



**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

**2004 / 05**

## 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, 2004 together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

	Notes	Six months ended 30th September,		Three months ended 30th September,	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	2	<b>18,810</b>	45,251	<b>4,859</b>	21,023
Cost of sales		<b>(18,034)</b>	(41,381)	<b>(4,746)</b>	(19,473)
Gross profit		<b>776</b>	3,870	<b>113</b>	1,550
Other revenue		<b>2</b>	9	<b>2</b>	–
Distribution costs		<b>(13)</b>	(65)	<b>(5)</b>	(25)
Administrative expenses		<b>(1,922)</b>	(1,256)	<b>(1,613)</b>	(664)
Other operating expenses		<b>(180)</b>	(647)	<b>(36)</b>	(210)
(Loss)/profit from operations		<b>(1,337)</b>	1,911	<b>(1,539)</b>	651
Finance costs		–	(44)	–	–
(Loss)/profit before taxation	3	<b>(1,337)</b>	1,867	<b>(1,539)</b>	651
Taxation	4	–	(341)	<b>22</b>	(128)
(Loss)/profit attributable to shareholders		<b>(1,337)</b>	1,526	<b>(1,517)</b>	523
Dividend	6	–	–	–	–
(Loss)/earnings per share	5				
– Basic (cent)		<b>(0.26)</b>	0.29	<b>(0.29)</b>	0.10
– Diluted (cent)		<b>N/A</b>	N/A	<b>N/A</b>	N/A

**Consolidated Balance Sheet**

		<b>As at 30th September, 2004 (Unaudited) HK\$'000</b>	As at 31st March, 2004 (Audited) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Fixed assets		<b>7,790</b>	8,238
Non-trading securities	9	<b>3,000</b>	5,400
		<b>10,790</b>	13,638
<b>CURRENT ASSETS</b>			
Trade receivables	7	<b>8,646</b>	9,689
Prepayments, deposits and other receivables		<b>3,000</b>	3,022
Tax refundable		<b>266</b>	–
Cash and bank balances		<b>5,185</b>	3,854
		<b>17,097</b>	16,565
<b>CURRENT LIABILITIES</b>			
Trade payables	8	<b>2,648</b>	1,976
Accrued liabilities and other payables		<b>295</b>	417
Tax liabilities		<b>–</b>	129
		<b>2,943</b>	2,522
<b>NET CURRENT ASSETS</b>		<b>14,154</b>	14,043
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>24,944</b>	27,681
<b>NON-CURRENT LIABILITIES</b>			
Deferred taxation		<b>1,026</b>	1,026
<b>NET ASSETS</b>		<b>23,918</b>	26,655
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>5,200</b>	5,200
Reserves		<b>18,718</b>	21,455
<b>SHAREHOLDERS' FUNDS</b>		<b>23,918</b>	26,655

## Condensed Consolidated Cash Flow Statement

	<b>Six months ended 30th September, 2004 (Unaudited) HK\$'000</b>	Six months ended 30th September, 2003 (Unaudited) HK\$'000
Net cash inflow from operating activities	<b>1,331</b>	2,264
Net cash outflow from investing activities	–	(270)
Net cash from financing activity	–	–
INCREASE IN CASH AND CASH EQUIVALENTS	<b>1,331</b>	1,994
Cash and cash equivalents at beginning of period	<b>3,854</b>	6,818
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>5,185</b>	8,812
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>5,185</b>	8,812

## Consolidated Statement of Changes in Equity

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2003	5,200	17,816	–	252	23,268
Net profit for the period	–	–	–	1,526	1,526
At 30th September, 2003	5,200	17,816	–	1,778	24,794
At 1st April, 2004	5,200	17,816	1,400	2,239	26,655
Deficit on revaluation of non-trading securities (Note 9)	–	–	(1,400)	–	(1,400)
Net loss for the period	–	–	–	(1,337)	(1,337)
At 30th September, 2004	5,200	17,816	–	902	23,918

Notes:

### 1. Basis of preparation

The accounts have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The accounting policies and methods of computation adopted are consistent with those set out in the annual financial statements for the year ended 31st March, 2004.

### 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 recorders ("IC Recorders") product segment, mpeg-1 audio layer-3 players ("MP3 players") product segment, digital versatile disc players ("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.

