>	-	-	-
Depreciation	<u>75</u>	19	<u>37</u>	10

**4. Taxation**

Hong Kong profits tax for the three months and six months ended 30th September, 2003 have been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the periods (three months and six months ended 30th September, 2002: Nil).

No deferred tax had been provided for the Group because there were no significant temporary timing differences at the respective balance sheet dates.

**5. Earnings per share**

The calculations of basic earnings per share for the three months and six months ended 30th September, 2003 are based on the unaudited consolidated profit attributable to shareholders for the three months and six months ended 30th September, 2003 of approximately HK\$523,000 and HK\$1,526,000, respectively, (three months and six months ended 30th September, 2002: approximately HK\$423,000 and HK\$692,000, respectively) and 520,000,000 shares in issue during the three and six months ended 30th September, 2003 (pro forma number of shares in issue for the three months and six months ended 30th September, 2002: 440,000,000 shares).

No diluted earnings per share has been presented as no dilutive events existed during the three months and six months ended 30th September, 2003 and the corresponding periods in 2002.



**6. Dividend**

The Board does not recommend the payment of an interim dividend for the six months ended 30th September, 2003 (six months ended 30th September, 2002: Nil).

**7. Trade receivables**

The credit period allowed by the Group to its customers is normally 60-90 days.

An aged analysis of trade receivables is as follows:

	<b>30th September, 2003 HK\$'000 (Unaudited)</b>	31st March, 2003 HK\$'000 (Audited)
Within 30 days	<b>4,192</b>	10,091
31-60 days	<b>3,045</b>	6,546
61-90 days	<b>4,563</b>	5,501
91-120 days	<b>3,946</b>	–
	<hr/> <b>15,746</b> <hr/>	<hr/> 22,138 <hr/>

**8. Trade payables**

An aged analysis of trade payables is as follows:

	<b>30th September, 2003 HK\$'000 (Unaudited)</b>	31st March, 2003 HK\$'000 (Audited)
Within 30 days	<b>2,604</b>	5,528
31-60 days	<b>1,897</b>	5,699
61-90 days	<b>3,742</b>	3,183
91-120 days	<b>132</b>	–
	<hr/> <b>8,375</b> <hr/>	<hr/> 14,410 <hr/>

**MANAGEMENT DISCUSSION AND ANALYSIS**

The Group is principally engaged in the development, design and sale of digital AV products which include IC Recorders, MP3 players and DVD players. The objective of the Group is to be a leading provider and developer of digital AV products in the Asian market.

Two executive directors, Ms. Zhong Ming Ying ("Ms. Zhong") and Ms. Wang Li Hua ("Ms. Wang"), were appointed by the Company in September 2003. Ms. Zhong has extensive experience in accounting and finance and Ms. Wang has extensive experience in operations. Both of them have good knowledge of the PRC market. With their appointments and contributions, the Group is confident of the prospects of the Group, especially in the PRC market, which is a market that no one can afford to overlook in the expansion of business.

## FINANCIAL REVIEW

### Results

During the six months ended 30th September, 2003, the Group recorded a turnover of approximately HK\$45,251,000, representing an increase of approximately 4.75 times compared to the corresponding period in previous year. Profit attributable to shareholders for the six months ended 30th September, 2003 also increased to approximately HK\$1,526,000 from approximately HK\$692,000 in the corresponding period in previous year, representing an increase of approximately 120.5%.

The increase in turnover was mainly attributable to the increase in the sales of DVD players and the increase in profit attributable to shareholders was mainly attributable to the increase in gross profit as a results of the increase in sales and effective cost controls by the management of the Group.

### Liquidity, financial resources and capital structure

As at 30th September, 2003, the Group had total assets of approximately HK\$34,350,000 (31st March, 2003: approximately HK\$40,325,000), including cash and bank balances of approximately HK\$8,812,000 (31st March, 2003: approximately HK\$8,540,000).

During the six months ended 30th September, 2003, the Group financed its operations mainly with its own working capital. As at 30th September, 2003, there was no bank overdraft (31st March, 2003: approximately HK\$1,722,000) and there was no charge on the Group's assets as at 30th September, 2003. As at 31st March, 2003, approximately HK\$1,722,000 of the Group's assets were pledged for the banking facilities utilised.

