Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1 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 the reorganisation (the "Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on the Stock Exchange, on 20 January 2002 the Company became the holding company of the subsidiaries now comprising the Group. Further details of the Reorganisation are set forth in the Prospectus.

2 BASIS OF PRESENTATION

The Group resulting from the Reorganisation has been regarded as a continuing group. Accordingly, the consolidated financial statements have been prepared on the basis of merger accounting in accordance with Statement of Standard Accounting Practice ("SSAP") No. 2.127 "Accounting for Group Reconstructions". On this basis, the Company is treated as 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 year ended 31 July 2002 include the results of the Company and its subsidiaries with effect from 1 August 2001 or since their respective dates of incorporation/ establishment, whichever is a shorter period. In the opinion of the Directors, the resulting consolidated financial statements give a more meaningful view of the results of the Group as a whole.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable SSAP and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Listing Rules. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of land and buildings as explained below.

(c) Subsidiaries and controlled enterprises

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsidiaries and controlled enterprises (continued)

In the Company's balance sheet, an investment in subsidiary is stated at cost less any impairment losses (see note 3(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life of 10 years. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 3(i)).

On disposal of a controlled subsidiary during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement is included in the calculation of the profit or loss on disposal.

(e) Fixed assets

(i) Fixed assets are carried in the balance sheets on the following bases:

- land and buildings held for own use are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation less any subsequent accumulated depreciation (see note 3(h)). Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date; and
- plant, machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 3(h)) and impairment losses (see note 3(i)).

(ii) Changes arising on the revaluation of land and buildings held for own use are generally dealt with in reserves. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of that same asset, immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of that same asset, had previously been charged to the income statement.

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. For land and buildings held for own use, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Lease of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets acquired under finance leases
Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 3(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(i). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(ii) Operating lease charges
Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(g) Construction in progress

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (see note 3(i)). Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges and exchange differences on other designated financial instruments, during the period of construction.

Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(h) Depreciation

Depreciation is calculated to write off the cost or revalued amount of fixed assets over their estimated useful lives as follows:

- leasehold land is depreciated on a straight-line basis over the remaining terms of the respective leases;
- buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 50 years from the date of completion, and the unexpired terms of the leases;
- leasehold improvements are depreciated on a straight-line basis over the shorter of their useful lives, being 10 years from the date of completion, and the unexpired terms of the leases; and

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Depreciation (continued)

– other fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Plant and machinery	5 – 10 years
Office equipment, furniture and fixtures	3 – 5 years
Motor vehicles	5 years

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);
– interest in subsidiaries (except for those accounted for at fair value under note 3(c)); and
– positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Inventories (continued)

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the written-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(l) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Revenue recognition (continued)

(ii) Dividend
Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iii) Interest income
Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(o) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of subsidiaries outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a subsidiary outside Hong Kong, the cumulative amount of the exchange differences which relate to that subsidiary is included in the calculation of the profit or loss on disposal.

(p) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds (the "MPF") as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and other retirement benefit schemes, are recognised as an expense in the income statement as and when incurred.

(iii) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Borrowing costs (continued)

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(r) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

4 TURNOVER

The principal activities of the Group are the manufacturing and sales of plastic moulded products and parts, assembling of electronic products and mould design and fabrication.

Turnover represents aggregate of invoiced value of goods sold. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

4 TURNOVER (CONTINUED)

An analysis of the principal activities of the Group's operation is as follows:

	2003 $'000	2002 $'000
Breakdown of revenue by principal activities		
Plastic injection and moulding	**600,484**	352,151
Assembling of electronic products	**489,971**	545,210
Mould design and fabrication	**45,594**	35,269
	1,136,049	932,630

5 OTHER NET INCOME

	2003 $'000	2002 $'000
Interest income	**1,706**	2,977
(Loss)/gain on disposal of fixed assets	**(406)**	198
	1,300	3,175

6 PERSONNEL EXPENSES

	2003 $'000	2002 $'000
Salaries, wages and allowances	**74,994**	38,115
Contribution to retirement benefit schemes	**2,008**	1,436
	77,002	39,551
Average number of employees during the year	**4,057**	2,039

Personnel expenses include Directors' remuneration totalling $13,705,000 (2002: $7,969,000) *(note 9)*.

A subsidiary of the Company has entered into processing agreements with independent third parties (the "Providers") in respect of certain production facilities in Shenzhen, the PRC. Pursuant to the relevant processing agreements, labour required for production is provided by the Providers, who are responsible for the labour's participation in retirement benefit schemes pursuant to the relevant rules and regulations in the PRC. In return, a processing charge calculated based on the number of labourers engaged in the production is payable to the Providers. The Group has no obligations to pay any retirement benefits of existing and former labourers provided by the Providers.

6 PERSONNEL EXPENSES (CONTINUED)

Other subsidiaries of the Company operating in the PRC participate in a government pension scheme whereby the subsidiaries are required to pay annual contributions at rates ranging from 8% to 25% of the standard wages determined by the relevant authorities in the PRC. Under the scheme, retirement benefits of existing and former employees are payable by the relevant authorities and the Group has no further obligations beyond the annual contributions.

