CORPORATE INFORMATION

Board of Directors

Executive Directors
Beh Kim Ling
Gan Sem Yam
Gan Chu Cheng
Zhang Pei Yu

Non-executive Director
Gan Tiong Sia

Independent Non-executive Directors
Pun Kheng Hock
Cheung Kwan Hung, Anthony

Audit Committee of the Board

Pun Kheng Hock
Cheung Kwan Hung, Anthony

Company Secretary

Yan Wing Cheung, *FCCA, AHKSA*

Registered Office

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Principal Place of Business in Hong Kong

4106, 41st Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

Principal Share Registrar and Transfer Office

Bank of Bermuda (Cayman) Limited
36C Bermuda House
3rd Floor, P.O. Box 513 G.T.
Dr. Roy's Drive
George Town
Grand Cayman
British West Indies

Hong Kong Branch Share Registrar and Transfer Office

Central Registration Hong Kong Limited
Shops 1901-1905, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Sponsor

DBS Asia Capital Limited
16th Floor
Man Yee Building
68 Des Voeux Road Central
Hong Kong

Legal Adviser

Chiu & Partners
41st Floor, Jardine House
1 Connaught Place
Hong Kong

Auditors
KPMG
Certified Public Accountants
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

Members of the Group
V.S. International Industry Limited
V.S. Corporation (Hong Kong) Co., Limited
V.S. Industry (Shenzhen) Co., Ltd.
V.S. Technology Industry Park (Zhuhai) Co., Ltd.
V.S. Investment Holdings Limited
HAIVS Industry (Qingdao) Co., Ltd.
V.S. Haier Electronics Plastic (Qingdao) Co., Ltd.

Principal Bankers
Malayan Banking Berhad
Citibank NA
Dah Sing Bank Limited

FINANCIAL HIGHLIGHTS (UNAUDITED)

	Six months ended 31 January, 2002	2001
Turnover *(HK$'000)*	**408,017**	226,276
Profit Attributable to Shareholders *(HK$'000)*	**31,171**	22,590
Basic Earnings Per Share *(HK cents)*	**5.03**	3.64

	At 31 January, 2002	At 31 July, 2001
Net Tangible Assets *(HK$'000)*	**172,315**	141,056
Net Tangible Assets Per Share *(HK$)*	**2.30**	1.88

INTRODUCTION

The board of directors (the "Board") of V.S. International Group Limited (the "Company") is pleased to announce the interim financial report of the Company and its subsidiaries (together, the "Group") for the six months ended 31 January, 2002, which have not been audited by the auditors of the Group, KPMG, but have been reviewed by KPMG and the audit committee (the "Audit Committee") of the Board.

LISTING OF THE SHARES ON THE MAIN BOARD (THE "MAIN BOARD") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

With the prospectus (the "Prospectus") of the Company issued on 28 January, 2002, the Company's shares have been listed on the Main Board since 8 February, 2002. On 27 February, 2002, DBS Asia Capital Limited ("DBS Asia"), acting as the sponsor to the listing of the Company on the Main Board and the lead manager of the share offer as described in the Prospectus, exercised the over-allotment option in full pursuant to which the Company has issued an additional 20,000,000 new shares. As a result, the Company has issued an aggregate of 200,000,000 shares under the share offer and received net proceeds of approximately HK$73.81 million. The Group has applied, and will continue to apply, such amount of net proceeds in the manner and for such purposes as described in the Prospectus. As the net proceeds were received by the Group after 31 January, 2002, the directors of the Company (the "Directors") will report the use of such net proceeds in the Company's annual report for the financial year ending 31 July, 2002.

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

For the six months ended 31 January, 2002
(Expressed in Hong Kong dollars)

		Six months ended 31 January,	
	Note	**2002**	2001
		$'000	*$'000*
Turnover	2	**408,017**	226,276
Cost of sales		**(338,363)**	(173,922)
Gross profit		**69,654**	52,354
Distribution costs		**(9,681)**	(7,519)
Administrative expenses		**(22,091)**	(17,167)
Profit from operations	2	**37,882**	27,668
Net finance cost	3(a)	**(6,711)**	(5,078)
Profit from ordinary activities before taxation	3	**31,171**	22,590
Taxation	4	**–**	–
Profit attributable to shareholders	6	**31,171**	22,590
Dividends	5	**–**	–
Retained profit for the period		**31,171**	22,590
Earnings per share – basic	6	**5.03 cents**	3.64 cents

The notes on pages 10 to 20 form part of this interim financial report.

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES (UNAUDITED)

For the six months ended 31 January, 2002
(Expressed in Hong Kong dollars)

	Six months ended 31 January,	
	2002	2001
	$'000	*$'000*
Foreign exchange translation differences	**88**	112
Net profit for the period	**31,171**	22,590
Total recognised gains	**31,259**	22,702

The notes on pages 10 to 20 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 31 January, 2002

(Expressed in Hong Kong dollars)

	Note	At 31 January, 2002 $'000	At 31 July, 2001 $'000
Non-current assets			
Fixed assets	7	**281,669**	211,058
Construction in progress	8	**45,535**	296
Other investment		**–**	3,289
		327,204	214,643
Current assets			
Inventories	9	**69,265**	68,228
Accounts receivable	10	**92,906**	130,715
Other receivables, prepayments and deposits		**17,979**	7,434
Deposits with banks		**104,925**	101,198
Cash at bank and in hand		**86,134**	92,187
		371,209	399,762
Current liabilities			
Accounts payable	11	**132,196**	152,902
Accrued expenses and other payables		**72,224**	48,269
Bank loans and overdrafts	12	**249,747**	184,412
Current portion of obligations under finance leases	13	**2,131**	1,929
Amount due to the ultimate holding company	17(i)	**3,507**	2,997
Dividend payable		**–**	30,000
		459,805	420,509
Net current liabilities		**(88,596)**	(20,747)
Total assets less current liabilities		**238,608**	193,896

