

# Report of the Directors

The Directors have pleasure in submitting their annual report together with the audited financial statements of the Group for the year ended 31 July, 2002.

## Group reorganisation

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. Pursuant to a reorganisation (the “Reorganisation”) to rationalise the group structure in preparation for the listing of the Company’s shares on the Main Board of the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group on 20 January, 2002. Details of the Reorganisation and the basis of presentation of the financial statements are set out in note 1 and note 2 on the financial statements and in the Prospectus.

On 8 February, 2002, the shares of the Company were listed on the Main Board of the Stock Exchange.

## Principal activities

The principal activity of the Company is investment holding and the Group is principally engaged in the manufacturing and sales of plastic moulded products and parts, assembling of electronic products and mould design and fabrication.

An analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 15 on the financial statements.

## Major customers and suppliers

The information in respect of the Group’s sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:–

	Percentage of the Group’s total	
	Sales	Purchases
The largest customer	46%	–
Five largest customers in aggregate	75%	–
The largest supplier	–	27%
Five largest suppliers in aggregate	–	50%

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5 per cent. of the Company’s share capital) had any interest in these major customers and suppliers.

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## **Financial statements**

The profit of the Group for the year ended 31 July, 2002 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 32 to 72.

## **Dividends**

The Board has recommended the payment of a final dividend of HK0.5 cent per share in respect of the year ended 31 July, 2002 to the shareholders listed on the register of members of the Company on 22 November, 2002. The proposed dividend will be paid on 2 December, 2002 following approval at the forthcoming Annual General Meeting on 22 November, 2002.

## **Fixed assets**

Details of movements in fixed assets of the Company and the Group during the financial year are set out in note 16 on the financial statements.

## **Share capital**

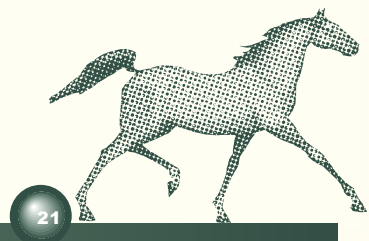
Details of the movements in share capital of the Company during the financial year are set out in note 26 on the financial statements.

## **Reserves**

Details of movements in the reserves of the Company and the Group during the financial year are set out in note 27 on the financial statements.

## **Distributable reserves**

As at 31 July, 2002, the Company's reserves available for distribution calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands amounted to HK\$235,644,000. These reserves may be distributed provided that immediately following the date on which the distribution is proposed to be made, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.



# Report of the Directors

## Directors

The Directors during the financial year were:–

### *Executive Directors*

Beh Kim Ling	(appointed on 5 November, 2001)
Gan Chu Cheng	(appointed on 5 November, 2001)
Gan Sem Yam	(appointed on 16 July, 2001)
Zhang Pei Yu	(appointed on 5 November, 2001)

### *Non-executive Director*

Gan Tiong Sia	(appointed on 5 November, 2001)
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### *Independent non-executive Directors*

Pun Kheng Hock	(appointed on 15 January, 2002 and deceased on 19 August, 2002)
Cheung Kwan Hung, Anthony	(appointed on 15 January, 2002)

The following independent non-executive Director was appointed after the end of the financial year:–

Diong Tai Pew	(appointed on 1 September, 2002)
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In accordance with article 108(A) of the Company's articles of association, one-third of the Directors for the time being, other than a Director holding office as Chairman, should retire at each Annual General Meeting from office by rotation. Further, according to article 112 of the articles of association of the Company, any director appointed by the Directors to fill a casual vacancy in the Company, under that article, shall hold office only until the next following Annual General Meeting and shall then be eligible for re-election at the meeting.

Accordingly, Messrs. Gan Sem Yam, Zhang Pei Yu and Diong Tai Pew will retire from the Board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

## Directors' service contracts

Each of Messrs. Beh Kim Ling, Gan Sem Yam, Zhang Pei Yu and Madam Gan Chu Gheng, being all the executive Directors, has entered into a service contract with the Company for an initial terms of three years commencing from 1 August, 2001, and is automatically renewable for successive terms of one year upon expiry of the then current term, until terminated by not less than three months' notice in writing served by either party or the other.

Mr. Gan Tiong Sia is currently appointed as a non-executive Director for a term of one year from 5 November, 2001. Each of Messrs. Cheung Kwan Hung, Anthony and Diong Tai Pew is currently appointed as an independent non-executive Director for a term of one year from 15 January, 2002 and 1 September, 2002, respectively.