Contributions to the MPF are required under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The Group and its employees in Hong Kong make monthly mandatory contributions to the Mandatory Provident Fund Scheme at 5% of the employees' relevant income as defined under the Mandatory Provident Fund legislation. The contributions from employees and employer are subject to a cap of monthly relevant income of $20,000.

The Group did not operate nor participate in any other scheme for retirement benefits provided to the Group's employees during the year.

7 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2003 $'000	2002 $'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	**17,413**	11,007
Interest on other loans	**2,823**	2,502
Finance charges on obligations under finance leases	**706**	503
Total borrowing costs	**20,942**	14,012
Less: Borrowing costs capitalised as construction in progress*	**(2,856)**	(1,196)
	18,086	12,816
Exchange losses	**800**	119
Other charges	**2,776**	3,035
	21,662	15,970

* The borrowing costs have been capitalised at the average cost of borrowings to the Group of 4.8% (2002: 5.1%) per annum.

7 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION (CONTINUED)

	2003 $'000	2002 $'000
(b) Other items:		
Cost of inventories#	**1,003,311**	787,380
Auditors' remuneration	**2,230**	1,433
Provision for doubtful debts	**732**	506
Processing fees#	**27,816**	26,158
Depreciation#		
– owned assets	**45,516**	30,794
– assets held under finance leases	**2,094**	749
Operating lease charges#		
– factory and hostel rentals	**11,652**	10,923
Amortisation of goodwill	**23**	–
Provision for slow moving inventories	**1,587**	–

Cost of inventories includes $113,243,000 (2002: $74,970,000) relating to staff costs, depreciation expenses, processing fees and operating lease charges which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

8 TAXATION

(a) Taxation in the consolidated income statement represents:

	2003 $'000	2002 $'000
PRC income tax	**2,731**	–
Deferred taxation *(note 8(c))*	**(100)**	–
	2,631	–

No provision has been made for Hong Kong profits tax as the Group did not earn income subject to Hong Kong profits tax for the years ended 31 July 2003 and 2002.

Taxable income of the 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 to a 50% 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%.

Two subsidiaries of the Company were in the third profit making year during the year ended 31 July 2003. Provision for the PRC income tax of these subsidiaries was calculated at 7.5% of the estimated assessable profit for the year ended 31 July 2003. The balance of the subsidiaries of the Company in the PRC were either entitled to income tax exemption or sustained losses for taxation purpose for the year ended 31 July 2003.

8 TAXATION (CONTINUED)

(a) Taxation in the consolidated income statement represents (continued):

A subsidiary of the Company has entered into processing agreements with 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 relevant production facilities in Shenzhen, the PRC.

(b) Taxation in the consolidated balance sheet represents:

	The Group	
	2003	2002
	$'000	$'000
Balance of PRC income tax payable for the year	**531**	–

All tax payable is expected to be settled within one year.

(c) Deferred taxation

(i) The movements during the year are as follows:

	The Group	
	2003	2002
	$'000	$'000
Balance at 1 August	**4,705**	–
Transfer to the income statement	**(100)**	–
Arising from revaluation of land and buildings held for own use *(note 29(a))*	**11,266**	4,705
Balance at 31 July	**15,871**	4,705

(ii) Major component of deferred tax liability of the Group is set out below:

	The Group	
	2003	2002
	$'000	$'000
Arising from revaluation of land and buildings held for own use	**15,871**	4,705

There were no other material unprovided deferred taxation assets and liabilities at the balance sheet date.

9 DIRECTORS' REMUNERATION

Details of Directors' remuneration are as follows:

	2003 $'000	2002 $'000
Fees	**480**	195
Basic salaries, allowances and other benefits	**11,475**	7,774
Discretionary bonuses	**1,750**	–
Retirement benefits contribution	**–**	–
	13,705	7,969
Number of Directors	**7**	7

Included in the Directors' remuneration were fees of $480,000 (2002: $195,000) payable to the two independent non-executive directors and a non-executive director of the Company during the year.

The remuneration of the Directors falls within the following bands:

	Number of Directors	
	2003	**2002**
$Nil – $1,000,000	**4**	4
$1,000,001 – $1,500,000	**–**	1
$1,500,001 – $2,000,000	**–**	1
$2,500,001 – $3,000,000	**1**	–
$3,500,001 – $4,000,000	**1**	–
$4,000,001 – $4,500,000	**–**	1
$5,500,001 – $6,000,000	**1**	–
	7	7

Each of the executive Directors is entitled, on completion of every twelve months of service, to a management bonus in respect of each financial year of the Company commencing from 1 August 2002 for an amount to be determined by the Board in its absolute discretion. The amount of discretionary bonuses payable to the executive Directors totalled $1,750,000 for the year ended 31 July 2003. During the year ended 31 July 2002, all executive Directors agreed to waive their management bonuses.