CONSOLIDATED BALANCE SHEET (UNAUDITED) (CONTINUED)

As at 31 January, 2002
(Expressed in Hong Kong dollars)

	Note	At 31 January, 2002 $'000	At 31 July, 2001 $'000
Non-current liabilities			
Non-current portion of bank loans	*12*	**4,553**	1,164
Non-current portion of obligations under finance leases	*13*	**1,628**	2,760
Amount due to the ultimate holding company	*17(i)*	**46,470**	48,916
		52,651	52,840
Minority interests		**13,642**	–
NET ASSETS		**172,315**	141,056
CAPITAL AND RESERVES			
Share capital	*14*	**3,750**	75,000
Reserves	*15*	**168,565**	66,056
		172,315	141,056

The notes on pages 10 to 20 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 31 January, 2002
(Expressed in Hong Kong dollars)

	Six months ended 31 January,	
	2002	2001
	$'000	*$'000*
Net cash inflow from operating activities	**52,971**	33,050
Net cash outflow from investing activities	**(105,737)**	(41,614)
Net cash outflow before financing	**(52,766)**	(8,564)
Net cash inflow from financing	**50,473**	55,203
(Decrease)/increase in cash and cash equivalents	**(2,293)**	46,639
Effect of foreign exchange rates	**88**	112
Cash and cash equivalents at 1 August	**59,075**	(1,038)
Cash and cash equivalents at 31 January	**56,870**	45,713
Analysis of the balances of cash and cash equivalents:		
Cash at bank and in hand	**86,134**	72,779
Bank overdrafts	**(29,264)**	(27,066)
	56,870	45,713

The notes on pages 10 to 20 form part of this interim financial report.

(Expressed in Hong Kong dollars)

1 Basis of presentation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants (the "HKSA"). KPMG's independent review report to the Board is included on page 32.

The interim financial report has been prepared in accordance with the requirements of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the HKSA.

The same accounting policies adopted in the accountants' report (the "Accountants' Report") as disclosed in the Prospectus have been applied to the interim financial report.

The notes to the interim financial report include an explanation of events and transactions that are significant to all understanding of the changes in financial position and performance of the Group since the Accountants' Report.

The Company was incorporated in the Cayman Islands on 9 July, 2001 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company became the holding company of the Group on 20 January, 2002 through a reorganisation of the Group (the "Reorganisation"). Particulars of the Reorganisation are set forth in the Prospectus.

The Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the interim financial report has been prepared on the basis of merger accounting, under which the Company was the holding company of the Group for both periods presented, rather than from 20 January, 2002. Under these circumstances, the results of the Group for the six months ended 31 January, 2002 and 2001 include the results of the Company and its subsidiaries with effect from 1 August, 2000 or since their respective dates of incorporation, whichever is a shorter period. The consolidated balance sheet at 31 July, 2001 is a combination of the balance sheets of the Company and its subsidiaries as at 31 July, 2001. In the opinion of the Directors, the resulting interim financial report gives a more meaningful view of the results and state of affairs of the Group as a whole.

2 Segmental information

The Company acts as an investment holding company and the Group is principally engaged in the production and sales of plastic moulded products and parts, assembling of electronic products and mould design and fabrication businesses.

2 Segmental information (continued)

An analysis of the Group's turnover and the contribution to its profit from operations by different business segments during the six months ended 31 January, 2002 is as follows:–

	Group's turnover Six months ended 31 January,		Contribution to the Group's profit from operations Six months ended 31 January,	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Plastic injection and moulding business	**156,840**	134,422	**35,863**	29,346
Assembling of electronic products business	**233,028**	74,070	**19,879**	13,137
Mould design and fabrication business	**18,149**	17,784	**4,231**	2,352
	408,017	226,276	**59,973**	44,835
Group's other expenses			**(22,091)**	(17,167)
Profit from operations			**37,882**	27,668

Geographical segments:

The Group's business participates in five (2001: six) major economic environment.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of assets. All segment assets and capital expenditure are in the People's Republic of China (the "PRC").

Revenue from customers at different geographical locations is analysed as follows:–

	Group's turnover Six months ended 31 January,	
	2002	2001
	$'000	*$'000*
Hong Kong	**263,122**	120,347
Japan	**7,314**	50,859
PRC (other than Taiwan and Hong Kong)	**80,838**	27,259
Taiwan	**27,808**	24,023
South East Asia	**28,935**	2,875
The United States of America (the "US")	**–**	913
	408,017	226,276

3 Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):–

	Six months ended 31 January,	
	2002	2001
	$'000	*$'000*
(a) Net finance costs:–		
Interest income	**(1,491)**	(744)
Interest on bank advances and other borrowings repayable within five years	**6,478**	5,497
(b) Other items:–		
Processing fee	**12,165**	12,756
Depreciation	**15,409**	8,927
Operating lease charges in respect of properties	**5,283**	3,990

4 Taxation

(i) No provision has been made for Hong Kong profits tax as the Group did not earn income subject to Hong Kong profits tax during the period.

Profits for subsidiaries of the Company in the PRC are subject to PRC income tax. Subsidiaries of the Company in the PRC are foreign investment enterprises that are granted certain tax relief, under which they are entitled to income tax exemption for two years commencing from the first profit making year and are entitled to a 50 per cent. relief from PRC income tax for the following three years, after which the subsidiaries' profits are subject to PRC income tax at the rate of 15 per cent. Pursuant to the tax relief above, the subsidiaries were entitled to income tax exemption during the six months ended 31 January, 2002.

A subsidiary of the Company has entered into processing agreements with certain independent third parties (the "Providers") in respect of certain production facilities in Shenzhen, the PRC. Pursuant to the processing agreements, the Providers bear any PRC tax in respect of the Group's production facilities in Shenzhen, the PRC.

