1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations) issued by the Hong Kong Institute of Certified Public 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by V.S. International Group Limited (the "Company") and its subsidiaries (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 in the accounting policies set out below.

(c) Subsidiaries and controlled enterprises

A subsidiary is an enterprise controlled by the Company. Controlled enterprise 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 their activities.

An investment in a controlled 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.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(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.

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(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 accumulated amortisation and impairment losses (note 1(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 amounts, being their open market value at the date of revaluation less subsequent accumulated depreciation (see note 1(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 1(h)) and impairment losses (see note 1(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 building held for own use, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

1 Significant accounting policies (continued)

(f) Leased assets

Leases of assets under which the leasee 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 acquired 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 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(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 and various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (see note 1(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 valuation of fixed assets over their estimated useful lives as follows:

– leasehold land is depreciated on a straight-line basis over the remaining term 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;

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(h) Depreciation (continued)

– 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

– 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);

– construction-in-progress;

– interest in subsidiaries (except for those accounted for at fair value under note 1(c)); and

– positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of such 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 favourable 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.

1 *Significant accounting policies (continued)*

(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.

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 write-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) 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.

Annual contributions to the pension scheme operated by the government in the People's Republic of China ("PRC") 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.

1 Significant accounting policies (continued)

(m) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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, negative goodwill treated as deferred income, 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 profits 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 profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

1 Significant accounting policies (continued)

(m) Income tax (continued)

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(n) 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 expenditure 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.

(o) 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) Sale 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.

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(o) Revenue recognition (continued)

(ii) Dividend income

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.

(p) 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.

(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.

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.

1 Significant accounting policies (continued)

(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.

2 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.

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

	2004 $'000	2003 $'000
Breakdown of revenue by principal activities		
Plastic injection and moulding	**737,330**	600,484
Assembling of electronic products	**224,956**	489,971
Mould design and fabrication	**58,932**	45,594
	1,021,218	1,136,049

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

3 Other net income

	2004	2003
	$'000	$'000
Interest income	2,792	1,706
Gain/(loss) on disposal of fixed assets	12	(406)
	2,804	1,300

4 Personnel expenses

	2004	2003
	$'000	$'000
Salaries, wages and allowances	90,303	74,994
Contribution to retirement benefit schemes	3,576	2,008
	93,879	77,002
Average number of employees during the year	5,288	4,057

Personnel expenses include directors' remuneration totalling $14,310,000 (2003: $13,705,000) (note (7)).

A subsidiary of the Company has entered into processing arrangements with certain 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 labours engaged in the production is payable to the Providers. The Group has no obligations to pay any retirement benefits of existing and former labours provided by the Providers.

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 which range 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 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 Schemes Ordinance. 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.

5 Profit from ordinary activities before taxation

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

	2004 $'000	2003 $'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	**25,438**	17,413
Interest on bank advances and other borrowings repayable over five years	**5,434**	–
Interest on other loans	**2,596**	2,823
Finance charges on obligations under finance leases	**1,661**	706
Total borrowing costs	**35,129**	20,942
Less: Borrowing costs capitalised as construction in progress *	**(1,083)**	(2,856)
	34,046	18,086
Exchange losses	**3,368**	800
Other charges	**2,547**	2,776
	39,961	21,662

* The borrowing costs have been capitalised at an average cost of borrowings to the Group of 4.8% (2003: 4.8%) per annum for construction in progress.

	2004 $'000	2003 $'000
(b) Other items:		
Cost of inventories #	**882,222**	1,003,311
Auditors' remuneration	**1,800**	2,230
Provision for doubtful debts (written back)/charged	**(313)**	732
Processing fees #	**19,152**	27,816
Depreciation #		
– owned assets	**65,180**	45,516
– assets held under finance leases	**5,819**	2,094
Operating lease charges #		
– factory and hostel rentals	**14,562**	11,652
Amortisation of goodwill	**274**	23
Provision for slow moving inventories	**4,872**	1,587
Non-operating expenses		
– costs associated with termination of leases	**4,449**	–

Cost of inventories includes $142,584,000 (2003: $113,243,000) relating to staff costs, depreciation, 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.