10 SENIOR MANAGEMENT'S EMOLUMENTS

Of the five individuals with the highest emoluments, three (2002: three) are Directors whose remuneration are reflected in the analysis presented in note 9. The aggregate of the emoluments in respect of the other two (2002: two) individuals are as follows:

	2003	2002
	$'000	$'000
Salaries, allowances and other benefits	**1,120**	1,373
Retirement benefits contribution	**–**	–
Discretionary bonuses	**170**	–
	1,290	1,373

The emoluments of the two (2002: two) individuals with the highest emoluments are within the following bands:

	2003	2002
$Nil – $1,000,000	**2**	2

There were no amounts paid during the years ended 31 July 2003 and 2002 to the Directors or any of the five highest paid individuals as inducement to join or upon joining the Company or the Group or as compensation for loss of office.

11 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a loss of $8,240,000 (2002: loss of $1,233,000) which has been dealt with in the financial statements of the Company.

12 DIVIDEND

(a) Dividend attributable to the year

	2003	2002
	$'000	$'000
Final dividend proposed after the balance sheet date of 0.5 cent (2002: 0.5 cent) per share	**4,100**	4,100

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

12 DIVIDEND (CONTINUED)

(b) Dividend attributable to the previous financial year, approved and paid during the year

	2003 $'000	2002 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 0.5 cent (2002: 40.0 cents) per share	4,100	30,000

The final dividend of $30,000,000 in respect of the previous financial year, approved and paid during the year ended 31 July 2002 represented the dividend declared and paid by the Company's subsidiary, VSHK, to the then shareholders prior to the Reorganisation.

13 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of $18,874,000 (2002: $65,791,000) and the weighted average number of 820,000,000 (2002: 714,301,370) shares in issue during the year.

(b) Diluted earnings per share

There were no potential dilutive ordinary shares in existence during the years ended 31 July 2003 and 2002.

14 CHANGE IN ACCOUNTING POLICY

Translation of financial statements of subsidiaries outside Hong Kong

In prior years, the results of subsidiaries outside Hong Kong were translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. With effect from 1 August 2002, in order to comply with SSAP 11 (revised) issued by the Hong Kong Society of Accountants, the Group translates the results of subsidiaries outside Hong Kong at the average exchange rate for the year. The effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

15 SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

(a) Business segments

The Group comprises the following main business segments:

Plastic injection and moulding	:	manufacture and sales of plastic moulded products and parts
Assembling of electronic products	:	assembling and sales of electronic products
Mould design and fabrication	:	manufacture and sales of plastic injection moulds

	Plastic injection and moulding		Assembling of electronic products		Mould design and fabrication		Inter-segment elimination		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Turnover from external customers	**600,484**	352,151	**489,971**	545,210	**50,570**	35,269	**(4,976)**	–	**1,136,049**	932,630
Segment result	**64,944**	76,613	**29,185**	35,499	**8,049**	8,222	**–**	–	**102,178**	120,334
Unallocated operating income and expenses									**(61,725)**	(39,680)
Profit from operations									**40,453**	80,654
Finance costs									**(21,662)**	(15,970)
Taxation									**(2,631)**	–
Minority interests									**2,714**	1,107
Profit attributable to shareholders									**18,874**	65,791
Depreciation for the year	**30,517**	19,946	**6,546**	2,635	**4,254**	2,874	**–**	–	**41,317**	25,455
Unallocated depreciation and amortisation									**6,316**	6,088
									47,633	31,543
Significant non-cash expenses (other than depreciation and amortisation)	**2,123**	327	**164**	179	**32**	–	**–**	–	**2,319**	506

15 SEGMENT INFORMATION (CONTINUED)

(a) Business segments (continued)

	Plastic injection and moulding		Assembling of electronic products		Mould design and fabrication		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Segment assets	**735,903**	483,234	**217,332**	202,006	**81,857**	40,387	**1,035,092**	725,627
Unallocated assets							**365,479**	270,133
Total assets							**1,400,571**	995,760
Segment liabilities	**225,087**	237,111	**75,193**	156,859	**20,896**	15,882	**321,176**	409,852
Unallocated liabilities							**690,561**	263,680
Total liabilities							**1,011,737**	673,532
Capital expenditures incurred during the year	**130,516**	163,592	**76,175**	33,053	**26,208**	11,372	**232,899**	208,017
Unallocated capital expenditures							**17,043**	35,783
							249,942	243,800

(b) Geographical segments

The Group's business participates in five (2002: five) major principal economic environments.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditures are based on the geographical location of the assets. All segment assets and capital expenditures are in the PRC.