(ii) No provision for deferred tax has been made in the account as the tax effect of timing differences is immaterial.

5 Interim dividends

The Directors do not recommend payment of interim dividend for the six months ended 31 January, 2002 (2001: Nil).

6 Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share of the Company for the six months ended 31 January, 2002 is based on the profit attributable to shareholders of the Company of $31,171,000 (2001: $22,590,000) and the 620,000,000 (2001: 620,000,000) shares in issue and issuable comprising 75,000,000 shares in issue as at 31 January, 2002 and 545,000,000 shares issued on 4 February, 2002 pursuant to the capitalisation issue, as described in the section headed "Resolutions of all shareholders of the Company passed on 20 January, 2002" in Appendix V to the Prospectus as if the shares of the Company were outstanding throughout the period from 1 August, 2000 to 31 January, 2002.

(b) *Diluted earnings per share*

There were no potential dilutive ordinary shares in existence during the six months ended 31 January, 2002 and 2001.

7 Fixed assets

	At 31 January, 2002			At 31 July, 2001		
	Cost	**Accumulated depreciation**	**Net book value**	Cost	Accumulated depreciation	Net book value
	$'000	***$'000***	***$'000***	*$'000*	*$'000*	*$'000*
Land and buildings held for own use	**46,321**	**616**	**45,705**	36,246	202	36,044
Leasehold improvements	**17,752**	**5,910**	**11,842**	17,670	4,912	12,758
Machinery and equipment	**264,883**	**60,132**	**204,751**	199,640	49,220	150,420
Office equipment, furniture and fixtures	**17,594**	**5,584**	**12,010**	9,196	3,380	5,816
Motor vehicles	**11,081**	**3,720**	**7,361**	8,859	2,839	6,020
	357,631	**75,962**	**281,669**	271,611	60,553	211,058

For the purpose of the listing of the Company's shares on the Main Board, the Group's properties were revalued at $69,000,000 by DTZ Debenham Tie Leung Limited, an independent firm of professional valuers in Hong Kong, and such valuation gave rise to surpluses totalling $32,760,000 from the carrying amounts of the relevant assets at 31 October, 2001. Such surpluses will be incorporated into the financial statements of Group for the year ending 31 July, 2002 after the listing of the Company's shares on the Main Board on 8 February, 2002. The additional annual depreciation charge will be approximately $655,000.

7 Fixed assets (continued)

Motor vehicles, plant and machinery, and buildings with an aggregate carrying value of $2,454,000 (At 31 July, 2001: $1,720,000), $49,437,000 (At 31 July, 2001: Nil) and $7,293,000 (At 31 July, 2001: Nil) respectively, have been pledged to banks in respect of loans and overdrafts granted. (note 12)

8 Construction in progress

Construction in progress comprised direct costs of production plants under construction in Zhuhai and Qingdao, amounted to $22,055,000 (At 31 July, 2001: $296,000) and $23,480,000 (At 31 July, 2001: Nil), respectively.

9 Inventories

All inventories, comprising raw materials, work in progress and finished goods, are stated at cost.

10 Accounts receivable

Details of the aging analysis of accounts receivable (net of provisions for bad and doubtful debts) are as follows:–

	At 31 January, 2002 *$'000*	At 31 July, 2001 *$'000*
Within 30 days	**72,233**	76,551
Over 30 days but within 90 days	**13,439**	40,015
Over 90 days and less than 1 year	**7,234**	14,149
	92,906	130,715

Credit terms granted by the Group to customers generally range from 30 to 120 days. The credit terms given to customers vary and are generally based on the financial strength of individual customers and the length of the business relationship with the Group. In order to effectively manage the credit risk associated with accounts receivable, credit evaluations of customers are performed periodically.

11 Accounts payable

Details of the aging analysis of accounts payable are as follows:–

	At 31 January, 2002 $'000	At 31 July, 2001 $'000
Due within 30 days or on demand	**106,782**	107,287
Due after 30 days but within 90 days	**24,475**	45,611
Due after 90 days but within 180 days	**939**	4
	132,196	152,902

12 Interest-bearing bank borrowings

	At 31 January, 2002 $'000	At 31 July, 2001 $'000
Bank loans and overdraft repayable within one year or on demand	**249,747**	184,412
Bank loans and overdraft repayable more than one year	**4,553**	1,164
	254,300	185,576

(i) Banking facilities totalling $176,274,000 (At 31 July, 2001: $148,101,000) including overdrafts and bank loans were secured by the following assets owned by the Group:–

	At 31 January, 2002 $'000	At 31 July, 2001 $'000
Deposits with banks	**103,365**	84,814
Motor vehicles with aggregate carrying value	**2,454**	1,720
Buildings with aggregate carrying value	**7,293**	–
Plant and machinery with aggregate carrying value	**49,437**	–
	162,549	86,534

12 Interest-bearing bank borrowings (continued)

(ii) The ultimate holding company had given corporate guarantees amounted to $168,920,000 (At 31 July, 2001: $168,920,000) to secure certain banking facilities, including finance leases obligations, granted to the Group. The relevant banks had agreed that those corporate guarantees would be released and replaced by guarantees or other security from the Group following the listing of the Company's shares on the Main Board on 8 February, 2002.

13 Obligations under finance lease

The Group leases production plant and equipment under finance leases expiring in three years. The facilities are not revolving. At the end of the lease term, the Group has the option to purchase the production plant and equipment at a price deemed to be a bargain purchase option. The ultimate holding company had given a corporate guarantee on the due performance of the Group's obligations under the finance lease. The relevant lessors of the production plant and equipment had agreed that the corporate guarantee would be released and replaced by a guarantee from the Group following the listing of the Company's shares on the Main Board on 8 February, 2002.