As at 30th September, 2003, the debt ratio (defined as the ratio between total liabilities over total assets) was approximately 0.28 (31st March, 2003: approximately 0.42). The Group had no borrowings stated at fixed interest rates at the balance sheet date (31st March, 2003: Nil).

The shares of the Company were listed on GEM on 12th November, 2002. There has been no change in the capital structure of the Company since that date.

The Group's transactions during the six months ended 30th September, 2003 were mainly denominated in HK Dollars and US Dollars. As the exchange rate of US Dollars to HK Dollars is fairly stable, the Board is of the view that the Group's exposure to foreign currency exchange risk is limited. Hence, no hedging or other arrangements to reduce the currency risk has been implemented.

## Segment information

Sales of the Group comprise mainly sales of the three major product lines of the Group, which are IC Recorders, MP3 players and DVD players. During the six months ended 30th September, 2003, sales of IC Recorders, MP3 players and DVD players represent approximately 13%, 6.5% and 64% respectively of the Group's turnover, as compared to approximately 43%, 41% and 16% respectively of the Group's turnover in the corresponding period in previous year.

The principal markets of the Group's products are the PRC (including Hong Kong) and Japan. The sales to PRC and Japanese markets represent approximately 95% and 0.4% of the Group's turnover in the six months ended 30th September, 2003, and approximately 66% and 33% respectively in the corresponding period in previous year. The Group also sells to other countries like Philippines and Singapore.

Details of the business and geographical segments are disclosed in note 2 to the section headed "Financial Results" of this report.

## New products/Group's order book

The Group introduced 2 new models of digital AV products during the six months ended 30th September, 2003.

The Group continues to step up its efforts in developing new products and new models of existing products and to improve the quality, performance and functionality of the Group's products in order to achieve its objective of becoming a leading provider and developer of digital AV products in the Asian market.

As at 30th September, 2003, the Group's orders on hand were approximately HK\$6 million on the three major product lines of the Group.

## Significant investments

At 30th September, 2003, there was no significant investment held by the Group (31st March, 2003: Nil).

## Material acquisitions or disposals of subsidiaries and affiliated companies

There were no material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30th September, 2003.

## Future plans for material investments and expected source of funding

Details for the Group's future plans for material investments or capital assets and their expected source of funding have been stated in the paragraphs headed "Statement of Business Objectives" and "Reasons for the Placing and the Use of Proceeds" respectively under the section headed "Future Plans and Prospects" in the Prospectus. Other than those disclosed herein, in particular under sections headed "Use of Proceeds" and "Comparison of Business objectives with Actual Business Progress" in this report, the Group did not have any plan for material investments or capital assets.

### Contingent liabilities

As at 30th September, 2003, the Group had no contingent liabilities. As at 31st March, 2003, the Company executed a corporate guarantee as part of the security for general banking facilities granted to a subsidiary to the extent of HK\$10,000,000.

### Operating lease commitments

As at 30th September, 2003, the commitments under non-cancellable operating lease in respect of premises are HK\$77,000 (31st March, 2003: approximately HK\$30,000).

### Employees and remuneration policies

As at 30th September, 2003, the Group had 19 (31st March, 2003: 18) staff including directors. Total staff costs including directors' emoluments were approximately HK\$502,000 in the six months ended 30th September, 2003. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme to its employees. To date, no share options have been granted to employees.

### COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual business progress of the Group compared with the business objectives set out in the Prospectus of the Company for the 6-month period ended 30th September, 2003 (the "Review Period"):

#### BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS

##### Marketing and promotion

Build and promote the "V VASO" and "VO" trademarks via advertisements and by participating in trade exhibitions and seminars.

#### ACTUAL BUSINESS PROGRESS/ CHANGE IN BUSINESS OBJECTIVES

The Group has applied for registration of the trademarks in Hong Kong. These applications are subject to approval by the Trade Marks Registry in Hong Kong and barring any unforeseen circumstances, the Directors expect that the Group should obtain the relevant trademark registrations before the year ending 31st March, 2004. Pending the approval of the trademarks, the Group is of the opinion that it is not suitable to promote such trademarks.

**BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS***Launch and promote the Group's digital AV products*

- IC Recorders with MP3 players and FM features
- IC Recorders / MP3 players with extended compression memory features
- IC Recorders / MP3 players with built in slots for memory sticks / cards
- IC Recorders / MP3 players with built in digital camera features

**Research and product development***Upgrade features of existing digital AV products:*

- IC Recorders with MP3 players and FM features
- IC Recorders / MP3 players with extended compression memory features
- IC Recorders / MP3 players with built in slots for memory sticks / cards
- IC Recorders / MP3 players with built in digital camera features

**ACTUAL BUSINESS PROGRESS/ CHANGE IN BUSINESS OBJECTIVES**

The Group continues to promote these products through joint marketing efforts with existing customers.

The Group continues to promote these products through joint marketing efforts with existing customers.

The Group continues to promote these products through joint marketing efforts with existing customers.

Owing to technical difficulties in the development, the Group has delayed the launching and promotion of these products. No material impact on the Group's operation is expected.

The Group continues to perform research and development to upgrade IC Recorders with MP3 players and FM features. The Group expects to complete the research and development before 31st March, 2004.

The Group continues to perform research and development to upgrade IC Recorders/MP3 players with extended compression memory features. The Group expects to complete the research and development before 31st March, 2004.

The Group has commenced research and development to upgrade IC Recorders/MP3 players with built in slots for memory sticks/cards. The Group expects to complete the research and development before 30th September, 2004.

The Group has suspended plans to develop IC Recorders / MP3 players with built in digital camera features due to technical difficulties.

## **BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS**

### **Geographical expansion**

Form joint marketing distribution arrangements with distributors to promote the Group's products in the PRC

Expansion into overseas markets such as the US and Europe by entering into joint marketing/distribution arrangements with distributors to promote the Group's products

### **Setting up production facilities**

Set up production facilities in the PRC

## **ACTUAL BUSINESS PROGRESS/ CHANGE IN BUSINESS OBJECTIVES**

The Group has formed alliances with a distributor in the PRC to promote the Group's products in the PRC.

In order to better allocate its resources and minimise operating costs, the Group has delayed expansion into new overseas markets and would concentrate its resources on the PRC and Japanese markets.

The Group has set up production facilities in Shenzhen, Guangdong Province, PRC. The Group has commenced acquiring plant, machinery and production facilities. Owing to the time required to set up a Wholly Foreign Owned Enterprise and higher set up costs, the Group has established its production facilities through a processing agent in the PRC. The Group will review the arrangements in due course and will, if required, change the legal entity for its production facilities in the PRC. During the six months ended 30th September, 2003, the Group continued to acquire plant and machinery as planned.

## **BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS**

### **Human resources development**

Expand the research team by recruiting additional engineers

Expand the sales team in Hong Kong and PRC by recruiting additional staff members

Set up a representative office in Shenzhen, PRC

Set up a representative office in Tokyo

Recruit sales team for major overseas markets such as the US and Europe

## **ACTUAL BUSINESS PROGRESS/ CHANGE IN BUSINESS OBJECTIVES**

As at 30th September, 2003, there was 5 staff at the design and development department (31st March, 2003: 5).

As at 30th September, 2003, there was 4 staff at the sales and marketing department (31st March, 2003: 4).

Owing to the uncertain economic environment and for costs reason, the Group has formed an alliance with a distributor in the PRC, who will perform similar functions as a representative office. Accordingly, the Group intends to suspend such plan of setting up a representative office in Shenzhen and will review its decision when appropriate.

Owing to the uncertain economic environment and for costs reason, the Group has come to an agreement with one of its customers in Japan to perform similar functions as a representative office. Accordingly, the Group intends to suspend such plan of setting up a representative office in Tokyo and will review when appropriate.

Owing to the uncertain situations in the US and the Middle East and to better allocate its resources and minimise operating costs, the Group has delayed expansion into new overseas markets and concentrate its resources on the PRC and Japanese markets.