Revenue from external customers is analysed as follows:

	2003	2002
	$'000	$'000
PRC (other than Taiwan and Hong Kong)	**506,164**	192,915
Hong Kong	**495,651**	569,586
Japan	**60,879**	63,853
South East Asia	**45,075**	64,535
Taiwan	**21,064**	41,321
Others	**7,216**	420
	1,136,049	932,630

16 FIXED ASSETS

(a) The Group

	Land and buildings held for own use $'000	Leasehold improvements $'000	Plant and machinery $'000	Office equipment, furniture and fixtures $'000	Motor vehicles $'000	Total $'000
Cost or valuation:						
At 1 August 2002	112,512	17,670	330,534	16,109	14,378	491,203
Transfer from construction in progress *(note 17)*	119,254	–	1,401	683	–	121,338
Additions	7,203	9,929	142,233	7,333	5,597	172,295
Surplus on revaluation	68,679	–	–	–	–	68,679
Disposals	–	–	(20,558)	(86)	–	(20,644)
At 31 July 2003	307,648	27,599	453,610	24,039	19,975	832,871
Representing:						
Cost	7,248	27,599	453,610	24,039	19,975	532,471
Valuation	300,400	–	–	–	–	300,400
	307,648	27,599	453,610	24,039	19,975	832,871
Accumulated depreciation:						
At 1 August 2002	1,500	6,904	72,052	5,971	4,744	91,171
Charge for the year	2,472	2,953	35,607	3,602	2,976	47,610
Written back on revaluation	(3,754)	–	–	–	–	(3,754)
Written back on disposals	–	–	(1,327)	(2)	–	(1,329)
At 31 July 2003	218	9,857	106,332	9,571	7,720	133,698
Net book value:						
At 31 July 2003	307,430	17,742	347,278	14,468	12,255	699,173
At 31 July 2002	111,012	10,766	258,482	10,138	9,634	400,032

16 FIXED ASSETS (CONTINUED)

(b) The Company

	Land and buildings held for own use	Office equipment, furniture and fixtures	Total
	$'000	$'000	$'000
Cost:			
At 1 August 2002	7,248	152	7,400
Additions	–	44	44
At 31 July 2003	7,248	196	7,444
Accumulated depreciation:			
At 1 August 2002	73	13	86
Charge for the year	145	38	183
At 31 July 2003	218	51	269
Net book value:			
At 31 July 2003	7,030	145	7,175
At 31 July 2002	7,175	139	7,314

(c) An analysis of net book value of properties is as follows:

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
In Hong Kong				
– Medium-term leases	**7,030**	7,175	**7,030**	7,175
Outside Hong Kong				
– Medium-term leases	**300,400**	103,837	**–**	–
	307,430	111,012	**7,030**	7,175

16 FIXED ASSETS (CONTINUED)

(d) The Group's land and buildings outside Hong Kong held for own use were revalued at 31 July 2003 by DTZ Debenham Tie Leung Limited, an independent firm of professional valuers in Hong Kong, at their open market value.

The revaluation surplus of $72,433,000 (2002: $33,370,000) in relation to the Group's land and buildings held outside Hong Kong has been transferred to the land and buildings revaluation reserve of the Group *(note 29(a))*.

The carrying amount of land and buildings outside Hong Kong held for own use of the Group at 31 July 2003 would have been $194,597,000 (2002: $70,795,000) had they been carried at cost less accumulated depreciation.

(e) The open market value of the Company's building held in Hong Kong of approximately $4,300,000 was below its carrying amount as at 31 July 2003. The Directors had performed an assessment of the recoverable amount of the building. Based on this assessment, the Directors are of the opinion that the recoverable amount as at 31 July 2003 exceeds the carrying amount. The estimate of the recoverable amount as at 31 July 2003 was based on the building's value in use, which was higher than its open market value.

(f) At 31 July 2003 and 2002, certain fixed assets have been pledged as security for the bank loans *(note 25(b))*.

(g) The Group leases certain production plant and machinery under finance leases expiring in three to four years. At the end of the lease term the Group has the option to purchase the equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

The net book value of plant and machinery held under finance leases of the Group was $24,972,000 (2002: $6,196,000).

17 CONSTRUCTION IN PROGRESS

	The Group	
	2003	2002
	$'000	$'000
Balance at 1 August	**55,985**	296
Additions	**77,647**	56,252
Transfer to fixed assets *(note 16(a))*	**(121,338)**	(563)
Balance at 31 July	**12,294**	55,985

18 GOODWILL

	Positive goodwill $'000
Cost:	
At 1 August 2002	–
Addition through acquisition of additional interest in a subsidiary *(note 32(iii))*	**2,743**
At 31 July 2003	**2,743**
Accumulated amortisation:	
At 1 August 2002	–
Amortisation for the year	**23**
At 31 July 2003	**23**
Carrying amount:	
At 31 July 2003	**2,720**
At 31 July 2002	–

Amortisation of goodwill is included in "Administrative expenses" in the consolidated income statement.

19 INTEREST IN SUBSIDIARIES

	2003 $'000	2002 $'000
Unlisted shares, at cost	**258,122**	258,122
Amounts due from subsidiaries	**37,452**	22,321
Amounts due to subsidiaries	**(33,081)**	(24,576)
	262,493	255,867

Balances with subsidiaries are unsecured, interest free and have no fixed term of repayments. Details of the subsidiaries at 31 July 2003 are as follows. The class of shares held is ordinary unless otherwise stated. All of these are controlled subsidiaries as defined under note 3(c) and have been consolidated into the Group's financial statements.