The total minimum lease payments under finance leases, and their present values are as follows:–

	As at 31 January, 2002		
	Present value of the minimum lease payments	**Interest expense relating to future periods**	**Total minimum lease payments**
	$'000	***$'000***	***$'000***
Amounts payable:			
Within 1 year	**2,131**	**299**	**2,430**
After 1 year but within 5 years	**1,628**	**183**	**1,811**
	3,759	**482**	**4,241**

14 Share capital

	At 31 January, 2002	At 31 July, 2001
	$'000	*$'000*
Authorised:		
4,000,000,000 ordinary shares of $0.05 each	**200,000**	–
Issued and fully paid:		
75,000,000 ordinary shares of $0.05 each	**3,750**	75,000

14 Share capital (continued)

Notes:–

(i) The share capital as at 31 July, 2001 represented the aggregate amount of the nominal value of the paid share capitals of V.S. Corporation (Hong Kong) Co. Limited and V.S. Investment Holdings Limited which hold more than half of the issued share capital or controls more than half of the voting power, or control the composition of the board of directors of all the subsidiaries of the Group as at 31 July, 2001.

(ii) Pursuant to a resolution in writing of all shareholders of the Company passed on 20 January, 2002, the authorised share capital of the Company was increased from $100,000 to $200,000,000 by the creation of 3,998,000,000 shares of $0.05 each.

(iii) The Company became the holding company of the Group on 20 January, 2002 through the Reorganisation under which 75,000,000 shares of $0.05 each were issued during the period from 16 July, 2001 to 20 January, 2002 to acquire the entire equity interest of V.S. Corporation (Hong Kong) Co. Limited, giving rise a share premium of approximately $71,250,000.

(iv) On 4 February, 2002, an amount of $27,250,000 standing to the credit of the share premium account of the Company was applied in paying up in full at par 545,000,000 shares of $0.05 each which were allotted and issued as fully paid at par to the shareholders of the Company pursuant to their equity percentages.

(v) On 5 February, 2002, a further 180,000,000 shares of $0.05 each were issued and allotted for cash at a price of $0.43 per share under the share offer as described in the Prospectus. The Group raised approximately $65,510,000 (including interest income) net of related expenses from the share offer.

(vi) On 27 February, 2002, the underwriters of the placing as described in the Prospectus exercised the over-allotment option for the issuance of 20,000,000 shares of $0.05 each at a price of $0.43 per share in accordance with the placing and underwriting agreement entered into between, among others, the underwriters and the Company on 25 January, 2002. The net proceeds from the issuance of 20,000,000 shares amounted to approximately $8,299,000 net of related expenses from the issue.

(vii) All the shares issued by the Company rank pari passu and do not carry pre-emptive rights.

(viii) On 20 January, 2002, share option scheme was approved by the shareholders under which the Directors may, at their discretion, offer to any employee (including any director) of the Company or any of its wholly-owned subsidiaries and other eligible participants as referred to the rules of the share option scheme options to subscribe for shares in the Company subject to the terms and conditions stipulated in the scheme. A summary of the principal terms of the scheme is set forth under "Option Deed and Share Option Scheme" in Appendix V to the Prospectus. As at 31 January, 2002, no option had been granted to any such eligible participants under the share option scheme.

15 Reserves

	Share premium $'000	Foreign exchange translation reserve $'000	Statutory reserve fund $'000	Retained profits $'000	Total $'000
At 1 August, 2001	–	120	290	65,646	66,056
Profit for the period	–	–	–	31,171	31,171
Premium arising on the issuance of shares by the Company	71,250	–	–	–	71,250
Exchange difference on translation of accounts of subsidiaries outside Hong Kong	–	88	–	–	88
Appropriations	–	–	2,884	(2,884)	–
At 31 January, 2002	71,250	208	3,174	93,933	168,565

16 Commitments

(a) Capital commitments

Capital commitments outstanding at 31 January, 2002 not provided for were as follows:–

	At 31 January, 2002 $'000	At 31 July, 2001 $'000
Contracted for	**10,352**	3,724
Authorised but not contracted for	**22,331**	–
	32,683	3,724

(b) Operating lease commitments

The Group leases a number of factories and hostels under operating leases. The leases run for periods from 2 years to 30 years, with an option to renew the lease when all terms are renegotiated. Amounts totalled $5,283,000 and $3,990,000 were recognised as an expense in the consolidated profit and loss account (unaudited) for the period ended 31 January, 2002 and 2001 respectively in respect of operating leases.

16 Commitments (continued)

(b) Operating lease commitments (continued)

The total future minimum lease payments under non-cancellable operating leases are payable as follows:–

	At 31 January, 2002 **$'000**	At 31 July, 2001 $'000
Within 1 year	**9,767**	7,833
After 1 year but within 5 years	**40,804**	32,657
After 5 years	**160,503**	198,863
	211,074	239,353

17 Related party transactions

During the six months ended 31 January, 2002, the following significant related party transactions had taken place:–

(i) As at 31 January, 2002, there was an amount due to the ultimate holding company of $49,977,000 (At 31 July, 2001: $51,913,000). Pursuant to the loan agreement entered into between the Group and the ultimate holding company dated 20 January, 2002, the loan, which amounted to $48,916,000 as at the date of the loan agreement is repayable in twenty equal consecutive half-yearly instalments on 1 February and 1 August each year. The first instalment of the loan will be repayable on 1 August, 2002. The loan was unsecured and carries interest at 5 per cent. per annum (2001: 5 per cent.) on the monthly outstanding balance. Interest paid to the ultimate holding company amounted to $1,223,000 and $962,000 for the six months ended 31 January, 2002 and 2001, respectively.

