

**"WE STRIVE TO BECOME A LEADING EMS
PLAYER WITH WORLD CLASS MANUFACTURING
SITES IN CHINA ."**

Mr. Beh Kim Ling
Chairman



FINANCIAL PERFORMANCE

Following a year of economic depression brought about by warfare in the Middle East and an epidemic disease at our own doorstep, the economies globally made a remarkable rebound in the past year, and look set to continue to improve. Despite the volatility in the business environment during the past year, we persevered in our efforts in developing new markets and customer-base. As a result, the Group's principal business, plastic injection moulding and mould design and fabrication businesses achieved a promising growth in turnover of 23.25%. Notwithstanding such improvement, the Group's overall turnover experienced a drop after a shift in order mix of a major customer of assembly division.

Profit attributable to Shareholders for the year ended 31 July 2004 experienced a drastic decrease. The decline was largely due to the escalating finance costs and depreciation charges, and some one-off restructuring expenses from our rationalisation exercise that took place in Qingdao. Nevertheless, it is grateful that our efforts in streamlining costs and enhancing operational efficiencies were fruitful which had mitigated these impacts, and the Group recorded a profit attributable to Shareholders of HK\$0.42 million.

BUSINESS REVIEW

In the past two years, we responded to the robust growth of the China market and decided to further develop the Zhuhai facilities into a one-stop manufacturing hub that caters for Original Equipment Manufacturers' projects and is capable of handling customers' need for high volume production ramp. Our response to the business environment had incurred a substantial amount of capital spending and increased in infrastructure costs. Consequently, we effectively enhanced our production capacity. Nevertheless, there is good evidence that the strategic manufacturing site of Zhuhai Industrial Park has the potential of improving the Group's competitive positioning.

Decision to merge the production facilities in Qingdao into a concentrated base proved to be a success move. The results of the two subsidiaries in Qingdao have since then been encouraging and we have great confidence that their performance would reach a greater height in the years to come.

To better deploy resources, the Group hived its assembly and tooling businesses in Shenzhen with the ultimate goal of focusing its core operations, plastic injection business. The Group will remain steadfast in strategising its cost-cutting measures and offering quality products and services to counter the increasing competition faced by our Shenzhen operations.

OUR COMMITMENT AND MANAGING TRANSITION CHANGE

Going forward, the management's effort is to rebuild the Group's balance sheet, further streamline the operations and expand its customer base. We have initiated a strategy to become an integrated Electronics Manufacturing Service ("EMS") provider. The management has designed several initiatives aiming at rationalising and consolidating the Group's operations and strategic direction to improve sales and profitability, with the long term view of sustaining competitive advantage for the Group.

Some of the key initiatives include:

- a) Streamlining operations to reduce operating costs, improve productivity and achieve high standards of performances in all our businesses over our customers' expectations.
- b) Forming strategic alliances to provide virtual manufacturing support and strengthening the Group's core competencies.
- c) Redefining business strategy and expanding customer base, including business opportunities from America and Europe.

The Group will further re-engineer its operations and create better synergies between our various facilities and strategic alliances so as to build on the foundations and management infrastructure that have been laid over the past years. We will improve the Group's revenue for the coming financial year and work continuously to stay competitive and focus. We will also strive to become a leading EMS player with world class manufacturing sites in China, to capture the growing business opportunities of the global outsourcing market.

APPRECIATION

On behalf of the Board ("Board") of Directors' ("Directors") of the Company and the management team, I would like to thank our customers, business associates and Shareholders for their unwavering support in the financial year 2004, which had started off with considerable business uncertainty. I would also like to take the opportunity to express our sincerest appreciation to our employees for their total commitment and dedication in supporting the Group in its effort for continual success. I look forward to your continued support as we strive to achieve further milestones in the coming years.

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