(Expressed in Hong Kong dollars)

19 INTEREST IN SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	held by the Company	held by subsidiaries	Principal activity
V.S. International Industry Limited	British Virgin Islands ("BVI")	US$100	100%	100%	–	Investment holding
VS Investment	BVI	$54,000,025	100%	100%	–	Investment holding
VSHK	Hong Kong	$75,000,002 (75,000,000 non-voting deferred shares of $1 each and 2 ordinary shares of $1 each *(note iv)*)	100%	–	100%	Manufacturing, assembling and selling of plastic moulded products and electronic products, parts and components
V.S. Industry (Shenzhen) Co., Ltd. *(note i)*	PRC	$5,000,000	100%	–	100%	Manufacturing and selling of plastic moulded products and parts
VS Zhuhai *(note i)*	PRC	US$17,200,000	100%	–	100%	Manufacturing, assembling and selling of plastic moulded products and electronic products, parts and components
HAIVS Qingdao *(note i)*	PRC	RMB32,150,000	100%	–	100%	Manufacturing and selling of plastic moulded products and parts

(Expressed in Hong Kong dollars)

19 INTEREST IN SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	held by the Company	held by subsidiaries	Principal activity
Qingdao GS (formerly VS Haier) *(note ii and note 32(iii))*	PRC	RMB73,980,000	100%	–	100%	Manufacturing and selling of plastic moulded products and parts
VSA(HK)	Hong Kong	$15,600,000	71%	–	71%	Assembling and selling of electronic products, parts and components
VSA Electronics Technology (Zhuhai) Co., Ltd. *(note iii)*	PRC	US$6,415,734	98.55%	–	98.55%	Assembling and selling of electronic products, parts and components
V.S. Capital Holdings Limited	Hong Kong	$2	100%	–	100%	Dormant

Notes:

(i) These are wholly foreign owned enterprises established in the PRC.

(ii) This is a sino-foreign equity joint venture company established in the PRC.

(iii) This is a foreign equity joint venture company established in the PRC.

(iv) In accordance with the articles of association of VSHK, a shareholder of non-voting deferred shares is not entitled to any dividend, any participation in profits or assets of VSHK and is also not entitled to vote at any general meeting.

20 INVENTORIES

	The Group	
	2003	2002
	$'000	$'000
Raw materials	**65,882**	83,253
Work-in-progress	**46,102**	43,163
Finished goods	**44,338**	34,320
	156,322	160,736

At 31 July 2003, inventories stated at net realisable value amounted to $842,000 (2002: $1,259,000).

21 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Trade receivables	**171,843**	150,295	**–**	–
Bills receivable	**38,989**	14,585	**–**	–
Other receivables, prepayments and deposits	**33,410**	19,504	**95**	84
	244,242	184,384	**95**	84

At 31 July 2003, certain trade and bills receivable have been pledged as security for bank loans *(note 25(b))* and other banking facilities *(note 24(b))* respectively.

(a) All of the trade and other receivables are expected to be recovered within one year. Credit terms granted by the Group to customers generally range from 30 to 120 days. The aging analysis of trade and bills receivable (net of provisions for bad and doubtful debts) is as follows:

	The Group	
	2003	2002
	$'000	$'000
Within 30 days	**101,284**	102,215
Over 30 days but within 90 days	**79,236**	44,323
Over 90 days and less than one year	**30,312**	18,342
	210,832	164,880

(b) Included in other receivables, prepayments and deposits was $4,159,000 (2002: $Nil) deposited with the Zhuhai Land Resources Administration Bureau in connection with the purchase of a land use right. The deposit is unsecured and interest-free. The amount will be returned to the Group if the Group decides not to acquire the land use right.

22 DEPOSITS WITH BANKS

	The Group	
	2003	2002
	$'000	$'000
Deposits with banks with original maturity date over three months	**1,916**	–
Pledged fixed deposit with banks	**86,748**	83,709
	88,664	83,709

Pledged fixed deposit with banks have been pledged to banks as security for the bank loans and overdrafts *(note 25(b))*, and other banking facilities *(note 24(b))* and for the services provided by service agents which requested the Group to place a fixed deposit of $283,000 (2002: $Nil) with a bank.

23 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Deposits with banks with original maturity date within three months	**47,076**	1,887	**–**	–
Cash at bank and in hand	**150,080**	109,027	**1,416**	17,974
Cash and cash equivalents in the balance sheet	**197,156**	110,914	**1,416**	17,974
Bank overdrafts *(note 25(a))*	**(27,007)**	(21,976)		
Cash and cash equivalents in the consolidated cash flow statement	**170,149**	88,938		

24 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Trade payables	**151,005**	191,719	**–**	–
Bills payable	**49,152**	16,291	**–**	–
Accrued expenses and other payables	**145,949**	109,585	**3,725**	545
	346,106	317,595	**3,725**	545

All trade and other payables are expected to be settled within one year.

24 TRADE AND OTHER PAYABLES (CONTINUED)

(a) The aging analysis of trade and bills payable is as follows:

	The Group	
	2003	2002
	$'000	$'000
Due within 30 days or on demand	**111,528**	129,990
Due after 30 days but within 90 days	**54,628**	70,533
Due after 90 days but within 180 days	**21,390**	2,932
Due over 180 days	**12,611**	4,555
	200,157	208,010

(b) The banking facilities in connection with trade finance are secured by the following assets owned by the Group.