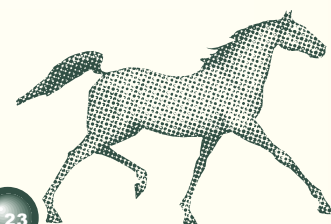
No Director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

## Director's interest in shares

As at 31 July, 2002, the interests of the Directors in the share capital of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance ("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 Rules Governing the Listing of Securities on the Stock Exchange (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 (Note 1)	Personal interest	Number of shares		Total interest
			Family interest	Corporate interest	
The Company (ordinary shares of HK\$0.05 each)	Beh Kim Ling	17,437,500	—	—	17,437,500
	Gan Chu Cheng	17,437,500	—	—	17,437,500
	Gan Sem Yam	17,437,500	—	—	17,437,500
	Gan Tiong Sia	17,437,500	—	—	17,437,500
VVS Co., Ltd. (“VVS”) (ordinary shares of HK\$1 each)	Beh Kim Ling	3,182	—	—	3,182
	Gan Chu Cheng	3,182	—	—	3,182
	Gan Sem Yam	3,182	—	—	3,182
	Gan Tiong Sia	3,182	—	—	3,182
V.S. Industry Berhad (ordinary shares of Malaysian Ringgit ("RM") 1 each)	Beh Kim Ling	14,639,629	—	—	14,639,629
	Gan Chu Cheng	14,961,843	—	—	14,961,843
	Gan Sem Yam	6,841,825 (Note 3)	229,766 (Note 4)	—	7,071,591
	Gan Tiong Sia	2,576,355	10,000 (Note 5)	—	2,586,355
V.S. Corporation (Hong Kong) Co. Limited (non-voting deferred shares of HK\$1 each)	Beh Kim Ling	3,750,000	—	—	3,750,000
	Gan Chu Cheng	3,750,000	—	—	3,750,000
	Gan Sem Yam	3,750,000	—	—	3,750,000
	Gan Tiong Sia	3,750,000	—	—	3,750,000



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Name of company	Name of Directors (Note 1)	Personal interest	Number of shares		Total interest
			Family interest	Corporate interest	
V.S. Investment Holdings Limited (ordinary shares of HK\$1 each)	Beh Kim Ling	5	–	–	5
	Gan Chu Cheng	5	–	–	5
	Gan Sem Yam	5	–	–	5
V.S. Ashin Technology Sdn. Bhd. (ordinary shares of RM1 each) (Note 6)	Gan Chu Cheng	672,000	–	–	672,000
	Gan Sem Yam	746,667	–	–	746,667
V.S. Technology Sdn. Bhd. (ordinary shares of RM1 each) (Note 7)	Beh Kim Ling	50,000	–	–	50,000
	Gan Chu Cheng	50,000	–	–	50,000
	Gan Sem Yam	50,000	–	–	50,000
	Gan Tiong Sia	50,000	–	–	50,000

#### Notes:

- Mr. Beh Kim Ling is the husband of Madam Gan Chu Cheng, and the brother-in-law of Messrs. Gan Sem Yam and Gan Tiong Sia.
- 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.
- 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.
- 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.
- 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.
- V.S. Ashin Techonology Sdn. Bhd. is a company incorporated in Malaysia and is owned as to 54.4 per cent. by VS Berhad and the remaining shares by other shareholders, including but not limited to Madam Gan Chu Chang and Mr. Gan Sem Yam.
- 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 Messrs. Beh Kim Ling, Gan Sem Yam, Gan Tiong Sia and Madam Gan Chu Cheng.

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

- (i) Each of Messrs. Beh Kim Ling, Gan Sem Yam, Gan Tiong Sia and Madam Gan Chu Cheng, were granted options under the employee's 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 RM2.77 per share, exercisable at any time during the period of five years commencing from and including 11 July, 2000 to 10 July, 2005. The respective number of outstanding options remained unexercised by each of Messrs. Beh Kim Ling, Gan Sem Yam, Gan Tiong Sia and Madam Gan Chu Cheng, as at 31 July, 2002 was as follows:—

<b>Name of Directors</b> <i>(Note)</i>	<b>Number of outstanding options</b>
Beh Kim Ling	21,000
Gan Chu Cheng	21,000
Gan Sem Yam	21,000
Gan Tiong Sia	50,000

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

- (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:—

<b>Name of Directors</b> <i>(Note)</i>	<b>Number of shares in VS Investment</b>
Beh Kim Ling	3,599,995
Gan Chu Cheng	3,599,995
Gan Sem Yam	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 the Company's 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 in the SDI Ordinance) as at 31 July, 2002.

