Table of Contents

BOARD OF DIRECTORS

Beh Kim Ling *(Chairman)*
Gan Sem Yam *(Managing Director)*
Gan Chu Cheng *(Finance Director)*
Zhang Pei Yu
Gan Tiong Sia *
Diong Tai Pew **
Cheung Kwan Hung, Anthony **

Non-executive director
** *Independent non-executive directors*

AUDIT COMMITTEE OF THE BOARD

Diong Tai Pew *(Chairman of Audit Committee)*
Cheung Kwan Hung, Anthony

COMPANY SECRETARY

Chong Siew Peng, *ACCA, AHKSA, MIA*
(resigned on 15 October 2003)
Felix Ooi Theng Kau, *CA, AHKSA, MIA*
(appointed on 15 October 2003)

QUALIFIED ACCOUNTANT

Goh Thian Song, *FCCA*
(appointed on 29 March 2004)

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1901-1905, 19th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

LEGAL ADVISERS

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

AUDITORS

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

PRINCIPAL BANKERS

Malayan Banking Berhad
Industrial & Commercial Bank of China
China Minsheng Banking Corp., Ltd.
Citibank N.A.
Dah Sing Bank Limited
UFJ Bank Limited

MEMBERS OF THE GROUP

V.S. International Industry Limited
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Road Town, Tortola
British Virgin Islands

V.S. Investment Holdings Limited
Belmont Chambers, P.O. Box 3443
Road Town, Tortola
British Virgin Islands

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VSA Holding Hong Kong Co., Limited
V.S. Capital Holdings Limited
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V.S. Technology Industry Park (Zhuhai) Co., Ltd.
VSA Electronics Technology (Zhuhai) Co., Ltd.
V.S. Industry (Zhuhai) Co., Ltd.
Beisha Village, Jinding Town
Xiangzhou District
519085 Zhuhai
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Tel. No: (86) 756 3392 338
Fax No: (86) 756 3385 691/681

Haivs Industry (Qingdao) Co., Ltd.
Qingdao GS Electronics Plastic Co., Ltd.
(Formerly known as V.S. Haier Electronics Plastic (Qingdao) Co., Ltd.)
Qianwangang Road South
Haier International Industrial Park
Qingdao Economic and Technology Development Zone
Huangdao District
266510 Qingdao
Shandong Province
The People's Republic of China
Tel. No: (86) 532 6762 188
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Introduction

The board ("**Board**") of directors ("**Directors**") of V.S. International Group Limited ("**Company**") is pleased to present the interim financial report of the Company and its subsidiaries (together, "**Group**") for the six months ended 31 January 2004, which has not been audited by the auditors of the Group, KPMG, but has been reviewed by KPMG and the audit committee ("**Audit Committee**") of the Board.

Consolidated Income Statement (Unaudited)

for the six months ended 31 January 2004

(Expressed in Hong Kong dollars)

	Note	Six months ended 31 January 2004 $'000	2003 $'000
Turnover	2	519,282	594,188
Cost of sales		(445,826)	(521,351)
		73,456	72,837
Other net income		1,501	876
Distribution expenses		(9,983)	(10,902)
Administrative expenses		(36,724)	(34,679)
Profit from operations		28,250	28,132
Non-operating expenses		(4,042)	–
Finance costs	3(a)	(20,014)	(11,218)
Profit from ordinary activities before taxation	3	4,194	16,914
Taxation	4	(2,139)	(151)
Profit from ordinary activities after taxation		2,055	16,763
Minority interests		(97)	976
Profit attributable to shareholders	6	1,958	17,739
Dividends attributable to the period:	5		
Dividend declared during the period		4,100	4,100
Interim dividend proposed after the balance sheet date		–	–
Earnings per share	6		
– Basic		0.24 cents	2.16 cents
– Diluted		N/A	N/A

The notes on pages 10 to 25 form part of this interim financial report.

Consolidated Balance Sheet (Unaudited)

at 31 January 2004

(Expressed in Hong Kong dollars)

	Note	At 31 January 2004 $'000	At 31 July 2003 $'000
Non-current assets			
Fixed assets	7	**793,600**	699,173
Construction in progress	8	**28,523**	12,294
Goodwill	9	**2,583**	2,720
		824,706	714,187
Current assets			
Inventories	10	**163,930**	156,322
Trade and other receivables	11 & 22	**241,220**	244,242
Deposits with banks	12	**142,126**	88,664
Cash and cash equivalents	13	**100,726**	197,156
		648,002	686,384
Current liabilities			
Trade and other payables	14 & 22	**292,110**	346,106
Bank loans and overdrafts	15	**313,488**	282,897
Current portion of obligations under finance leases	16	**9,397**	6,778
Loan from the ultimate holding company	22(a)	**4,892**	4,892
Taxation	4(b)	**283**	531
		620,170	641,204
Net current assets		**27,832**	45,180
Total assets less current liabilities		**852,538**	759,367

Consolidated Balance Sheet (Unaudited) (Continued)

at 31 January 2004

(Expressed in Hong Kong dollars)

	Note	At 31 January 2004 $'000	At 31 July 2003 $'000
Non-current liabilities			
Non-current portion of bank loans	15	**392,343**	298,929
Non-current portion of obligations under finance leases	16	**13,976**	9,144
Loan from the ultimate holding company	22(a)	**36,687**	39,132
Other payables	17	**7,032**	7,457
Deferred taxation	4(c)	**15,711**	15,871
		465,749	370,533
Minority interests		**3,539**	3,442
NET ASSETS		**383,250**	385,392
CAPITAL AND RESERVES			
Share capital	18	**41,000**	41,000
Reserves	19	**342,250**	344,392
		383,250	385,392

The notes on pages 10 to 25 form part of this interim financial report.