	The Group	
	2003	2002
	$'000	$'000
Pledged fixed deposit with banks *(note 22)*	**2,700**	–
Bills receivable *(note 21)*	**28,517**	–
	31,217	–

25 BANK LOANS AND OVERDRAFTS

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Current:				
Within 1 year or on demand	**282,897**	216,863	**900**	900
Non-current:				
After 1 year but within 2 years	**1,677**	1,839	**900**	–
After 2 years but within 5 years	**202,913**	80,854	**1,350**	3,150
After 5 years	**94,339**	–	**–**	–
	298,929	82,693	**2,250**	3,150
	581,826	299,556	**3,150**	4,050

25 BANK LOANS AND OVERDRAFTS (CONTINUED)

(a) An analysis of current and non-current bank loans and overdrafts is as follows:

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Current:				
Overdrafts				
– secured	**23,975**	21,976	**–**	–
– unsecured	**3,032**	–	**–**	–
	27,007	21,976	**–**	–
Bank loans				
– secured	**120,177**	104,843	**900**	900
– unsecured	**135,713**	90,044	**–**	–
	255,890	194,887	**900**	900
	282,897	216,863	**900**	900
Non-current:				
Bank loans				
– secured	**164,003**	82,693	**2,250**	3,150
– unsecured	**134,926**	–	**–**	–
	298,929	82,693	**2,250**	3,150
	581,826	299,556	**3,150**	4,050

None of the non-current bank loans are expected to be settled within one year.

25 BANK LOANS AND OVERDRAFTS (CONTINUED)

(b) The banking facilities, including overdrafts, and bank loans are secured by the following assets owned by the Group and the Company.

	The Group 2003 $'000	The Group 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
Trade receivables *(note 21)*	**16,774**	–	**–**	–
Fixed deposits *(note 22)*	**83,765**	83,709	**–**	–
Motor vehicles with aggregate carrying value *(note 16(f))*	**4,677**	3,776	**–**	–
Land and buildings with aggregate carrying value *(note 16(f))*	**151,730**	7,175	**7,030**	7,175
Plant and machinery with aggregate carrying value *(note 16(f))*	**37,270**	88,101	**–**	–
	294,216	182,761	**7,030**	7,175

Such banking facilities, amounting to $385,290,000 (2002: $254,030,000), were utilised to the extent of $308,155,000 (2002: $209,512,000) at 31 July 2003.

26 OBLIGATIONS UNDER FINANCE LEASES

At 31 July 2003, the Group had obligations under finance leases repayable as follows:

	The Group 2003 Present value of the minimum lease payments $'000	2003 Interest expense relating to future periods $'000	2003 Total minimum lease payments $'000	2002 Present value of the minimum lease payments $'000	2002 Interest expense relating to future periods $'000	2002 Total minimum lease payments $'000
Amounts payable:						
Within 1 year	**6,778**	**757**	**7,535**	1,939	224	2,163
After 1 year but within 2 years	**5,580**	**416**	**5,996**	821	42	863
After 2 years but within 5 years	**3,564**	**148**	**3,712**	–	–	–
	9,144	**564**	**9,708**	821	42	863
	15,922	**1,321**	**17,243**	2,760	266	3,026

The Company has given a corporate guarantee on the lease obligations.

(Expressed in Hong Kong dollars)

27 OTHER PAYABLE

Other payable represents the amount due to a supplier in connection with purchase of fixed assets. The Group is granted a credit term of 450 days from the date of purchase of certain fixed assets. The amounts are expected to be settled over 1 year but within 2 years.

28 SHARE CAPITAL

	Note	**2003** Number of shares '000	**2003** Amount $'000	2002 Number of shares '000	2002 Amount $'000
Authorised:					
Ordinary shares of $0.05 each		**4,000,000**	**200,000**	4,000,000	200,000
Issued and fully paid:					
At 1 August	(i)	**820,000**	**41,000**	–	75,000
Capital elimination on consolidation	(ii)	**–**	**–**	–	(75,000)
Issuance of shares for the acquisition of subsidiaries	(ii)	**–**	**–**	75,000	3,750
Capitalisation issue	(iii)	**–**	**–**	545,000	27,250
Issuance of shares for cash	(iv) & (v)	**–**	**–**	200,000	10,000
At 31 July		**820,000**	**41,000**	820,000	41,000

28 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 VSHK and VS Investment which held more than half of the issued share capital or controlled more than half of the voting power, or controlled the composition of the Board of all the subsidiaries of the Company as at 31 July 2001.

(ii) The Company became the holding company of the Group on 20 January 2002 through an reorganisation under which 75,000,000 shares of $0.05 each were issued during the period from 9 July 2001 to 20 January 2002 to acquire the entire equity interest of VSHK, giving rise to a contributed surplus of approximately $71,250,000.

(iii) On 4 February 2002, an amount of $27,250,000 standing to the credit of the contributed surplus 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 registered shareholders of the Company on 20 January 2002 pursuant to their then equity percentages.