(ii) The significant sales were as follows:–

	Six months ended 31 January,	
	2002 **$'000**	2001 $'000
Sales to the fellow subsidiaries	**1,009**	–
Sales to the ultimate holding company	**3,573**	–

17 Related party transactions (continued)

(iii) The significant purchases were as follows:–

	Six months ended 31 January, 2002 $'000	2001 $'000
Purchase of fixed assets from the ultimate holding company	**3,620**	–

(iv) As at 31 January, 2002, included in the accounts receivable was an amount due from the ultimate holding company amounted to $1,445,000 (At 31 July, 2001: $343,000). This amount was unsecured, interest free, had no fixed terms of repayment and is trading in nature.

(v) As at 31 January, 2002, the ultimate holding company had also given corporate guarantees amounted to $168,920,000 (At 31 July, 2001: $168,920,000) and $11,559,000 (At 31 July, 2001: $16,694,000) to secure certain banking and trading facilities granted to the Group. The relevant banks and suppliers had agreed that those corporate guarantees would be released and replaced by guarantees or other security from the Group following the listing of the Company's shares on the Main Board on 8 February, 2002.

The Directors are of the opinion that the above transactions with related parties were conducted on normal commercial terms or on terms described above in the ordinary course of business of the Group.

18 Ultimate holding company

The Directors consider the ultimate holding company of the Group to be V.S. Industry Berhad, a company incorporated in Malaysia.

19 Approval of interim financial report

The interim financial report was approved by the Board on 28 March, 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Introduction

The Group is principally engaged in production and sales of plastic moulded products and parts, assembling of electronic products and mould design and fabrication businesses. All these business activities form part of the integrated manufacturing solutions provided to the customers of the Group.

Business and financial review

Review of the principal business activities of the Group

Plastic injection and moulding business

The commencement of commercial production of the Group's production facilities in Zhuhai and Qingdao improved the Group's production capacity substantially during the six months ended 31 January, 2002, and hence the Group was able to accept additional sales orders from its existing and new customers. During the six months ended 31 January, 2002, the Group consumed an aggregate of approximately 5,792 tonnes of plastic resins for its production requirements.

Assembling of electronic products business

The business of assembling of electronic products of the Group also recorded a significant growth of approximately 214.61 per cent. as compared with the corresponding period in the last year. The increase was principally due to the Group's strategy to focus on assembling relatively high-end home audio equipment for its customers. The Directors believe that the Group has gained its customers' confidence in its production quality.

The increase was contributed by the sales to one of the major customers of the Group. This was consistent with the market trend that customers of the Group, particularly those multinationals manufacturing companies, would like to outsource their operations to well established original equipment manufacturers for cost reasons.

Despite the relatively low gross profit margin, the Directors consider that the results achieved were satisfactory as the increased sales volume of the Group outpaced the anticipated impact of low gross profit margin. The Directors also believe that this will improve the competitiveness of the Group in providing integrated manufacturing solutions to its customers.

Mould design and fabrication business

Sales generated from the mould design and fabrication business accounted for approximately 4.45 per cent. of the total sales of the Group during the six months ended 31 January, 2002. The Directors are of the view that this business will continue to form part of the core business of the Group.

Turnover and gross profit

During the six months ended 31 January, 2002, sales of the Group amounted to approximately HK$408.02 million, representing a substantial increase of approximately 80.32 per cent. as compared with the corresponding period in the last year of approximately HK$226.28 million. The three core businesses of the Group recorded satisfactory growth forming a solid foundation for the business expansion of the Group, and a breakdown of which is set forth in note 2 to "Consolidated Profit and Loss Account (Unaudited) for the six months ended 31 January, 2002" in page 5.

The substantial increase in the Group's sales during the six months ended 31 January, 2002 was principally attributable to the substantial increase in the Group's turnover derived from assembling of electronic products business, which recorded an increase of approximately 214.61 per cent. as compared with the corresponding period in the last year. The assembling of electronic products business, as part of the integrated manufacturing solutions provided by the Group, was one of the core businesses of the Group during the six months ended 31 January, 2002, accounting for approximately 57.11 per cent. of the turnover of the Group. This was consistent with the expectation of the Directors at the time of issue of the Prospectus and the strategy currently implemented by the Group. During the six months ended 31 January, 2002, the sales of plastic injection and moulding business and the mould design and fabrication business of the Group amounted to approximately HK$156.84 million and approximately HK$18.15 million, respectively, representing a growth of approximately 16.68 per cent. and approximately 2.05 per cent. as compared with the corresponding period in the last year.

During the six months ended 31 January, 2002, the gross profit of the Group amounted to approximately HK$69.65 million, surging by approximately 33.04 per cent. as compared with the corresponding period in the last year. The overall gross profit margin was approximately 17.07 per cent. as compared with approximately 23.14 per cent. during the corresponding period in the last year. The decrease of approximately 6.07 per cent. in the gross profit margin was principally due to the Group's strategy to focus on provision of integrated manufacturing solutions. The gross profit margin in the assembling business is relatively low, but the Directors believe that such impact of low gross profit margin is outpaced by the increased sales volume of the Group. As a result, the aggregate amount of the gross profit of the Group during the six months ended 31 January, 2002 increased substantially.

Distribution costs and administrative expenses

During the six months ended 31 January, 2002, the distribution costs of the Group amounted to approximately HK$9.68 million, representing an increase of approximately 28.75 per cent. The increase in the distribution costs was attributable to the increase in the sales of the Group during the six months ended 31 January, 2002. The administrative expenses of the Group during the six months ended 31 January, 2002 amounted to approximately HK$22.09 million, representing an increase of approximately 28.68 per cent. as compared with the corresponding period in the last year. This was principally due to the commencement of commercial production of the Group's production facilities in Zhuhai and the start-up costs incurred relating to the commencement of business operations of the Group's production facilities in Qingdao.