## Directors' interests in contracts

Apart from the transactions in connection with the Reorganisation and the related party transactions as disclosed in note 31 on the financial statements, no contract of significance to which the Company, any of its holding company, subsidiaries or fellow subsidiaries was a party, in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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## Substantial interests in the share capital of the Company

As at 31 July, 2002, 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	Note	Number of shares held	Approximate percentage of Company's shares in issue
VS Berhad	1	426,250,000	51.98%
VVS	1	426,250,000	51.98%
V.S. Corporation (Holdings) Limited ("VS Corporation")	2	104,000,000	12.68%

Notes:

1. VVS is an investment holding company incorporated in the British Virgin Islands ("BVI") 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, 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 BVI and owned by 52 employees of the Group, VS Berhad and/or its subsidiaries.

Save as disclosed above, no person, other than the directors of the Company 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 31 July, 2002.

## Share option scheme

The Company operates a share option scheme ("Share Option Scheme"), which was adopted on 20 January, 2002, for the purpose of providing incentives or rewards to selected eligible participants for their contribution to the Group. The Share Option Scheme became effective on 8 February, 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Eligible participants of the Share Option Scheme include the following:–

- (i) any employee or proposed employee (whether full time or part time) of the Group or any entity ("Invested Entity") in which any member of the Group holds any equity interest (including any executive director but excluding any non-executive director of the Group or any Invested Entity);
- (ii) any non-executive directors (including independent non-executive directors) of the Group or any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

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- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (vii) (for so long as VS Berhad remains as a controlling shareholder (as defined in the Listing Rules) of the Company) any employee or proposed employee (whether full time or part time) of VS Berhad, any of its subsidiaries or any entity in which VS Berhad or any of its subsidiaries holds an equity interest, including any executive director of VS Berhad, any of such subsidiaries or any entity in which VS Berhad or any of its subsidiaries holds an equity interest;
- (viii) (for so long as VS Berhad remains as a controlling shareholder (as defined in the Listing Rules) of the Company) any non-executive directors (including independent non-executive directors) of VS Berhad, any of its subsidiaries or any entity in which VS Berhad or any of its subsidiaries holds an equity interest; and
- (ix) any other group or classes of participants from time to time determined by the Board as having contributed or may contribute by way of joint venture and business alliances to the development and growth of the Group.

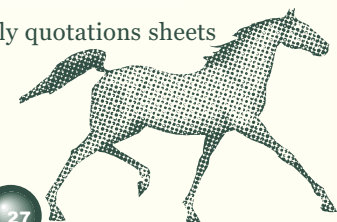
As at the date of this report, the total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group is 80,000,000, representing 10 per cent. of the issued share capital of the Company immediately upon completion of the share offer and the capitalisation issue which took place in February 2002. The maximum number of shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1 per cent. of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive directors of the Company (excluding independent non-executive director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1 per cent. of the shares of the Company in issue with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, in 12-month period up to and including the date of grant, are subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 by the grantee. The exercise period for the share options granted is determined by the Board, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the option subject to the provisions for early termination under the Share Option Scheme.

The subscription price for shares under the Share Option Scheme shall be a price determined by the Board, but shall not be less than the highest of:—

- (i) the closing price of shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the grant, which must be a business day;
- (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant; and





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(iii) the nominal value of the shares of the Company.

As at 31 July, 2002, no option has been granted or agreed to be granted under the Share Option Scheme.

## Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year ended 31 July, 2002.

## Connected transactions and related party transactions

Details of the significant related party transactions for the year ended 31 July, 2002 are set out in note 31 on the financial statements.

The Group had entered into the following connected transactions during the year ended 31 July, 2002, the details of which are required to be disclosed in this report pursuant to Chapter 14 of the Listing Rules:—

- (i) during the year ended 31 July, 2002, 海爾威城電子塑膠製品(青島)有限公司 (VS Haier) and 海士茂電子塑膠(青島)有限公司 (HAIVS Qingdao), two of the Company's subsidiaries in the PRC, had sold to 青島海爾投資發展有限公司 (Qingdao Haier Investment Development Limited) ("Qingdao Haier"), its holding company, subsidiaries and affiliated companies and other subsidiaries and affiliated companies of its holding company (collectively, the "Haier Group") plastic moulded products and parts for the respective aggregate consideration of approximately HK\$11.2 million (equivalent to approximately RMB11.9 million) and HK\$27.1 million (equivalent to approximately RMB28.8 million), respectively.