For the six months ended 30th September,

	IC Recorders		MP3 players		DVD players		Others		Consolidated	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover:										
External sales	<b>2,675</b>	6,081	<b>3,000</b>	2,947	<b>10,089</b>	29,019	<b>3,046</b>	7,204	<b>18,810</b>	45,251
Segment results	<b>161</b>	1,319	<b>240</b>	83	<b>42</b>	2,279	<b>320</b>	130	<b>763</b>	3,811
Interest income									-	9
Net unallocated expenses									<b>(2,100)</b>	(1,909)
(Loss)/profit from operations									<b>(1,337)</b>	1,911
Finance costs									-	(44)
(Loss)/profit before taxation									<b>(1,337)</b>	1,867
Taxation									-	(341)
(Loss)/profit attributable to shareholders									<b>(1,337)</b>	1,526
As at 30th September,										
ASSETS										
Segment assets	<b>502</b>	1,522	<b>1,000</b>	862	<b>17,723</b>	16,529	<b>105</b>	2,572	<b>19,330</b>	21,485
Unallocated assets									<b>8,557</b>	12,865
Total assets									<b>27,887</b>	34,350
LIABILITIES										
Segment liabilities	<b>181</b>	-	<b>190</b>	-	<b>2,282</b>	7,534	-	841	<b>2,653</b>	8,375
Unallocated liabilities									<b>1,316</b>	1,181
Total liabilities									<b>3,969</b>	9,556
Other segment information:										
Capital expenditure	-	-	-	-	-	2,000	-	-	-	2,000
Unallocated depreciation									<b>75</b>	75

(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.

For the six months ended 30th September,

	The People's Republic of China ("PRC") (including Hong Kong)		Japan		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER								
External sales	<u>18,810</u>	<u>42,968</u>	<u>-</u>	<u>170</u>	<u>-</u>	<u>2,113</u>	<u>18,810</u>	<u>45,251</u>
OTHER SEGMENT INFORMATION:								
Segment assets	<u>27,621</u>	<u>34,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,621</u>	<u>34,350</u>
Capital expenditure	<u>-</u>	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000</u>

**3. (Loss)/profit before taxation**

The Group's (loss)/profit before taxation is arrived at after charging the following:

	For the six months ended 30th September,		For the three months ended 30th September,	
	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank overdrafts	-	44	-	-
Depreciation	<u>75</u>	<u>75</u>	<u>37</u>	<u>37</u>

**4. Taxation**

Hong Kong profits tax for the three months and six months ended 30th September, 2004 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, 2003: 17.5%).

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



## 5. (Loss)/earnings per share

The calculations of basic (loss)/earnings per share for the three months and six months ended 30th September, 2004 are based on the unaudited consolidated net loss attributable to shareholders for the three months and six months ended 30th September, 2004 of approximately HK\$1,517,000 and HK\$1,337,000 respectively (three months and six months ended 30th September, 2003: net profit attributable to shareholders of approximately HK\$523,000 and HK\$1,526,000 respectively) and 520,000,000 shares in issue during the three months and six months ended 30th September, 2004 (three months and six months ended 30th September, 2003: 520,000,000 shares).

No diluted (loss)/earnings per share has been presented as no dilutive events existed during the three months and six months ended 30th September, 2004 and the corresponding periods in 2003.

## 6. Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30th September, 2004 (six months ended 30th September, 2003: Nil).

## 7. Trade receivables

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

An aged analysis of trade receivables is as follows:

	<b>30th September, 2004 (Unaudited) HK\$'000</b>	31st March, 2004 (Audited) HK\$'000
Within 30 days	<b>1,127</b>	3,063
31-60 days	<b>1,127</b>	3,041
61-90 days	<b>1,016</b>	3,585
91-120 days	<b>5,376</b>	-
	<hr/> <b>8,646</b> <hr/>	<hr/> 9,689 <hr/>

**8. Trade payables**

An aged analysis of trade payables is as follows:

	<b>30th September, 2004 (Unaudited) HK\$'000</b>	31st March, 2004 (Audited) HK\$'000
Within 30 days	<b>1,123</b>	1,976
31-60 days	<b>1,037</b>	–
61-90 days	<b>488</b>	–
	<b><u>2,648</u></b>	<b><u>1,976</u></b>

**9. Non-trading securities**

	<b>30th September, 2004 (Unaudited) HK\$'000</b>	31st March, 2004 (Audited) HK\$'000
Equity securities, listed in Hong Kong	<b>5,400</b>	5,400
Provision for deficit on revaluation		
– charged to reserve	<b>(1,400)</b>	–
– charged to profit & loss account	<b>(1,000)</b>	–
	<b><u>3,000</u></b>	<b><u>5,400</u></b>

**MANAGEMENT DISCUSSION AND ANALYSIS**

The Group is principally engaged in the development, design and sale of digital audio and visual ("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 Asia market. The Group's products are sold to importers, exporters and distributors based in Asia.