Consolidated Statement of Changes in Equity (Unaudited)

for the six months ended 31 January 2004

(Expressed in Hong Kong dollars)

	Note	Six months ended 31 January 2004 $'000	2003 $'000
Shareholders' equity at 1 August		**385,392**	309,377
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		–	1
Net gains not recognised in the income statement		–	1
Net profit for the period	19	**1,958**	17,739
Dividend approved during the period	5(b)	**(4,100)**	(4,100)
Shareholders' equity at 31 January		**383,250**	323,017

The notes on pages 10 to 25 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement (Unaudited)

for the six months ended 31 January 2004

(Expressed in Hong Kong dollars)

	Six months ended 31 January	
	2004	2003
	$'000	$'000
Cash used in operations	**(13,319)**	(1,746)
Tax paid	**(2,546)**	–
Net cash outflow from operating activities	**(15,865)**	(1,746)
Net cash outflow from investing activities	**(172,840)**	(146,805)
Net cash inflow from financing activities	**89,167**	120,531
Decrease in cash and cash equivalents	**(99,538)**	(28,020)
Effect of foreign exchange rates	**–**	1
Cash and cash equivalents at 1 August	**170,149**	88,938
Cash and cash equivalents at 31 January	**70,611**	60,919
Analysis of the balances of cash and cash equivalents:		
Cash and cash equivalents	**100,726**	88,322
Bank overdrafts	**(30,115)**	(27,403)
	70,611	60,919

(Expressed in Hong Kong dollars)

1 Basis of presentation

(a) This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("**HKSA**"). KPMG's independent review report to the Board is included on page 38.

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

The financial information relating to the financial year ended 31 July 2003 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 July 2003 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26 September 2003.

The same accounting policies adopted in the annual financial statements for the year ended 31 July 2003 have been applied to the interim financial report except as disclosed under note 1(b).

The notes on the interim financial report include an explanation of events and transactions that are significant to all understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 July 2003.

(b) Adoption of new accounting standards in Hong Kong

The HKSA issued SSAP 12 "Income taxes" in August 2002, which supersedes the previous SSAP 12 "Accounting for deferred taxes". The new standard became effective for accounting period beginning on or after 1 January 2003. The Group has therefore adopted the new standard for preparation of the Group's interim financial report for the six months ended 31 January 2004.

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatments of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 August 2003, in order to comply with SSAP 12 (revised) issued by the HKSA, the Group has adopted a new policy for deferred tax.

Under SSAP 12 (revised), deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

1 Basis of presentation (continued)

(b) Adoption of new accounting standards in Hong Kong (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

The new accounting policy has been adopted retrospectively. Adoption of the new accounting policy did not have a material effect on the Group's balance of retained profits and reserves at 1 August 2003 and the comparative information relating to prior periods as disclosed in the consolidated statement of changes in equity (unaudited).

2 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 Six months ended 31 January		Assembling of electronic products Six months ended 31 January		Mould design and fabrication Six months ended 31 January		Inter-segment elimination Six months ended 31 January		Total Six months ended 31 January	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Turnover from external customers	**364,170**	276,223	**150,049**	301,352	**25,590**	18,197	**(20,527)**	(1,584)	**519,282**	594,188
Segment results	**48,755**	43,859	**6,887**	13,659	**2,815**	1,502	**–**	–	**58,457**	59,020
Unallocated operating income and expenses									**(30,207)**	(30,888)
Profit from operations									**28,250**	28,132
Non-operating expenses									**(4,042)**	–
Finance costs									**(20,014)**	(11,218)
Taxation									**(2,139)**	(151)
Minority interests									**(97)**	976
Profit attributable to shareholders									**1,958**	17,739
Depreciation for the period	**20,437**	13,327	**5,172**	4,055	**2,956**	1,786	**–**	–	**28,565**	19,168
Unallocated depreciation and amortisation expenses									**4,703**	3,116
									33,268	22,284

2 Segment information (continued)

(b) Geographical segments

The Group's business is conducted in five (2003: five) major 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 People's Republic of China ("**PRC**").

Revenue from external customers is analysed as follows:

	Six months ended 31 January	
	2004	2003
	$'000	$'000
PRC (other than Taiwan and Hong Kong)	**314,660**	195,081
Hong Kong	**155,782**	313,279
South East Asia	**25,521**	23,043
Japan	**14,862**	44,094
Taiwan	**6,603**	12,758
Others	**1,854**	5,933
	519,282	594,188

3 Profit from ordinary activities before taxation

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

(a) Finance costs:

	Six months ended 31 January	
	2004	2003
	$'000	$'000
Interest on bank advances and other borrowings repayable within five years	**12,282**	8,970
Interest on bank advances and other borrowings repayable over five years	**2,880**	–
Interest on other loans	**1,059**	1,184
Obligations under finance leases	**641**	254
Total borrowing costs	**16,862**	10,408
Less: Borrowing costs capitalised as construction in progress *	**(387)**	(1,627)
	16,475	8,781
Exchange losses	**2,413**	909
Other charges	**1,126**	1,528
	20,014	11,218

* The borrowing costs have been capitalised at an average cost of borrowings to the Group of 4.7% (2003: 5.5%) per annum for construction in progress.

3 Profit from ordinary activities before taxation (continued)

(b) Other items:

	Six months ended 31 January 2004 $'000	2003 $'000
Processing fee	**16,063**	15,506
Depreciation	**33,131**	22,284
Operating lease charges in respect of properties	**5,163**	5,843
Amortisation of goodwill	**137**	–

4 Taxation

Income tax expense in the consolidated income statement (unaudited) represents:

	Six months ended 31 January 2004 $'000	2003 $'000
Provision for PRC income tax	**2,298**	151
Deferred taxation	**(159)**	–
	2,139	151

(a) No provision has been made for Hong Kong profits tax as the Group did not earn income subject to Hong Kong profits tax during the six months ended 31 January 2004 and 2003.

Taxable income of the subsidiaries of the Company in the PRC is subject to PRC income tax. Subsidiaries of the Company in the PRC which are foreign investment enterprises 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 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%.