(Expressed in Hong Kong dollars)

6 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2004 $'000	2003 $'000
Current tax – PRC		
Tax for the year	3,225	2,731
Deferred tax		
Origination and reversal of temporary differences	(324)	(100)
	2,901	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 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 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 fourth profit making year during the year ended 31 July 2004. Provision for the PRC income tax of these subsidiaries was calculated at 7.5% of the estimated assessable profits for the year ended 31 July 2004. Other subsidiaries of the Company in the PRC were either entitled to income tax exemption or sustained losses for taxation purposes for the year ended 31 July 2004.

A subsidiary of the Company has entered into processing arrangements 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) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2004 $'000	2003 $'000
Profit before tax	4,042	18,791
Notional tax on profit before tax, calculated at the rates applicable to profits in the jurisdictions concerned	606	2,819
Non-taxable revenue	(3,399)	(8,558)
Non-deductible expenses	8,128	9,012
Tax effect of concession	(2,434)	(642)
Actual tax expense	2,901	2,631

7 *Directors' remuneration*

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2004	2003
	$'000	$'000
Fees	540	480
Basic salaries, allowances and other benefits	13,596	11,475
Discretionary bonuses	174	1,750
Retirement benefit scheme contributions	–	–
	14,310	13,705
Number of directors	7	7

Included in the directors' remuneration were fees of $540,000 (2003: $480,000) 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	
	2004	2003
$Nil – $1,000,000	4	4
$2,500,001 – $3,000,000	–	1
$3,000,001 – $3,500,000	1	–
$3,500,001 – $4,000,000	–	1
$4,000,001 – $4,500,000	1	–
$6,000,001 – $6,500,000	1	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 with the Company for an amount to be determined by the board of directors in its absolute discretion. The amount of discretionary bonuses payable to the executive directors totalled $174,000 for the year ended 31 July 2004 (2003: $1,750,000).

8 Senior management's emoluments

Of the five individuals with the highest emoluments, three (2003: three) are directors whose remuneration is reflected in the analysis presented in note 7. The aggregate of the emoluments in respect of the other two (2003: two) individuals are as follows:

	2004 $'000	2003 $'000
Salaries, allowances and other benefits	1,208	1,120
Retirement benefit scheme contributions	–	–
Discretionary bonuses	201	170
	1,409	1,290

The emoluments of the two (2003: two) individuals with the highest emoluments are within the following bands:

	Number of individuals 2004	2003
$Nil – $1,000,000	2	2

There were no amounts paid during the year ended 31 July 2004 and 2003 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.

9 Profit attributable to shareholders

The profit attributable to shareholders includes a loss of $525,000 (2003: $8,240,000) which has been dealt with in the financial statements of the Company.

10 Dividend

(a) Dividend attributable to the year

	2004 $'000	2003 $'000
Final dividend proposed after the balance sheet date of 0.5 cent (2003: 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.

10 Dividend (continued)

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

	2004	2003
	$'000	$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 0.5 cent (2003: 0.5 cent) per share	4,100	4,100

11 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of $419,000 (2003: $18,874,000) and the weighted average number of 820,000,000 (2003: 820,000,000) 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 2004 and 2003.

12 Change in accounting policy

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 treatment 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 Hong Kong Institute of Certified Public Accountants, the Group adopted a new policy for deferred tax as set out in note 1(m).

There was no material effect on the profits and net assets of the Group for the current and prior years as a result of the adoption of this accounting policy.