(iv) 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 $65,456,000 (including interest income) net of related expenses from the share offer.

(v) 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.

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

(vii) On 20 January 2002, the 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 Scheme, options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Scheme. As at 31 July 2003 and 31 July 2002, no option had been granted to any such eligible participants under the Scheme.

29 RESERVES

(a) The Group

	Share premium $'000 (note i)	Contributed surplus $'000 (note i)	Foreign exchange translation reserve $'000	Land and buildings revaluation reserve $'000 (note ii)	Statutory reserve fund $'000 (note iii)	Retained profits $'000	Total $'000
At 1 August 2001	–	–	120	–	290	95,646	96,056
Profit for the year	–	–	–	–	–	65,791	65,791
Dividend approved in respect of the previous year *(note 12(b))*	–	–	–	–	–	(30,000)	(30,000)
Reorganisation adjustment *(note 28(ii))*	–	71,250	–	–	–	–	71,250
Capitalisation issue *(note 28(iii))*	–	(27,250)	–	–	–	–	(27,250)
Premium arising on the issuance of shares for cash *(notes 28(iv) & (v))*	76,000	–	–	–	–	–	76,000
Shares issuance expenses	(12,245)	–	–	–	–	–	(12,245)
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	–	–	110	–	–	–	110
Revaluation surplus *(note 16(d))*	–	–	–	33,370	–	–	33,370
Deferred tax liability arising from revaluation *(note 8(c))*	–	–	–	(4,705)	–	–	(4,705)
Appropriations	–	–	–	–	3,054	(3,054)	–
At 31 July 2002	63,755	44,000	230	28,665	3,344	128,383	268,377
At 1 August 2002	63,755	44,000	230	28,665	3,344	128,383	268,377
Profit for the year	–	–	–	–	–	18,874	18,874
Dividend approved in respect of the previous year *(note 12(b))*	–	(4,100)	–	–	–	–	(4,100)
Revaluation surplus *(note 16(d))*	–	–	–	72,433	–	–	72,433
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	–	–	74	–	–	–	74
Deferred tax liability arising from revaluation *(note 8(c))*	–	–	–	(11,266)	–	–	(11,266)
Realisation of revaluation reserve	–	–	–	(883)	–	883	–
Appropriations	–	–	–	–	3,502	(3,502)	–
At 31 July 2003	63,755	39,900	304	88,949	6,846	144,638	344,392

29 RESERVES (CONTINUED)

(b) The Company

	Share premium $'000 *(note i)*	Contributed surplus $'000 *(note i)*	Accumulated losses $'000	Total $'000
At 1 August 2001	–	–	–	–
Loss for the year	–	–	(1,233)	(1,233)
Reorganisation adjustment *(note 28(ii))*	–	200,372	–	200,372
Capitalisation issue *(note 28(iii))*	–	(27,250)	–	(27,250)
Premium arising on the issuance of shares for cash *(notes 28(iv) & (v))*	76,000	–	–	76,000
Share issuance expenses	(12,245)	–	–	(12,245)
At 31 July 2002	63,755	173,122	(1,233)	235,644
At 1 August 2002	63,755	173,122	(1,233)	235,644
Loss for the year	–	–	(8,240)	(8,240)
Dividend approved in respect of the previous year *(note 12(b))*	–	(4,100)	–	(4,100)
At 31 July 2003	63,755	169,022	(9,473)	223,304

Notes:

(i) Share premium and contributed surplus

(a) Under the Companies Law of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(b) Pursuant to the Reorganisation, the Company became the holding company of the Group on 20 January 2002. The excess of the consolidated net assets represented by the shares acquired over the nominal value of shares issued by the Company in exchange under the Reorganisation was transferred to contributed surplus.

(ii) Land and buildings revaluation reserve

The land and buildings revaluation reserve has been set up and will be dealt with in accordance with the accounting policy adopted for revaluation of land and buildings held for own use *(note 3(e))*.

(iii) Statutory reserve fund

According to the articles of association of the subsidiaries of the Company in the PRC, the subsidiaries are required to transfer at least 10% of their net profit, as determined in accordance with the PRC accounting rules and regulations applicable to enterprises with foreign investment, to statutory reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory reserve fund can be used to make good previous years' losses, if any, and may be converted into share capital.

29 RESERVES (CONTINUED)

(b) The Company (continued)

(iv) Distributable reserve
At 31 July 2003, in the opinion of the Directors, the reserve of the Company available for distribution to Shareholders amounted to $223,304,000 (2002: $235,644,000) subject to the restriction stated above.

30 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 July 2003 not provided for in the financial statements are as follows:

	The Group	
	2003	2002
	$'000	$'000
Contracted for	**64,423**	24,184
Authorised but not contracted for	**4,245**	25,655
	68,668	49,839

(b) Investment commitment

As at 31 July 2003, the Group had a commitment totalling $66,871,000 (2002: $Nil) in respect of the outstanding registered capital to be injected into a subsidiary in the PRC.