**USE OF PROCEEDS**

During the period from 24th October, 2002 (latest practicable date) to 30th September, 2003, the Group applied the net proceeds from placing of shares as follows:

	<b>Planned use of proceeds as stated in the Prospectus up to 30th September, 2003</b> <i>HK\$'000</i>	<b>Actual usage up to 30th September, 2003</b> <i>HK\$'000</i>
Expenditure in relation to setting up production facilities ( <i>Note</i> )	6,000	3,800
Expenditure in relation to geographical expansion	1,000	800
Expenditure in relation to research and product development	1,000	1,000
Expenditure in relation to marketing and promotion	1,000	900
	<u>9,000</u>	<u>6,500</u>

*Note:*

The Group intends to utilise the remaining unused proceeds in subsequent periods. The delay in the utilisation was due to the decision by the Group to acquire the plant, machinery and production facilities in stages to ensure a smooth set up.

The remaining net proceeds as at 30th September, 2003 was approximately HK\$6.5 million and was placed with a bank in Hong Kong.



## DIRECTORS' INTERESTS IN SECURITIES

As at 30th September, 2003, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise required to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules were as follows:

Director	Corporate Interests	Number of Shares			Total Interests
		Personal Interests	Family Interests	Other Interests	
Mr. Yasukawa Yoshihiro	364,000,000 (Note)	–	–	–	364,000,000

Note: These shares are registered in the name of Share Able Investments Limited ("Share Able"). Share Able is beneficially owned by Uppgain Ventures Group Limited ("Uppgain"), Number Great Investments Limited ("Number Great") and UPB Group Inc. ("UPB") in the proportion of 45%, 27.5% and 27.5% respectively. Mr. Yasukawa Yoshihiro holds 60% and 100% equity interests in Uppgain and UPB respectively. Mr. Lee Chun Piu, an executive director of the Company, holds 20% equity interests in Uppgain.

Save as disclosed above, as at 30th September, 2003, none of the directors had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company under Section 352 of the SFO or otherwise required to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2003, other than the interests of the directors of the Company as disclosed under the headed "Directors' interests in securities" above, the interests and short positions of persons in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Number of shares held	Approximate percentage of the shareholding in the Company
Share Able (Note)	364,000,000	70%

*Note:* Share Able is beneficially owned by Uppain, UPB and Number Great in the proportion of 45%, 27.5% and 27.5% respectively. Uppain is 60% owned by Mr. Yasukawa Yoshihiro and 20% owned by Mr. Lee Chun Piu. UPB is 100% owned by Mr. Yasukawa Yoshihiro. Accordingly, each of Uppain and Mr. Yasukawa Yoshihiro is deemed to be interested in the shares of the Company held by Share Able under the SFO.

Save as disclosed above, as at the 30th September, 2003, the directors of the Company were not aware of any other person (other than the directors of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## SHARE OPTION SCHEME

On 19th October, 2002, the Company adopted a share option scheme (the "Share Option Scheme") under which share options to subscribe for the shares of the Company may be granted under the terms and conditions stipulated therein. As at 30th September, 2003, no share option has been granted under the Share Option Scheme.

## DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Apart from as disclosed under the heading "Directors' interests in securities" above, at no time during the period under review was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate and none of the directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the six months ended 30th September, 2003, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

### **COMPETING INTERESTS**

None of the directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

### **INTEREST OF SPONSOR**

According to a sponsorship agreement entered between the Company and Kingston Corporate Finance Limited (the "Sponsor"), for a fee, the Sponsor acts as the Company's continuing Sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the period up to 31st March, 2005.

As notified by the Sponsor, as at the date of this report, neither the Sponsor nor its directors or employees or associates, had any interests in the securities of the Company or any member of the Group, or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

### **COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES**

During the six months ended 30th September, 2003, the Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

### **AUDIT COMMITTEE**

The Company established an audit committee on 19th October, 2002 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises two independent non-executive Directors, namely, Mr. Christopher Leu and Mr. Goh Gen Cheung. The Group's unaudited results for the six months ended 30th September, 2003 have been reviewed by the audit committee who was of the opinion that the preparation of such results complied with the applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosures have been made.

By order of the Board  
**Vaso Digital International Holdings Limited**  
**Zhong Ming Ying**  
*Director*

Hong Kong, 10th November, 2003