Net finance costs

The net finance costs of the Group during the six months ended 31 January, 2002 amounted to approximately HK$6.71 million, representing an increase of approximately 32.16 per cent. as compared with the corresponding period in the last year. The increase was principally attributable to the increased use of banking facilities for the commencement of business operations of the Group's production facilities in Zhuhai and Qingdao.

Profit attributable to shareholders

Profit attributable to shareholders of the Company during the six months ended 31 January, 2002 showed an increase of approximately 37.99 per cent. from approximately HK$22.59 million, during the corresponding period in the last year to approximately HK$31.17 million. Despite the decrease in the gross profit margin by approximately 6.07 per cent., the Group managed to mitigate the impact of such decrease by implementing various cost control measures. As a result, the percentage of profit attributable to shareholders of the Company over sales decreased only by approximately 2.34 per cent., from approximately 9.98 per cent. during the corresponding period in the last year to approximately 7.64 per cent. for the six months ended 31 January, 2002.

BUSINESS OUTLOOK

It is widely accepted that the economy of the world entered into a recession since the year 2001. The US, being the leader of the world's economy, started the slowdown effect and the rest of the world follows. However, starting from the year 2002, slow recovery in the world's economy has been evident.

The Group is not impervious to this global economic factor. Nevertheless, the Group prepares to face this challenge with confidence, well-planned strategies and with experienced management team. As stated in the Prospectus, the Group would like to become a leading integrated manufacturing solutions provider in the PRC for electrical and electronics products. To achieve this objective, the Group intends to adopt the following growth strategies:–

Expand and enhance the production facilities of the Group

As stated in the Prospectus, the Group planned to expand and enhance its production facilities in Zhuhai and Qingdao, of which the Directors believe that the economic development in these regions would enjoy a significant growth. The Directors believe that the continuous investment in these production facilities will improve the productivity of the Group.

Increase co-operation with leading manufacturers of electrical appliances

The Directors believe that working with leading manufacturers of electrical appliances will not only provide additional business opportunities to the Group but will also assist the Group to keep abreast with the latest developments in the end product markets. Therefore, the Group's long-term strategy is to work with the world's leading manufacturers. Thus, the Group will seek to strengthen its co-operation with Haier Group and other domestic brands to explore the domestic markets in the PRC.

Expand the customer base and explore the PRC domestic market

Despite the economic downturn last year, the PRC is one of the few countries that managed to enjoy a strong economic growth. In addition, a recent survey conducted by the National Bureau of Statistics (17 March, 2002) showed that in the year 2001, the PRC citizen spent approximately 20 per cent. of their total consumption on telecommunication and household appliances. With the accession of the PRC to the World Trade Organisation, the Directors anticipate that the PRC domestic market will become increasingly important and the derived demand for plastic moulded products and parts will increase.

Final remarks

Overall, the Group is expanding continuously despite the slowing down of the world's economy. The Directors anticipate that the PRC market will provide tremendous business opportunities to the Group, whilst at the same time, the Group will face increasingly intense competition. The Directors will use their best endeavours to capture these emerging business opportunities in order to enhance value of the Company.

OTHER INFORMATION

Liquidity and financial resources

As at 31 January, 2002, the Group had cash and bank balances of approximately HK$191.06 million (31 July, 2001: HK$193.39 million) of which approximately HK$103.37 million (31 July, 2001: HK$84.81 million) were pledged to the banks for banking facilities granted to the Group. The liquid funds were denominated in US dollars, Renminbi and Hong Kong dollars which represented approximately 81.39 per cent., approximately 10.95 per cent. and approximately 7.66 per cent., respectively, of the total cash and bank balances.

The Group generally finances its operations through a combination of shareholders equity, internally generated cash flows and borrowings from banks in Hong Kong and the PRC. As at 31 January, 2002, the Group had unutilised banking facilities of approximately HK$18.45 million.

The Group's total borrowings as at 31 January, 2002 amounted to HK$308.04 million (31 July, 2001: HK$242.18 million) of which there was a shareholder's loan of approximately HK$48.92 million. As disclosed in the Prospectus, such amount of shareholder's loan was repayable in 20 consecutive half-yearly installments on 1 February and 1 August starting from 1 August, 2002 as stipulated in an agreement dated 20 January, 2002. The remaining balance of borrowings was mainly for business expansion, capital expenditure and working capital purposes with an interest rate ranging from 5.58 per cent. per annum to 1.75 per cent. above the base lending rate per annum in Hong Kong from time to time. The amounts of borrowings denominated in US dollars, Renminbi and Hong Kong dollars were the equivalent of approximately HK$178.88 million, approximately HK$91.64 million and approximately HK$37.52 million, respectively.

Assets charged as securities for banking facilities included plant and machinery with carrying value of approximately HK$49.44 million (31 July, 2001: Nil), buildings with carrying value of approximately HK$7.29 million (31 July, 2001: Nil) and motor vehicles of approximately HK$2.45 million (31 July, 2001: HK$1.72 million), in addition to the bank deposits charged totalling approximately HK$103.37 million (31 July, 2001: HK$84.81 million).

The Group's gearing ratio, represented by the interest bearing borrowings over the Group's total asset at the end of the period, was approximately 44.11 per cent. (31 July, 2001: 39.42 per cent.) The increase in the gearing ratio was principally due to the construction of phase II of factory buildings in Zhuhai and new capital expenditure in subsidiaries of the Company in Qingdao, namely HAIVS Industry (Qingdao) Co., Ltd. and VS Haier Electronics Plastic (Qingdao) Co., Ltd.

The Directors believe that with its internally generated funds, current banking facilities and the net proceeds from the share offer as provided in the Prospectus, the Group has sufficient financial resources to satisfy its current commitments and working capital requirements.

Foreign exchange risk

As the Group's operations are principally in the PRC and all assets and liabilities are denominated either in Renminbi, Hong Kong dollars and US dollars, the Directors believe that the operations of the Group are not subject to significant foreign exchange risk.