**Financial Review****Results**

During the six months ended 30th September, 2004, the Group recorded a turnover of approximately HK\$18,810,000, representing a decrease of approximately 58% compared to the corresponding period in previous year. During the six months ended 30th September, 2004, the Group recorded a loss attributable to shareholders of approximately HK\$1,337,000 as compared to profit attributable to shareholders of approximately HK\$1,526,000 in the corresponding period in previous year. Gross profit margin also decreased from approximately 9% in the corresponding period in previous year to approximately 4% in the period under review.

The decrease in turnover was mainly attributable to the decrease in the quantities sold for IC recorders and DVD players as less orders were received. Lower gross profit margin was recorded in the period under review due to lower selling prices charged owing to the increasing competitive environment in the digital AV market.

Administrative expenses of the Group increased by approximately 53% in the six months ended 30th September, 2004 compared to the corresponding period in previous year due mainly to the provision for the deficit on revaluation of the non-trading securities held by the Group. The total provision was HK\$2,400,000, of which HK\$1,400,000 was made against the investment revaluation reserve with the remaining charged to administrative expenses.

### **Liquidity, financial resources and capital structure**

As at 30th September, 2004, the Group had total assets of approximately HK\$27,887,000 (31st March, 2004: approximately HK\$30,203,000), including cash and bank balances of approximately HK\$5,185,000 (31st March, 2004: approximately HK\$3,854,000).

During the six months ended 30th September, 2004, the Group financed its operations mainly with its own working capital. As at 30th September, 2004, there was no bank overdraft (31st March, 2004: Nil) and there was no charge on the Group's assets (31st March, 2004: Nil).

As at 30th September, 2004, the debt ratio (defined as the ratio between total liabilities over total assets) was approximately 0.14 (31st March, 2004: approximately 0.12). The Group had no borrowings stated at fixed interest rates at the balance sheet date (31st March, 2004: 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, 2004 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, 2004, sales of IC Recorders, MP3 players and DVD players represent approximately 14%, 16% and 54% respectively of the Group's turnover, as compared to approximately 13%, 7% and 64% respectively of the Group's turnover in the corresponding period in previous year. The Group recorded sales of IC components, which represented approximately 16% of the Group's total turnover during the period under review and in the corresponding period in previous year.

During the six months ended 30th September, 2004, all of the Group's products were sold to the PRC market. During the corresponding period in previous year, approximately 95% and 0.4% respectively of the Group's turnover was to the PRC and Japan markets. The Group also sold to countries like Philippines and Singapore in the corresponding period in previous year.

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 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, 2004, the Group's orders on hand were approximately HK\$1.5 million on the three major product lines of the Group.

### **Significant investments**

At 30th September, 2004 and 31st March, 2004, except for the investment in non-trading securities, there was no other significant investment held by the Group.

### **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, 2004.

### **Future plans for material investments or capital assets 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 Company's prospectus dated 30th October, 2002 ("Prospectus"). Other than those disclosed herein and under sections headed "Use of Proceeds" and "Comparison of Business objectives with Actual Business Progress" in this report, the Group did not have any other plan for material investments or capital assets. Nevertheless, the Group is constantly looking for opportunities for investments or capital assets to enhance shareholders value.

### **Contingent liabilities**

As at 30th September, 2004, the Group had no contingent liabilities (31st March, 2004: Nil).

### **Operating lease commitments**

As at 30th September, 2004, the commitments under non-cancellable operating lease in respect of premises are HK\$144,000 (31st March, 2004: approximately HK\$132,000).

### **Employees and remuneration policies**

As at 30th September, 2004, the Group had 17 (31st March, 2004: 17) staff including directors. Total staff costs including directors' emoluments were approximately HK\$212,000 in the six months ended 30th September, 2004. 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.

### **Review and Prospects**

The Group recorded weaker interim results as less orders were received for the two main business segments, IC recorders and DVD players.

Looking forward, the Group holds the views that the PRC is the place to do business with its expected economic growth at a stable and moderate pace and its huge and increasing wealthy population which will lead to the increasing demand for digital AV products.

The Group will continue to maintain a tight control on costs and maintain its research and development ability to maintain its competitiveness. The Group will also consider cooperation with third parties like business or strategic partners in the areas of products development and marketing and promotion.

### 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, 2004 (the "Review Period"):

#### BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS

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

##### Marketing and promotion

Build and promote the "V<sup>vaso</sup>" and "C" trademarks via advertisements and by participating in trade exhibitions and seminars.