(c) Operating lease commitments

The Group leases a number of properties under operating leases. The leases typically run for periods from 6 months to 30 years with an option to renew the lease when all terms are renegotiated. Lease charges of $11,652,000 (2002: $10,923,000) were recognised as expenses in the income statement in respect of operating leases. None of the leases includes contingent rentals.

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

	The Group	
	2003	2002
	$'000	$'000
Within 1 year	**9,808**	10,060
After 1 but within 5 years	**48,877**	50,630
After 5 years	**197,002**	198,739
	255,687	259,429

31 CONTINGENT LIABILITIES

At 31 July 2003, contingent liabilities of the Group and the Company were as follows:

	The Group		The Company	
	2003	2002	**2003**	2002
	$'000	$'000	**$'000**	$'000
Guarantees given to banks by the Company in respect of banking facilities utilised by certain wholly owned subsidiaries	**–**	–	**503,762**	167,585
Guarantees given to suppliers by the Company in respect of credit facilities utilised by certain wholly owned subsidiaries	**–**	–	**58,208**	3,679
Bills discounted with banks	**11,406**	–	**–**	–
	11,406	–	**561,970**	171,264

32 MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 July 2003, the following significant related party transactions took place:

(i) As at 31 July 2003, there was an amount due to the ultimate holding company totalling $46,132,000 (2002: $51,811,000). Pursuant to the loan agreement entered into between the Group and the ultimate holding company dated 20 January 2002, the loan, which amounted to US$6,279,000 (equivalent 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 was repaid on 1 August 2002. The loan is unsecured and carries interest at 5% per annum (2002: 5%) on the outstanding balance. Interest paid and payable to the ultimate holding company, amounted to $2,287,000 (2002: $2,502,000) for the year ended 31 July 2003.

The remaining balance of $2,108,000 (2002: $2,895,000) due to the ultimate holding company, which was included in "Accrued expenses and other payables", is unsecured, interest free and has no fixed repayment terms.

32 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(ii) During the year ended 31 July 2003, significant transactions with related parties were as follows:

	The Group	
	2003	2002
	$'000	$'000
Sales to the ultimate holding company	**1,297**	5,905
Sales to a fellow subsidiary	**2,272**	1,312
Sales to related companies of the minority shareholder of VS Haier	**175,918**	39,157
Sales to a minority shareholder of VSA(HK)	**1,415**	–
	180,902	46,374
Sales of fixed assets to the ultimate holding company	**323**	–
Purchase of fixed assets from the ultimate holding company	**678**	4,087
Purchase of raw materials from related companies of the minority shareholder of VS Haier	**46,381**	11,385

	The Group	
	2003	2002
	$'000	$'000
Purchase of construction materials from related companies of the minority shareholders of VS Haier	**35**	10,216
Payment of electricity expenses to a related company of the minority shareholder of VS Haier	**4,119**	1,352

(iii) On 16 May 2003, the Group entered into an equity transfer agreement with Qingdao Haier to acquire the remaining 20% equity interest in a subsidiary, VS Haier, at a consideration of RMB14,800,000 (equivalent to $13,962,000). Upon the completion of the acquisition on 18 June 2003, VS Haier changed its name to Qingdao GS, became a wholly foreign owned subsidiary of the Group, and the related companies of Qingdao Haier ceased to be related parties of the Group. Positive goodwill arising on consolidation was as follows:

	2003
	$'000
Net identifiable assets and liabilities of VS Haier on 18 June 2003	**56,097**
Share of 20% interest of net assets	**11,219**
Total purchase price payable in cash	**13,962**
Positive goodwill arising on consolidation *(note 18)*	**2,743**

The balance of $13,962,000 consideration payable to Qingdao Haier was included in "Accrued expenses and other payables" as at 31 July 2003.

32 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(iv) At 31 July 2003, included in "Trade and other receivables" was an amount due from a fellow subsidiary and a minority shareholder of VSA(HK) of $794,000 (2002: $805,000) and $519,000 (2002: $Nil) respectively.

(v) At 31 July 2003, included in "Trade and other payables" was an amount due to a minority shareholder of VSA(HK) of $466,000 (2002: $Nil).

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.

33 IMPACT OF SARS

The Group's operations have been affected as a result of the outbreak of SARS in Hong Kong and Mainland China and whose impact on the Group was first felt in March 2003. The impact of the SARS outbreak on the Group's operations for the second half of the year ended 31 July 2003 resulted in a decrease in revenue due to the delay in commercial production of the Group's new products as a result of postponement of certain customers' visit to the PRC. However, the Directors are of the opinion that the Group's operation is gradually recovering and barring any unforeseen circumstances, the Group's operating result in the medium and long term is not expected to be significantly affected.

34 POST BALANCE SHEET EVENT

On 25 August 2003, a new wholly owned subsidiary, V.S. Industry (Zhuhai) Co., Ltd., was set up in the PRC with registered capital of US$2,100,000 (equivalent to $16,359,000). The principal activity of the new subsidiary will be manufacturing and selling of plastic moulded products and parts.

35 COMPARATIVE FIGURES

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Certain comparative figures have been reclassified to conform with the current year's presentation.

36 ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company as at 31 July 2003 to be VS Berhad, a company incorporated in Malaysia.