Employees and remuneration policy

As at 31 January, 2002, the Group had a total of 4,136 employees of which 2,220 were employed under processing arrangements as described in the Prospectus. During the six months ended 31 January, 2002, there was no significant change in the number of employees of the Group as well as their remuneration policies.

Employees' costs (excluding Directors' emoluments but including wages paid to employees employed under the processing arrangements as described in the Prospectus) amounted to approximately HK$24.74 million (31 January, 2001: HK$19.51 million) during the six months ended 31 January, 2002. Remuneration packages are maintained at competitive level and the Group's employees are rewarded on a performance related basis.

The Company operates a share option scheme (the "Scheme") whereby the Board may, at their absolute discretion, grant options to any employee (including any directors) of the Company or any of the Company's subsidiaries and any other eligible participants as referred to the rules of the Scheme to subscribe for shares in the Company. The subscription price, exercisable period and the maximum number of options to be granted are determined in accordance with the prescribed terms of the Scheme. During the six months ended 31 January, 2002, no share options had been granted under the Scheme.

Purchase, redemption or Sale of the company's listed securities

During the six months ended 31 January, 2002, neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

Director's interests in shares

(i) As the Company's shares have not been listed on the Main Board until 8 February, 2002, no register of Directors' or chief executives' interests pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") had been maintained by the Company as at 31 January, 2002.

As at 8 February, 2002, being the date, on which the listing of the Company's shares on the Main Board first commenced, the interests of the Directors in the share capital of the Company and its associated corporations (as defined in the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests in which they are taken or deemed to have taken under Section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which will be required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein or 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 were as follows: –

(a) Shares in the Company and its associated corporations

Name of Company	Name of Directors	Number of shares Personal Interest	Family Interest	Corporate Interest	Total Interest
The Company (ordinary shares of HK$0.05 each)	Beh Kim Ling *(Note 1)*	17,437,500	–	–	17,437,500
	Gan Chu Cheng *(Note 1)*	17,437,500	–	–	17,437,500
	Gan Sem Yam *(Note 1)*	17,437,500	–	–	17,437,500
	Gan Tiong Sia *(Note 1)*	17,437,500	–	–	17,437,500
VVS Co., Ltd. ("VVS") (ordinary shares of HK$1 each)	Beh Kim Ling *(Note 1)*	3,182	–	–	3,182
	Gan Chu Cheng *(Note 1)*	3,182	–	–	3,182
	Gan Sem Yam *(Note 1)*	3,182	–	–	3,182
	Gan Tiong Sia *(Note 1)*	3,182	–	–	3,182
V.S. Industry Berhad ("VS Berhad") (ordinary shares of RM1 each)	Beh Kim Ling *(Note 1)*	14,590,629	–	–	14,590,629
	Gan Chu Cheng *(Note 1)*	14,712,843 *(Note 2)*	–	–	14,712,843
	Gan Sem Yam *(Note 1)*	6,792,825 *(Note 3)*	206,766 *(Note 4)*	–	6,999,591
	Gan Tiong Sia *(Note 1)*	2,556,355	10,000 *(Note 5)*	–	2,566,355
V.S. Corporation (Hong Kong) Co. Limited (non-voting deferred shares of HK$1 each)	Beh Kim Ling *(Note 1)*	3,750,000	–	–	3,750,000
	Gan Chu Cheng *(Note 1)*	3,750,000	–	–	3,750,000
	Gan Sem Yam *(Note 1)*	3,750,000	–	–	3,750,000
	Gan Tiong Sia *(Note 1)*	3,750,000	–	–	3,750,000

Name of Company	Name of Directors	Number of shares Personal Interest	Family Interest	Corporate Interest	Total Interest
V.S. Investment Holdings Limited ("VS Investment") (ordinary shares of HK$1 each)	Beh Kim Ling *(Note 1)*	5	–	–	5
	Gan Chu Cheng *(Note 1)*	5	–	–	5
	Gan Sem Yam *(Note 1)*	5	–	–	5
V.S. Ashin Technology Sdn. Bhd. (ordinary shares of RM1 each) *(Note 6)*	Gan Chu Cheng *(Note 1)*	630,000	–	–	630,000
	Gan Sem Yam *(Note 1)*	700,000	–	–	700,000
V.S. Technology Sdn. Bhd. (ordinary shares of RM1 each) *(Note 7)*	Beh Kim Ling *(Note 1)*	50,000	–	–	50,000
	Gan Chu Cheng *(Note 1)*	50,000	–	–	50,000
	Gan Sem Yam *(Note 1)*	50,000	–	–	50,000
	Gan Tiong Sia *(Note 1)*	50,000	–	–	50,000

Notes:–

1. Mr. Beh Kim Ling is the husband of Madam Gan Chu Cheng, and the brother-in-law of Mr. Gan Sem Yam and Mr. Gan Tiong Sia.

2. 1,000,000 shares and 750,000 shares of RM1 each in the share capital of VS Berhad are held in bare trust by AMSEC Nominees (Tempatan) Sdn. Bdn. and Hong Leong Finance Berhad, respectively, for the benefit of Madam Gan Chu Cheng. Under the SDI Ordinance, Madam Gan Chu Cheng is deemed to be interested in all these shares.

3. 400,000 shares of RM1 each in the share capital of VS Berhad are held in bare trust by AMSEC Nominees (Tempatan) Sdn. Bdn. for the benefit of Mr. Gan Sem Yam. Under the SDI Ordinance, Mr. Gan Sem Yam is deemed to be interested in all these shares.

4. These shares are held by Madam Ling Sok Mooi, the spouse of Mr. Gan Sem Yam. Under SDI Ordinance, Mr. Gan Sem Yam is deemed to be interested in all these shares held by Madam Ling Sok Mooi.