Effective from 1 January 2003, two subsidiaries of the Company are entitled to the reduced PRC income tax rate of 7.5%. Provision for the PRC income tax of these subsidiaries was calculated at 7.5% of the estimated assessable profit for the six months ended 31 January 2004. The balance of the subsidiaries of the Company in the PRC were either entitled to income tax exemption or sustained losses for taxation purposes for the six months ended 31 January 2004.

A subsidiary of the Company has entered into processing arrangements with certain independent third parties ("**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.

4 Taxation (continued)

(b) Taxation in the consolidated balance sheet (unaudited) represents:

	At 31 January 2004 $'000	At 31 July 2003 $'000
Balance of PRC income tax payable for the period	283	531

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

(c) Deferred taxation liability arose from revaluation of land and buildings held for own use.

5 Dividends attributable to the period

(a) Interim dividend

The Directors do not recommend any payment of interim dividend for the six months ended 31 January 2004 (2003: Nil).

(b) Final dividend

	Six months ended 31 January 2004 $'000	2003 $'000
Final dividend in respect of the previous financial year, approved and paid during the period, of 0.5 cent per share	4,100	4,100

6 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of $1,958,000 (2003: $17,739,000) and the weighted average number of 820,000,000 (2003: 820,000,000) shares in issue during the six months ended 31 January 2004.

(b) Diluted earnings per share

There were no potential dilutive ordinary shares in existence during the six months ended 31 January 2004 and 2003.

7 Fixed assets

	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 2003	307,648	27,599	453,610	24,039	19,975	832,871
Transfer from construction in progress (note 8)	287	–	–	–	–	287
Additions	1,396	1,579	127,599	3,913	908	135,395
Disposals	–	(4,569)	(4,700)	(28)	(217)	(9,514)
At 31 January 2004	309,331	24,609	576,509	27,924	20,666	959,039
Representing:						
Cost	7,248	24,609	576,509	27,924	20,666	656,956
Valuation	302,083	–	–	–	–	302,083
	309,331	24,609	576,509	27,924	20,666	959,039
Accumulated depreciation:						
At 1 August 2003	218	9,857	106,332	9,571	7,720	133,698
Charge for the period	3,108	1,485	24,875	2,074	1,589	33,131
Written back on disposals	–	(506)	(778)	(6)	(100)	(1,390)
At 31 January 2004	3,326	10,836	130,429	11,639	9,209	165,439
Net book value:						
At 31 January 2004	306,005	13,773	446,080	16,285	11,457	793,600
At 31 July 2003	307,430	17,742	347,278	14,468	12,255	699,173

At 31 January 2004, certain fixed assets had been pledged as security for the bank loans (note 15(b)).

The Group leases certain production plant and machinery under finance leases expiring in one 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.

7 Fixed assets (continued)

The net book value of plant and machinery held under finance leases of the Group was $45,273,000 as at 31 January 2004 (31 July 2003: $24,972,000).

8 Construction in progress

	At 31 January 2004 $'000	At 31 July 2003 $'000
Balance at 1 August	**12,294**	55,985
Additions	**16,645**	77,647
Disposals	**(129)**	–
Transfer to fixed assets	**(287)**	(121,338)
Balance at 31 January 2004/31 July 2003	**28,523**	12,294

Construction in progress at 31 January 2004 comprised direct costs of production plants under construction in Zhuhai.

9 Goodwill

	Positive goodwill	
	At 31 January 2004 $'000	At 31 July 2003 $'000
Cost:		
At 1 August	**2,743**	–
Addition through acquisition of additional interest in a subsidiary	**–**	2,743
At 31 January 2004/31 July 2003	**2,743**	2,743
Accumulated amortisation:		
At 1 August	**23**	–
Amortisation for the period	**137**	23
At 31 January 2004/31 July 2003	**160**	23
Carrying amount:		
At 31 January 2004/31 July 2003	**2,583**	2,720

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

10 Inventories

	At 31 January 2004 $'000	At 31 July 2003 $'000
Raw materials	**58,580**	65,882
Work-in-progress	**46,228**	46,102
Finished goods	**59,122**	44,338
	163,930	156,322

At 31 January 2004, inventories stated at net realisable value amounted to $641,000 (31 July 2003: $842,000).

11 Trade and other receivables

	At 31 January 2004 $'000	At 31 July 2003 $'000
Trade receivables	**175,919**	171,843
Bills receivable	**31,096**	38,989
Other receivables, prepayments and deposits	**34,205**	33,410
	241,220	244,242

At 31 January 2004, certain bills receivable have been pledged as security for banking facilities (note 14(b)).

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

	At 31 January 2004 $'000	At 31 July 2003 $'000
Within 30 days	**69,080**	101,284
Over 30 days but within 90 days	**108,921**	79,236
Over 90 days and less than one year	**29,014**	30,312
	207,015	210,832

(b) Included in other receivables, prepayments and deposits was $4,159,000 (31 July 2003: $4,159,000) 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 refunded to the Group if the Group decides not to complete the acquisition of the land use right by 30 January 2005.

12 Deposits with banks

	At 31 January 2004 $'000	At 31 July 2003 $'000
Deposits with banks with original maturity date over three months	**56,605**	1,916
Fixed deposits with banks	**85,521**	86,748
	142,126	88,664

Fixed deposits with banks have been pledged to banks as security for the bank loans and overdrafts (note 15(b)) and other banking facilities (note 14(b)). Included in fixed deposits with banks as at 31 July 2003 was a fixed deposit of $283,000 placed with a bank as security for the Group's service agents.