As Qingdao Haier is a substantial shareholder of VS Haier holding 20 per cent. interest in the registered capital of VS Haier and therefore all member of the Haier Group are connected person of the Company, these sales constituted connected transactions under the Listing Rules and therefore are subject to the disclosure and/or independent shareholders' approval pursuant to Chapter 14 of the Listing Rules. A waiver from the strict compliance of the requisite disclosure and/or independent shareholders' approval pursuant to Chapter 14 of the Listing Rules in respect of these sales had been granted by the Stock Exchange on certain conditions, details of which are set out in the section headed "Business" in the Prospectus.

The Board, including the independent non-executive Directors, confirmed that these sales, being the connected transactions as referred to in the paragraph "continuing connected transactions subject to waiver granted by the Stock Exchange" in the section headed "Business" in the Prospectus, had been conducted in accordance with the conditions of the waiver granted by the Stock Exchange as set out in the Prospectus.

The auditors of the Company have also confirmed that the connected transactions as set out above:—

- (a) had been approved by the Directors;
- (b) had been entered into in accordance with the terms of the agreements relating to these sales or, where there is no such agreement, on terms being no less favourable than those available to or from independent third parties; and
- (c) the aggregate consideration paid in respect of these sales had not exceeded 20 per cent. of the Group's audited consolidated turnover for the year ended 31 July, 2002.

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- (ii) VS Haier and HAIVS Qingdao had purchased from 青島海爾零部件採購有限公司 (QingDao Haier Components Purchase Co., Ltd.) (“Haier CPCL”), a member of the Haier Group, certain raw materials for the respective aggregate consideration of approximately HK\$8.2 million (equivalent to approximately RMB8.7 million) and HK\$2.5 million (equivalent to approximately RMB2.7 million) during the year ended 31 July, 2002.

Haier CPCL is owned as to 10 per cent. by 青島海爾集團公司 (Qingdao Haier Group Company) (“QHGC”) and 90 per cent. by 青島集體資產管理協會 (Qingdao Haier Collective Assets Management Association) (“QHCAMA”). The joint venture partner of VS Haier, Qingdao Haier, holding 20 per cent. interest in its registered capital, is owned as to 1.4 per cent. by QHGC and the remaining 98.6 per cent. by QHCAMA.

Given that Haier CPCL is an associate of the substantial shareholder of VS Haier and therefore is a connected person of the Company, these purchases constituted connected transactions under the Listing Rules and therefore are subject to the disclosure and/or shareholders’ approval requirements under Chapter 14 of the Listing Rules.

The Board, including the independent non-executive Directors, confirmed that these purchases:—

- (a) had been entered into by VS Haier and/or HAIVS Qingdao in the ordinary and usual course of its or their business;
- (b) had been conducted on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities), or on arm’s length basis, or (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned and in the interests of the Company as a whole;
- (c) had been entered into either in accordance with the terms of the agreements governing the purchases or, where there are no such agreements, on terms no less favourable than those available to or from independent third parties; and
- (d) had received the approval of the Board.

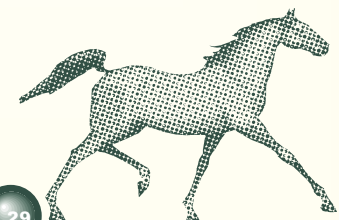
Save as disclosed therein, there were no other transactions needed to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

## Pre-emptive rights

There are no provision for pre-emptive rights under the Company’s articles of association although there are no restrictions against such rights under the law in Cayman Islands.

## Purchase, sale or redemption of the Company’s listed securities

During the year ended 31 July, 2002, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities subsequent to the listing of the Company’s shares on the Main Board of the Stock Exchange on 8 February, 2002.





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## Bank loans and other borrowings

Particulars of bank loans and other borrowings of the Company and the Group as at 31 July, 2002 are set out in notes 24, 25 and 31(i) on the financial statements.

## Interest capitalised

The amount of interest capitalised by the Group during the financial year is set out in note 7 on the financial statements.

## Four years summary

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on pages 75 and 76 of the annual report.

## Properties

Particulars of the major properties and property interests of the Group are shown on pages 73 to 74 of the annual report.

## Retirement schemes

Particulars of the retirement schemes of the Group are set out in note 6 on the financial statements.

## Compliance with the Code of Best Practice

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

## Audit committee

The Board established the audit committee (the “Committee”) on 20 January, 2002, which comprised of the two independent non-executive Directors, pursuant to the Code of Best Practice as set forth in Appendix 14 to the Listing Rules. The primary duties of the Committee are to review and supervise the Group’s financial reporting process and internal controls system. The Committee has reviewed the Group’s financial statements for the year ended 31 July, 2002 and of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirements and that adequate disclosures have been made.

## Auditors

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

**Beh Kim Ling**

*Chairman*

Shenzhen, the PRC,  
27 September, 2002