5. These shares are held by Madam Loi Hui Hong, the spouse of Mr. Gan Tiong Sia. Under the SDI Ordinance, Mr. Gan Tiong Sia is deemed to be interested in all these shares held by Madam Loi Hui Hong.

6. V.S. Ashin Technology Sdn. Bhd. is a company incorporated in Malaysia and is owned as to 51 per cent. by VS Berhad and the remaining shares by other shareholders, including but not limited to Madam Gan Chu Cheng and Mr. Gan Sem Yam.

7. V.S. Technology Sdn. Bhd. is a company incorporated in Malaysia and is owned as to 75 per cent. by VS Berhad and the remaining shares by other shareholders, including but not limited to Mr. Beh Kim Ling, Madam Gan Chu Cheng, Mr. Gan Sem Yam and Mr. Gan Tiong Sia.

(b) Rights to acquire shares in the Company or its associated corporations

(i) Each of Mr. Beh Kim Ling, Madam Gan Chu Cheng, Mr. Gan Sem Yam and Mr. Gan Tiong Sia were granted options under the employees' share option scheme of VS Berhad, which became effective on 11 July, 2000, to subscribe for 70,000 ordinary shares of RM1 each in the share capital of VS Berhad at the exercise price of RMB2.77 per share, exercisable at any time during the period of five years commencing from and including 11 July, 2000 to 10 July, 2005. Such options were outstanding as at 31 January, 2002 and 8 February, 2002.

(ii) Under the terms and conditions of an option deed dated 20 January, 2002 and entered into between, among others, VS Investment and the following Directors, the following Directors were granted options to subscribe for the following numbers of shares in the share capital of VS Investment at the exercise price of HK$1 per share: –

Director	**Number of shares in VS Investment**
Beh Kim Ling *(Note)*	3,599,995
Gan Chu Cheng *(Note)*	3,599,995
Gan Sem Yam *(Note)*	3,599,995

Note: Mr. Beh Kim Ling is the husband of Madam Gan Chu Cheng, and the brother-in-law of Mr. Gan Sem Yam.

These options are exercisable at any time during the period of 36 months from and including 8 February, 2002, being the date on which dealing of shares on the Main Board first commenced, to 5:00 p.m. (Hong Kong time) on the last date of such 36 months period or, if that date is not a business day in Hong Kong, on the business day in Hong Kong immediately before that date.

Save as disclosed above, none of the Directors or their associates had any interests in the share capital of the Company or any of its associated corporations (as defined of the SDI Ordinance) as at 8 February, 2002.

Substantial interests in the share capital of the Company

As the Company's shares have not been listed on the Main Board until 8 February, 2002, no register of interests in shares pursuant to Section 16(1) of the SDI Ordinance had been maintained by the Company as at 31 January, 2002.

As at 8 February, 2002, being the date on which the listing of the Company's shares on the Main Board first commenced, the following interests of 10 per cent. or more of the share capital of the Company in issue were recorded in the register of interests maintained by the Company pursuant to Section 16(1) of the SDI Ordinance:–

Name	Number of shares held	Approximate percentage of Company's shares in issue
VS Berhad *(Note 1)*	426,250,000	53.28%
VVS *(Note 1)*	426,250,000	53.28%
V.S. Corporation (Holdings) Limited ("VS Corporation") *(Note 2)*	104,000,000	13.00%

Notes: –

1. VVS is an investment holding company incorporated in the British Virgin Islands and owned as to approximately 87.272 per cent. by VS Berhad and approximately 3.182 per cent. by each of Messrs. Beh Kim Ling, Gan Sem Yam and Gan Tiong Sia and Madam Gan Chu Cheng. VS Berhad is deemed to be interested in the 426,250,000 shares held by VVS under the SDI Ordinance.

2. VS Corporation is an investment holding company incorporated in the British Virgin Islands and owned by 52 employees of the Group and VS Berhad and its subsidiaries.

Save as disclosed above, no person, other than the Directors whose interests are set out under the heading "Directors' Interests in Shares" above, had registered any interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance as at 8 February, 2002.

Directors' rights to acquire shares or debentures

As the Company's shares have not been listed on the Main Board until 8 February, 2002, no register of Directors' or chief executives' interests pursuant to Section 29 of the SDI Ordinance had been maintained by the Company as at 31 January, 2002.

Save as disclosed under the heading "Directors' Interests in Shares" above, none of the Directors or their respective spouse or children under 18 years of age had been granted any option to subscribe for shares in the Company or its subsidiaries nor any such rights had been exercised by them, as at 8 February, 2002.

Sponsor's interest

Pursuant to the sponsor's agreement (the "Sponsor's Agreement") dated 25 January, 2002 entered into between DBS Asia and the Company, the Company has appointed DBS Asia, and DBS Asia has agreed, to act as sponsor to the Company for a period of one year commenced from 8 February, 2002. Save for the Sponsor's Agreement, none of the directors, employees nor associates of DBS Asia had any interest in any securities of the Company or any of its associated corporations as at 31 January, 2002.

AUDIT COMMITTEE

The Board established the Audit Committee on 20 January, 2002, which comprised of the two independent non-executive Directors, pursuant to the Code of Best Practice as set out in Appendix 14 to the Listing Rules. The Audit Committee convened its first meeting on 28 March, 2002 and has reviewed the Group's interim financial report for the six months ended 31 January, 2002, and has discussed the internal control procedures and the financial reporting procedures of the Group.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not at any time during the six months ended 31 January, 2002, in compliance with Appendix 14 to the Listing Rules.

By order of the Board
Beh Kim Ling
Chairman

Shenzhen, the PRC
28 March, 2002

KPMG

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF V.S. INTERNATIONAL GROUP LIMITED

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 5 to 20.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the Directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 31 January, 2002.

KPMG
Certified Public Accountants
Hong Kong,
28 March, 2002