13 Cash and cash equivalents

	At 31 January 2004 $'000	At 31 July 2003 $'000
Deposits with banks with original maturity date within three months	**46,850**	47,076
Cash at bank and in hand	**53,876**	150,080
	100,726	197,156

14 Trade and other payables

	At 31 January 2004 $'000	At 31 July 2003 $'000
Trade payables	**106,380**	151,005
Bills payable	**36,424**	49,152
Accrued expenses and other payables	**149,306**	145,949
	292,110	346,106

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

14 Trade and other payables (continued)

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

	At 31 January 2004 $'000	At 31 July 2003 $'000
Due within 30 days or on demand	84,657	111,528
Due after 30 days but within 90 days	44,137	54,628
Due after 90 days but within 180 days	14,010	21,390
Due over 180 days	–	12,611
	142,804	200,157

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

	At 31 January 2004 $'000	At 31 July 2003 $'000
Fixed deposits with banks (note 12)	8,856	2,700
Bills receivable (note 11)	14,957	28,517
	23,813	31,217

15 Bank loans and overdrafts

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

	At 31 January 2004 $'000	At 31 July 2003 $'000
Current:		
Overdrafts		
– secured	28,594	23,975
– unsecured	1,521	3,032
	30,115	27,007
Bank loans		
– secured	119,893	120,177
– unsecured	163,480	135,713
	283,373	255,890
	313,488	282,897

15 Bank loans and overdrafts (continued)

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

	At 31 January 2004 $'000	At 31 July 2003 $'000
Non-current:		
Bank loans		
– secured	351,756	164,003
– unsecured	40,587	134,926
	392,343	298,929
	705,831	581,826

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

(b) Banking facilities comprising overdrafts and bank loans are secured by the following assets owned by the Group.

	At 31 January 2004 $'000	At 31 July 2003 $'000
Deposits with banks	76,665	83,765
Motor vehicles with aggregate carrying value	4,119	4,677
Land & buildings with aggregate carrying value	147,514	151,730
Plant and machinery with aggregate carrying value	71,447	37,270
Trade receivables	–	16,774
	299,745	294,216

Such banking facilities, amounting to $569,703,000 (31 July 2003: $385,290,000), were utilised to the extent of $500,243,000 at 31 January 2004 (31 July 2003: $308,155,000).

16 Obligations under finance leases

The Group leases production plant and equipment under finance leases expiring in one to four years. The finance lease facilities are not revolving. 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.

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

	At 31 January 2004			At 31 July 2003		
	Present value of the minimum lease payments $'000	Interest expense relating to future periods $'000	Total minimum lease payments $'000	Present value of the minimum lease payments $'000	Interest expense relating to future periods $'000	Total minimum lease payments $'000
Amounts payable:						
Within 1 year	**9,397**	**1,009**	**10,406**	6,778	757	7,535
After 1 year but within 2 years	**6,589**	**549**	**7,138**	5,580	416	5,996
After 2 years but within 5 years	**7,387**	**267**	**7,654**	3,564	148	3,712
	13,976	**816**	**14,792**	9,144	564	9,708
	23,373	**1,825**	**25,198**	15,922	1,321	17,243

17 Other payables

Other payables represent amounts payable to certain suppliers in connection with the purchases of fixed assets. The Group is granted a credit term of 450 days and 555 days from the date of purchase of these fixed assets. The amounts are expected to be settled over 1 year but within 2 years.

18 Share capital

	At 31 January 2004 $'000	At 31 July 2003 $'000
Authorised:		
4,000,000,000 ordinary shares of $0.05 each	**200,000**	200,000
Issued and fully paid:		
820,000,000 ordinary shares of $0.05 each	**41,000**	41,000

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

On 20 January 2002, a share option scheme ("**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 subsidiary or other eligible participants under the Scheme options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Scheme. As at 31 January 2004, no option had been granted to any such eligible participants under the Scheme.

19 Reserves

	Share premium $'000	Contributed surplus $'000	Foreign exchange translation reserve $'000	Land and buildings revaluation reserve $'000	Statutory reserve fund $'000	Retained profits $'000	Total $'000
At 1 August 2003	63,755	39,900	304	88,949	6,846	144,638	344,392
Profit for the period	–	–	–	–	–	1,958	1,958
Dividend approved in respect of the previous year (note 5(b))	–	(4,100)	–	–	–	–	(4,100)
Realisation of revaluation reserve	–	–	–	(904)	–	904	–
Appropriations	–	–	–	–	6,169	(6,169)	–
At 31 January 2004	63,755	35,800	304	88,045	13,015	141,331	342,250

20 Commitments

(a) Capital commitments

Capital commitments outstanding at 31 January 2004 not provided for were as follows:

	At 31 January 2004 $'000	At 31 July 2003 $'000
Contracted for	**36,787**	64,423
Authorised but not contracted for	**19,683**	4,245
	56,470	68,668

20 Commitments (continued)

(b) 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 $5,163,000 (2003: $5,843,000) were recognised as expense in the consolidated income statement (unaudited) in respect of operating leases.

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

	At 31 January 2004 $'000	At 31 July 2003 $'000
Within 1 year	**14,100**	9,808
After 1 year but within 5 years	**48,161**	48,877
After 5 years	**135,532**	197,002
	197,793	255,687

None of the leases includes contingent rentals.

21 Contingent liability

As at 31 January 2004, contingent liability of the Group was as follow:

	At 31 January 2004 $'000	At 31 July 2003 $'000
Bills discounted with banks	**6,270**	11,406

22 Related party transactions

During the six months ended 31 January 2004, the following significant related party transactions took place:

(a) As at 31 January 2004, amount due to the ultimate holding company is analysed as follow:

	At 31 January 2004 $'000	At 31 July 2003 $'000
Loan from ultimate holding company (note i)	**41,579**	44,024
Trade and other payables (note ii)	**406**	2,108
	41,985	46,132

22 Related party transactions (continued)

i) Pursuant to a 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 loan is unsecured and carries a fixed interest rate of 5% per annum on the monthly outstanding balance. Interest paid and payable to the ultimate holding company amounted to $1,059,000 (2003: $1,184,000) for the six months ended 31 January 2004.

ii) The balance of $406,000 (31 July 2003: $2,108,000) due to the ultimate holding company, which was included in "Trade and other payables", is unsecured, interest free and with no fixed repayment terms.