The Group has successfully obtained the certificates of registration of the 2 trademarks of the Group from the Trade Marks Registry of Hong Kong in November and December 2003. The Group has commenced to promote the trademarks to customers through direct contacts instead of participating in trade exhibitions and seminars as the Group believes that it will be more cost effective.

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

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.

The Group delayed in launching and promotion of these products owing to some difficulties in the development process. No material impact on the Group's operation is expected.

## BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS

### 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

### 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 completed the development of IC recorders with MP3 players and FM features.

The Group has completed the development of IC recorders and MP3 players with extended compression memory features.

The Group is still in the process of developing IC recorders/MP3 players with built in slots for memory sticks/cards.

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

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

The Group has delayed expansion into new overseas markets and concentrated its resources on the PRC and the Asian markets instead.

The Group has set up production facilities in Shenzhen, Guangdong Province, PRC.

**BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS**

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

**Human resources development**

Expand the research team by recruiting additional engineers

As at 30th September, 2004, there was 4 staff at the design and development department (31st March, 2004: 4).

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

As at 30th September, 2004, there was 4 staff at the sales and marketing department (31st March, 2004: 4).

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

The Group has delayed expansion into new overseas markets and concentrated its resources on the PRC and the Asian markets instead.



## USE OF PROCEEDS

During the period from 24th October, 2002 (Latest Practicable Date as defined in the Prospectus) to 30th September, 2004, 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, 2004 HK\$'000</b>	<b>Actual usage up to 30th September, 2004 HK\$'000</b>
Expenditure in relation to setting up production facilities	7,000	7,000
Expenditure in relation to geographical expansion	2,000	1,620
Expenditure in relation to research and product development	2,000	1,788
Expenditure in relation to marketing and promotion	2,000	1,920
	<u>13,000</u>	<u>12,328</u>

The remaining net proceeds as at 30th September, 2004 was approximately HK\$672,000 and was placed with a bank in Hong Kong.

## DIRECTORS' INTERESTS IN SHARES

As at 30th September, 2004, the interests and short positions of the directors of the Company in the shares, underlying shares or debentures of the Company and 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 were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV 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 Rule 5.46 of the GEM Listing Rules relating to securities transactions by the directors of the Company to be notified to the Company and the Stock Exchange, were as follows:

### Long positions in shares of the Company – interests in the shares of the Company

Name of Directors	Capacity	Number of Shares held	Approximate percentage of the shareholding in the Company
Mr. Yasukawa Yoshihiro	Held by controlled corporation	364,000,000	70%

*Note:* These shares are registered in the name of Share Able Investments Limited ("Share Able"). Share Able is beneficially owned by Uppain Ventures Group Limited ("Uppain"), 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 Uppain and UPB respectively. Mr. Lee Chun Piu, an executive director of the Company, holds 20% equity interests in Uppain.

Save as disclosed above, as at 30th September, 2004, none of the directors of the Company has or was deemed to have any interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations (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 and short positions 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 Rule 5.46 of the GEM Listing Rules relating to securities transactions by directors of the Company to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30th September, 2004, other than the interests of the directors of the Company as disclosed under the section headed "Directors' interests in shares" 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:

### Long positions in shares of the Company – interests in the shares of the Company

Name	Capacity	Number of shares held	Approximate percentage of the shareholding in the Company
Share Able ( <i>Note</i> )	Beneficial owner	364,000,000	70%

*Note:* Share Able is beneficially owned by Upgain, UPB and Number Great in the proportion of 45%, 27.5% and 27.5% respectively. Upgain 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 Upgain 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 30th September, 2004, 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, 2004, 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 shares" 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, 2004, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

### **COMPETING INTERESTS**

As at 30th September, 2004, 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 from 12th November, 2002 to 31st March, 2005.

As notified by the Sponsor, as at 30th September, 2004, 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 5.34 TO 5.45 OF THE GEM LISTING RULES**

During the six months ended 30th September, 2004, the Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 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 three independent non-executive directors, namely, Mr. Guo Qing, Mr. Liu Feng and Ms. Guo Wen Hong. The Group's unaudited results for the six months ended 30th September, 2004 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 GEM Listing Rules 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, 11th November, 2004

*As at the date of this report, the Company's executive directors are Mr. Yasukawa Yoshihiro, Mr. Lee Chun Piu, Ms. Zhong Ming Ying and Ms. Wang Li Hua, and the Company's independent non-executive directors are Mr. Guo Qing, Mr. Liu Feng and Ms. Guo Wen Hong.*