13 Segment reporting

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, including processing fee generated from assembling 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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Turnover from external customers	737,330	600,484	224,956	489,971	65,216	50,570	(6,284)	(4,976)	1,021,218	1,136,049
Segment result	87,495	64,944	11,758	29,185	10,297	8,049	-	–	109,550	102,178
Unallocated operating income and expenses									(61,098)	(61,725)
Profit from operations									48,452	40,453
Finance costs									(39,961)	(21,662)
Non-operating expenses									(4,449)	–
Income tax									(2,901)	(2,631)
Minority interests									(722)	2,714
Profit attributable to shareholders									419	18,874
Depreciation for the year	53,465	30,517	11,404	6,546	3,209	4,254	-	–	68,078	41,317
Unallocated depreciation and amortisation									3,195	6,316
									71,273	47,633
Significant non-cash items (other than depreciation and amortisation)	(225)	2,123	4,955	164	(171)	32	-	–	4,559	2,319

13 Segment reporting (continued)

(a) Business segments (continued)

	Plastic injection and moulding		Assembling of electronic products		Mould design and fabrication		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Segment assets	**855,535**	735,903	**259,963**	217,332	**122,943**	81,857	**1,238,441**	1,035,092
Unallocated assets							**304,884**	365,479
Total assets							**1,543,325**	1,400,571
Segment liabilities	**234,157**	225,087	**107,618**	75,193	**35,419**	20,896	**377,194**	321,176
Unallocated liabilities							**773,734**	690,561
Total liabilities							**1,150,928**	1,011,737
Capital expenditure incurred during the year	**139,977**	130,516	**63,239**	76,175	**35,892**	26,208	**239,108**	232,899
Unallocated capital expenditure							**9,509**	17,043
							248,617	249,942

(b) Geographical segments

The Group's business participates in five (2003: 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 expenditure are based on the geographical location of the assets. All segment assets and capital expenditure are in the PRC.

Revenue from external customers is analysed as follows:

	2004	2003
	$'000	$'000
PRC (other than Taiwan and Hong Kong)	**621,400**	506,164
Hong Kong	**297,661**	495,651
South East Asia	**53,642**	45,075
Japan	**22,602**	60,879
Taiwan	**14,695**	21,064
Others	**11,218**	7,216
	1,021,218	1,136,049

(Expressed in Hong Kong dollars)

14 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 2003	307,648	27,599	453,610	24,039	19,975	832,871
Transfer from construction in progress (note 15)	21,493	–	3,175	2,373	–	27,041
Additions	4,645	3,595	198,625	7,636	2,069	216,570
Surplus on revaluation	1,114	–	–	–	–	1,114
Disposals	–	(5,216)	(3,223)	(423)	(1,480)	(10,342)
At 31 July 2004	334,900	25,978	652,187	33,625	20,564	1,067,254
Representing:						
Cost	–	25,978	652,187	33,625	20,564	732,354
Valuation	334,900	–	–	–	–	334,900
	334,900	25,978	652,187	33,625	20,564	1,067,254
Accumulated depreciation:						
At 1 August 2003	218	9,857	106,332	9,571	7,720	133,698
Charge for the year	6,286	2,776	54,208	4,479	3,250	70,999
Written back on revaluation	(6,504)	–	–	–	–	(6,504)
Written back on disposals	–	(1,005)	–	(198)	(640)	(1,843)
At 31 July 2004	–	11,628	160,540	13,852	10,330	196,350
Net book value:						
At 31 July 2004	334,900	14,350	491,647	19,773	10,234	870,904
At 31 July 2003	307,430	17,742	347,278	14,468	12,255	699,173

14 Fixed assets (continued)

(b) The Company

	Land and buildings held for own use $'000	Office equipment, furniture and fixtures $'000	Total $'000
Cost or valuation:			
At 1 August 2003	7,248	196	7,444
Revaluation deficit	(48)	–	(48)
Disposal	–	(3)	(3)
At 31 July 2004	7,200	193	7,393
Representing:			
Cost	–	193	193
Valuation	7,200	–	7,200
	7,200	193	7,393
Accumulated depreciation:			
At 1 August 2003	218	51	269
Charge for the year	145	38	183
Written back on revaluation	(363)	–	(363)
Written back on disposal	–	(1)	(1)
At 31 July 2004	–	88	88
Net book value:			
At 31 July 2004	7,200	105	7,305
At 31 July 2003	7,030	145	7,175

(Expressed in Hong Kong dollars)

14 Fixed assets (continued)

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

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
In Hong Kong				
– Medium-term leases	**7,200**	7,030	**7,200**	7,030
Outside Hong Kong				
– Medium-term leases	**327,700**	300,400	**–**	–
	334,900	307,430	**7,200**	7,030

(d) The Group's and the Company's land and buildings held for own use were revalued at 31 July 2004 by DTZ Debenham Tie Leung Limited, an independent firm of professional valuers in Hong Kong, at their open market value.