(b) During the six months ended 31 January 2004, significant transactions with related parties were as follows:

	Six months ended 31 January	
	2004	2003
	$'000	$'000
Sales to the ultimate holding company	**1,257**	533
Sales to a fellow subsidiary	**211**	1,084
Sales to a minority shareholder of a subsidiary	**13,080**	–
Operating lease charges by a company controlled by a director	**385**	–

(c) At 31 January 2004, included in "Trade and other receivables" was an amount due from a fellow subsidiary and a minority shareholder of a subsidiary of $211,000 (31 July 2003: $794,000) and $2,287,000 (31 July 2003: $519,000) respectively.

(d) At 31 January 2004, included in "Trade and other payables" was amounts due to minority shareholders of a subsidiary of $429,000 (31 July 2003: $466,000).

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.

23 Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

24 Ultimate holding company

The Directors consider the ultimate holding company as at 31 January 2004 to be V.S. Industry Berhad, a company incorporated in Malaysia.

25 Approval of interim financial report

The interim financial report was approved by the Board on 29 March 2004.

OVERVIEW

During the period under review, the Group continued its expansion plan in Zhuhai in view of its strategic location with enormous potential. Simultaneously, the Group also focused in restructuring and streamlining its less profitable business to achieve greater operations efficiency in the long run.

In December 2003, the Group took intense actions to restructure the operations of the two subsidiaries in Qingdao. This move enabled the Group to enhance the effectiveness in deploying internal resources, and eliminate unnecessary competitions in Qingdao. Nevertheless, early termination of the lease arrangement and shifting of the production base as part of the restructuring exercise had given rise to cost of compensation and write-offs which are of non-recurring nature totaling HK$4.04 million to the Group for the period under review. Despite this short term adverse impact, the improving financial results achieved by the Group's subsidiaries in Qingdao after the staggered restructuring actions showed that this move was beneficial to the Group as a whole.

During the period under review, the Group had also taken steps to hive off the assembly division in Shenzhen by relocating to Zhuhai. This move consolidated the entire Group's assembling expertise and resources in Zhuhai and helped to control the Group's expenses more effectively.

Notwithstanding the streamlining and reorganisation processes would prepare the Group for brighter prospects and results in the future, these processes, as anticipated, had cost temporary disruption to the Group in gaining better results in this financial period. For the period under review, turnover of the Group was HK$519.28 million, representing a drop of 12.61% as compared to that of HK$594.19 million for last corresponding period. The decrease in sales was also attributable to a change in the sales order of a major customer from ordering high valued high-end home audio equipment to lower valued semi-finished mechanical audio assembles since the second half of last financial year. Nevertheless, the encouraging sales performance of the Company's principal subsidiary based in Zhuhai which recorded a superior growth of 130.48% against the same period in last financial year had partially mitigated those negative impacts.

The Group's gross profit margin recorded improvement from 12.26% for the six months ended 31 January 2003 to 14.15% for the period under review. The gross profit, in absolute terms, had also surpassed last corresponding period's, despite a drop in sales. This was mainly due to the favourable contribution from the newly established subsidiary and joint venture company with Andes Electric Co., Ltd and Sumitronics Hong Kong Ltd (collectively, "**VSA Group**"), coupled with larger gross profits jointly generated by the two subsidiaries in Qingdao in the period under review. Furthermore, an increase in the weighting of plastic injection sales which carried higher margins, also helped to enhance the Group's overall profit margin.

For the period under review, the Group's profit attributable to shareholders was HK$1.96 million, representing a decrease of 88.96% as compared to the corresponding period in last year. The drop was undeniably caused by the one-off expenses incurred by the subsidiaries in Qingdao totaling HK$4.04 million and the increased financing costs as a result of increase in borrowings. Moreover, the profit making subsidiaries of the Company in the PRC, which were entitled to tax exemption up to 31 December 2002, incurred PRC income tax at the rate of 7.5% throughout the period under review. As a result, the Group recorded income tax expenses of HK$2.30 million, higher by HK$2.15 million against last corresponding period.

BUSINESS AND FINANCIAL REVIEW

Turnover and gross profits by business activities of the Group are summarized as follows:

Plastic injection and moulding business

The Group's principal business, plastic injection and moulding, recorded a significant growth of 31.84% in turnover during the period under review as compared to the last corresponding period. The sales contribution from this segment to the Group as a whole had improved extensively from 46.49% to 70.13%. The increase was mainly attributable to the concerted expansion in the Group's main production facilities in Zhuhai subsequent to the completion of phase IV of the Zhuhai Industrial Park towards the end of the financial year ended 31 July 2003. Product diversification also helped to enhance the utilisation of production facilities that, in turn, boosted the sales contribution. At the same time, broadening the product range also reduced the risk of over-reliance on certain major customers.

In line with the improvement in turnover, results of this segment had also soared from HK$43.86 million for last corresponding period to HK$48.76 million for the period under review. Despite the increase in absolute terms, the contribution margin generated from this segment had declined by 2.49% from that of last corresponding period. The key reason was the heavy investment in machinery and equipment that the Group had not yet optimized during the period under review.

Assembling of electronic products business

During the period under review, the business of assembling of electronic products had shrunk tremendously by more than 50.21% against last corresponding period and this had impacted on the Group's overall sales performance immensely. This was mainly attributable to the substantial decrease in sales to a major customer which had changed its product mix from relatively high-end home audio equipment to semi-finished mechanical audio assembles, which have a lower selling price. The newly established VSA Group which is involved in the processing of printed circuit boards for electronic products and related electronic products using surface mounting technologies, had only cushioned the adverse effects marginally as the VSA Group remains relatively insignificant in size. Nevertheless, its performance has been encouraging since it commenced operations in April 2003 and the VSA Group is expected to increase its contribution in the near future.

The contribution margin of this segment had been fairly consistent to maintain at 4.59% for the period under review as compared to last corresponding period of 4.53%. This segment sustained its contribution margin, in spite of the reduced sales. Higher profit margins derived from the VSA Group, as compared to those of the Group that assemble electronic products, was due to its processing nature.

Mould design and fabrication business

Sales generated from the mould design and fabrication business accounted for 4.93% of the total sales of the Group during the period under review and this represented a climb of 1.87% against last corresponding period. The performance of this segment, in general, had been encouraging and had supplemented effectively the integrated manufacturing solutions provided to the customers of the Group. With sophisticated machinery and equipment in place, the Directors have no doubt that this segment will continue its important role and contribute positively to the Group in the years to come.

This segment had an improved contribution margin during the period under review and this demonstrates that the investment in advanced facilities in the past years has gradually paid off by attracting more orders and higher margin sales.

Distribution costs and administrative expenses

During the period under review, the Group recorded total distribution costs of HK$9.98 million, representing a reduction of 8.43% as compared to that of last corresponding period and the percentage over turnover continued to remain below 2.00%.

Administrative expenses for the period under review had surged by 5.90% comparing to that of last corresponding period, to register at HK$36.72 million. Increased employees' costs was the primary contributor to the increase.

Finance costs

During the period under review, the Group incurred higher finance costs that amounted to HK$20.01 million, representing a surge of 78.41% as compared to that of last corresponding period. The increased use of banking facilities to fund the expansion plans and capital expenditures, particularly for the Zhuhai Industrial Park, were the cause of the higher finance costs. Furthermore, the Group had also incurred a net exchange loss of HK$2.41 million during the period under review, being HK$1.50 million more than that of last corresponding period.

Future Prospects

The Directors will continue to take proactive steps to propel the business of the Group to greater heights for the remainder of the financial year. The strategic relocation of resources from Shenzhen to Zhuhai is expected to eliminate inefficient use of resources and trim the operating costs of the Group. The Directors will also take other relevant measures to further rationalise the operations in Shenzhen in the near future in view of its high fixed costs. Looking ahead, the Group will not hesitate to realign its operating model and anticipates that even though the process will have negative effects on the Group's financial performance in the second half of the year, it will be beneficial to the Group in the long run.

Subsidiaries in Qingdao have gone through remarkable changes in the past few months following the acquisition of the minority interest in Qingdao GS Electronics Plastic Co., Ltd during last financial year and the implementation of a restructuring exercise which is completed in March 2004. The entire plan would reduce the risk of over-reliance on a single customer, as well as enhance the operational efficiency and effectiveness.

The Directors also believe in the benefits of acquiring knowledge and technical know-how through forming joint ventures after seeing the VSA Group has generated profits within a short time frame. Therefore, the Group is exploring opportunities in forming a new joint venture in paint spraying plastic parts and products in the PRC. At the date of this report, discussion is still in a preliminary stage.

Commencing from this financial period, the Zhuhai Industrial Park has become the core production base and the major income generator of the Group. At present, the Group has four subsidiaries based in this industrial park (collectively, "**Zhuhai Companies**") and they had jointly contributed 53.92% of the Group's turnover for the period under review, compared to only 19.47% for last corresponding period. The Zhuhai Companies had also increased their contributions in the profits attributable to shareholders by over 73.29% from the last corresponding period. In view that the production facilities in the Zhuhai Industrial Park have yet to reach the optimum level, there is enormous potential in the Zhuhai Companies to provide greater returns for the Group. With such potential in mind, the Zhuhai Companies have been aggressively developing new clientele through various measures, and the Directors are confident that the outcome will materialize in the years to come.

The newly established subsidiary, VS Industry (Zhuhai) Co., Ltd ("**VSI**"), which is one of the Zhuhai Companies, commenced operations in February 2004. VSI will focus on producing plastic-made food containers and kitchen utensils and, by diversifying its product range, VSI is envisaged to further strengthen the Group's contribution to the plastic injection and moulding business.

Overall, the Directors are confident that, with the rich experience gained in the past and its solid management team, the medium to long-term outlook of the Group is optimistic.

Liquidity and financial resources

As at 31 January 2004, the Group had cash and bank deposits of HK$242.85 million (31 July 2003: HK$285.82 million) of which HK$76.67 million (31 July 2003: HK$83.77 million) were pledged to the banks for banking facilities granted to the Group. The liquid funds were denominated in US dollars, Renminbi and Hong Kong dollars which represent 45.63%, 46.01% and 8.36% respectively of the total cash and bank deposits.

The Group generally finances its operations through a combination of shareholders equity, internally generated cash flows and borrowings from banks in Hong Kong and the PRC. As at 31 January 2004, the Group had unutilised banking facilities of HK$84.72 million.

The Group's total borrowings as at 31 January 2004 amounted to HK$770.78 million (31 July 2003: HK$641.77 million) of which there was a shareholder's loan of HK$41.58 million (31 July 2003: HK$44.02 million). The borrowings were mainly for business expansion, capital expenditure and working capital purposes with interest rates ranging from 2.03% to 7.13% per annum. The amounts of borrowings denominated in US dollars, Renminbi and Hong Kong dollars were the equivalent of HK$326.86 million, HK$363.23 million and HK$80.69 million respectively.

The Group's gearing ratio, represented by the interest bearing borrowings over the Group's total assets as at 31 January 2004, was 52.34% (31 July 2003: 45.82%). The increase in the gearing ratio was principally due to continuous capital investments in the Zhuhai Industrial Park to solidify the Group's production base for future growth. The Directors will continue to monitor the borrowing level and try their best to maintain the gearing ratio at a reasonable level.

The Directors believe that with the Group's internally generated funds and current banking facilities, the Group has sufficient financial resources to satisfy its current commitments and working capital requirements.

Charges on assets

As at 31 January 2004, certain assets of the Group with aggregate carrying value of HK$299.75 million (31 July 2003: HK$294.22 million) were pledged to secure banking facilities granted to the Group.

Contingent liability

The Group's contingent liability as at 31 January 2004 which consists of bills discounted with banks on a recourse basis, amounted to HK$6.27 million (31 July 2003: HK$11.41 million).

Foreign exchange risk

Other than acquisitions of machinery and equipment in Japanese Yen, the Group's exposure to foreign exchange rate fluctuations during the period under review was not significant. Most of its transactions, including borrowings, were denominated in US dollars and Renminbi.

Owing mainly to the fluctuations in Japanese Yen, the Group reported a net exchange loss of HK$2.41 million during the period under review, against a net exchange loss of HK$0.91 million in the last corresponding period.

Employees and remuneration policy

As at 31 January 2004, the Group had a total of 6,868 employees (31 July 2003: 7,298) of which 2,103 (31 July 2003: 2,361) were employed under processing arrangements. During the period under review, there was no significant change in the Group's remuneration policies for its employees.

Employees' costs of the Group (excluding Directors' emoluments but including wages paid to employees employed under the processing arrangements) amounted to HK$57.11 million during the period under review, representing a 25.27% increase as compared to that of last corresponding period. Remuneration packages are maintained at competitive level and the Group's employees are rewarded on a performance basis.

The Company conditionally adopted the Scheme on 20 January 2002 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. The Board may, at their absolute discretion, grant options to employees and Directors and directors of the Company's subsidiaries and any qualified persons as set forth in the terms of the Scheme, to subscribe for shares. The subscription price, exercisable period and the maximum number of options to be granted are determined in accordance with the terms of the Scheme. Since the adoption of the Scheme, no options have been granted under the Scheme.

The Group has adopted a provident fund scheme for its employees in Hong Kong as required under the Mandatory Provident Fund Schemes Ordinance. It also participates in a government pension scheme for its employees in the PRC pursuant to the relevant rules and regulations of the PRC.

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

During the period under review, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 January 2004, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance ("**SF Ordinance**")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions in which they are taken or deemed to have taken under such provisions of the SF Ordinance), or which will be required, pursuant to section 352 of the SF Ordinance, to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Director (Note 1)	The Company/name of associated corporation	Capacity	Number and class of securities (Note 2)
Beh Kim Ling	The Company	Beneficial owner	17,437,500 ordinary shares of HK$0.05 each ("Share(s)") (L)
	VVS Co., Ltd.	Beneficial owner	3,182 ordinary shares of HK$1 each (L)
	V.S. Industry Berhad	Beneficial owner	23,444,406 ordinary shares of Malaysian Ringgit ("RM") 1 each (L) (Notes 3 and 13)
	VSHK	Beneficial owner	3,750,000 non-voting deferred shares of HK$1 each (L)
	VS Investment Holdings Limited	Beneficial owner	3,600,000 ordinary shares of HK$1 each (L) (Notes 4 and 14)
	V.S. Technology Sdn. Bhd. (Note 5)	Beneficial owner	50,000 ordinary shares of RM1 each (L)
Gan Chu Cheng	The Company	Beneficial owner	17,437,500 Shares (L)
	VVS Co., Ltd.	Beneficial owner	3,182 ordinary shares of HK$1 each (L)
	V.S. Industry Berhad	Beneficial owner	20,997,548 ordinary shares of RM1 each (L) (Notes 6 and 13)
	VSHK	Beneficial owner	3,750,000 non-voting deferred shares of HK$1 each (L)
	VS Investment Holdings Limited	Beneficial owner	3,600,000 ordinary shares of HK$1 each (L) (Notes 7 and 14)
	V.S. Ashin Technology Sdn. Bhd. (Note 8)	Beneficial owner	672,000 ordinary shares of RM1 each (L)

Name of Director (Note 1)	The Company/name of associated corporation	Capacity	Number and class of securities (Note 2)
	V.S. Technology Sdn. Bhd. (Note 5)	Beneficial owner	50,000 ordinary shares of RM1 each (L)
Gan Sem Yam	The Company	Beneficial owner	17,437,500 Shares (L)
	VVS Co., Ltd.	Beneficial owner	3,182 ordinary shares of HK$1 each (L)
	V.S. Industry Berhad	Beneficial owner	10,967,920 ordinary shares of RM1 each (L) (Notes 9 and 13)
	VSHK	Beneficial owner	3,750,000 non-voting deferred shares of HK$1 each (L)
	VS Investment Holdings Limited	Beneficial owner	3,600,000 ordinary shares of HK$1 each (L) (Notes 10 and 14)
	V.S. Ashin Technology Sdn. Bhd. (Note 8)	Beneficial owner	746,667 ordinary shares of RM1 each (L)
	V.S. Technology Sdn. Bhd. (Note 5)	Beneficial owner	50,000 ordinary shares of RM1 each (L)
Gan Tiong Sia	The Company	Beneficial owner	14,337,500 Shares (L)
	VVS Co., Ltd.	Beneficial owner	3,182 ordinary shares of HK$1 each (L)
	V.S. Industry Berhad	Beneficial owner	3,372,168 ordinary shares of RM1 each (L) (Notes 11 and 13)
	V.S. Industry Berhad	Interest of spouse	16,000 ordinary shares of RM1 each (L) (Note 12)
	VSHK	Beneficial owner	3,750,000 non-voting deferred shares of HK$1 each (L)
	V.S. Technology Sdn. Bhd. (Note 5)	Beneficial owner	50,000 ordinary shares of RM1 each (L)

Notes:

1. 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. Madam Gan Chu Cheng is the sister of Messrs. Gan Sem Yam and Gan Tiong Sia.

2. The letter "L" represents the Director's interests in the share and underlying shares of the Company or its associated corporations.

3. Mr. Beh Kim Ling's interests in these shares comprise 23,423,406 shares registered under his name and the 21,000 outstanding options granted to him under the employee's share option scheme of V.S. Industry Berhad as referred to in note 13 below.

4. Mr. Beh Kim Ling's interests in these shares comprise 5 shares registered under his name and the 3,599,995 outstanding options granted to him under the Option Deed as referred to in note 14 below.

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

6. Madam Gan Chu Cheng's interests in these shares comprise 18,598,948 shares registered under her name, 2,377,600 shares held in bare trust by Kenanga Nominees (Tempatan) Sdn. Bhd. for the benefit of Madam Gan Chu Cheng and the 21,000 outstanding options granted to Madam Gan Chu Cheng under the employee's share option scheme of V.S. Industry Berhad as referred to in note 13 below. Under the SF Ordinance, Madam Gan Chu Cheng is deemed to be interested in all these shares.

7. Madam Gan Chu Cheng's interests in these shares comprise 5 shares registered under her name and the 3,599,995 outstanding options granted to her under the Option Deed as referred to in note 14 below.

8. V.S. Ashin Technology Sdn. Bhd. is a company incorporated in Malaysia and is owned as to 54.4% by V.S. Industry Berhad and the remaining shares by other shareholders, including but not limited to Madam Gan Chu Cheng and Mr. Gan Sem Yam.

9. Mr. Gan Sem Yam's interests in these shares comprise 10,306,920 shares registered under his name, 640,000 shares held in bare trust by Kenanga Nominees (Tempatan) Sdn. Bhd. for the benefit of Mr. Gan Sem Yam and the 21,000 outstanding options granted to Mr. Gan Sem Yam under the employee's share option scheme of V.S. Industry Berhad as referred to in note 13 below. Under the SF Ordinance, Mr. Gan Sem Yam is deemed to be interested in all these shares.

10. Mr. Gan Sem Yam's interests in these shares comprise 5 shares registered under his name and the 3,599,995 outstanding options granted to him under the Option Deed as referred to in note 14 below.

11. Mr. Gan Tiong Sia's interests in these shares comprise 3,322,168 shares registered under his name and the 50,000 outstanding options granted to him under the employee's share option scheme of V.S. Industry Berhad as referred to in note 13 below.

12. These shares are registered in the name of and beneficially owned by Madam Loi Hui Hong. Madam Loi Hui Hong is the spouse of Mr. Gan Tiong Sia, who by virtue of Section 316(1) of the SF Ordinance is deemed to be interested in the same number of these shares in which Madam Loi Hui Hong is interested.

13. Each of Messrs. Beh Kim Ling, Gan Sem Yam and Gan Tiong Sia and Madam Gan Chu Cheng were granted options under the employee's share option scheme of V.S. Industry Berhad, which became effective on 11 July 2000, to subscribe for 70,000 ordinary shares of RM1 each in the share capital of V.S. Industry 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 and Gan Tiong Sia and Madam Gan Chu Cheng as at 31 January 2004 was as follows:

Name of Directors	Number of outstanding options
Beh Kim Ling	21,000
Gan Chu Cheng	21,000
Gan Sem Yam	21,000
Gan Tiong Sia	50,000

14. The following options were granted to the following Directors under an option deed dated 20 January 2002 ("Option Deed"), which were, as at 31 January 2004, outstanding:

Name of Directors	Number of outstanding options
Beh Kim Ling	3,599,995
Gan Chu Cheng	3,599,995
Gan Sem Yam	3,599,995

Save as disclosed above, none of the Directors and chief executive of the Company had any interest and short positions in the share, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SF Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he/she was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SF ORDINANCE

As at 31 January 2004, the following Shareholders, other than a Director or chief executive of the Company, had an interest or a short position in the Shares and underlying shares in the Company as recorded in the register required to be kept under Section 336 of the SF Ordinance:

Name of shareholder	Number of Shares held (Note 1)	Nature of interest/capacity	Approximate percentage of interest
VVS Co., Ltd.	426,250,000 (L)	Beneficial owner	51.98%
V.S. Industry Berhad	426,250,000 (L)	Interest of a controlled corporation (Note 2)	51.98%
Value Partners Limited	65,304,000 (L)	Investment manager	7.96%
Cheah Cheng Hye	65,304,000 (L)	Interest of a controlled corporation (Note 3)	7.96%
Atlantis Investment Management Ltd.	46,176,000 (L)	Investment manager	5.63%

Notes:

1. The letter "L" represents the entity's interest in the Shares.

2. These Shares were registered in the name of and beneficially owned by VVS Co., Ltd., the entire issued share capital of which was registered in the name of and beneficially owned as to 87.272% by V.S. Industry Berhad and 3.182% by each of Messrs. Beh Kim Ling, Gan Sem Yam and Gan Tiong Sia and Madam Gan Chu Cheng. Under the SF Ordinance, V.S. Industry Berhad is deemed to be interested in all the Shares owned by VVS Co., Ltd.

3. These Shares were beneficially owned by Value Partners Limited, 32.53% of the entire issued share capital of which was beneficially owned by Mr. Cheah Cheng Hye. Under the SF Ordinance, Mr. Cheah Cheng Hye is deemed to be interested in all the Shares owned by Value Partners Limited.

Save as disclosed above, as at 31 January 2004, the Company had not been notified of any other person (other than a director or chief executive of the Company) who had any interest (whether direct or indirect) in 5% or more of the shares comprised in the relevant share capital or a short position which was required to be recorded in the register kept by the Company pursuant to Section 336 of the SF Ordinance.

SHARE OPTION SCHEME

The Company operates the 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 Scheme became effective on 8 February 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Since the adoption of the Scheme, no option has been granted or agreed to be granted under the Share Option Scheme.

AUDIT COMMITTEE

The Board established the Audit Committee on 20 January 2002, which comprises the two independent non-executive Directors, pursuant to the Code of Best Practice as set forth in Appendix 14 to the Listing Rules. The Audit Committee, with the management and the Company's external auditors, has reviewed the accounting principles and practices adopted by the Group and discussed the internal controls and financial reporting matters including a review of the unaudited interim financial report for the period under review.

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 period under review, in compliance with Appendix 14 to the Listing Rules.

By order of the Board
V.S. International Group Limited
Beh Kim Ling
Chairman

Zhuhai, the PRC
29 March 2004

Independent review report to the board of directors of V.S. International Group Limited

(Incorporated in Cayman Islands with limited liability)

Introduction

We have been instructed by the company to review the interim financial report set out on pages 5 to 25.

Respective responsibilities of directors and auditors

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

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

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

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 31 January 2004.

KPMG
Certified Public Accountants
Hong Kong,
29 March 2004