The revaluation surpluses of $7,618,000 (2003: $72,433,000) and $315,000 (2003: $Nil) have been transferred to the land and buildings revaluation reserve of the Group and the Company respectively (note 28).

The carrying amount of revalued land and buildings held for own use of the Group and the Company at 31 July 2004 would have been $224,637,000 (2003: $202,828,000) and $6,885,000 (2003: $7,030,000) respectively had they been carried at cost less accumulated depreciation.

(e) At 31 July 2004 and 2003, certain fixed assets have been pledged as security for the bank loans (note 23(b)).

(f) 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 $62,856,000 (2003: $24,972,000).

15 Construction in progress

	The Group	
	2004	2003
	$'000	$'000
At 1 August	**12,294**	55,985
Additions	**32,047**	77,647
Transfer to fixed assets (note 14(a))	**(27,041)**	(121,338)
At 31 July	**17,300**	12,294

16 Goodwill

	The Group Positive goodwill $'000
Cost:	
At 1 August 2003 and 31 July 2004	2,743
Accumulated amortisation:	
At 1 August 2003	23
Amortisation for the year	274
At 31 July 2004	297
Carrying amount:	
At 31 July 2004	2,446
At 31 July 2003	2,720

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

17 Interest in subsidiaries

	The Company	
	2004 $'000	2003 $'000
Unlisted shares, at cost	**258,122**	258,122
Amounts due from subsidiaries	**54,479**	37,452
Amounts due to subsidiaries	**(55,808)**	(33,081)
	256,793	262,493

Balances with subsidiaries are unsecured, interest free and have no fixed terms of repayment. Details of the subsidiaries at 31 July 2004 are set out below. The class of shares held is ordinary unless otherwise stated. All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's financial statements.

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(Expressed in Hong Kong dollars)

17 Interest in subsidiaries (continued)

Name of company	Place of incorporation	Place of operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	held by the Company	held by subsidiary	Principal activity
V.S. International Industry Limited	British Virgin Islands ("BVI")	Hong Kong	US$100	100%	100%	–	Investment holding
V.S. Investment Holdings Limited	BVI	Hong Kong	$54,000,025	100%	100%	–	Investment holding
V.S. Corporation (Hong Kong) Co. Limited ("VSHK")	Hong Kong	PRC	$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 parts
V.S. Industry (Shenzhen) Co., Ltd. (note i)	PRC	PRC	$10,000,000	100%	–	100%	Manufacturing and selling of plastic moulded products and parts
V.S. Technology Industry Park (Zhuhai) Co., Ltd. (note i)	PRC	PRC	US$18,729,113	100%	–	100%	Manufacturing, assembling and selling of plastic moulded products and electronic products, parts and components

(Expressed in Hong Kong dollars)

17 Interest in subsidiaries (continued)

Name of company	Place of incorporation	Place of operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	held by the Company	held by subsidiary	Principal activity
Haivs Industry (Qingdao) Co., Ltd. (note i)	PRC	PRC	RMB32,150,000	100%	–	100%	Manufacturing and selling of plastic moulded products and parts
Qingdao GS Electronics Plastics Co., Ltd. ("Qingdao GS") (note i)	PRC	PRC	RMB73,980,000	100%	–	100%	Manufacturing and selling of plastic moulded products and parts
VSA Holding Hong Kong Co., Limited ("VSA(HK)")	Hong Kong	PRC	$15,600,000	71%	–	71%	Assembling and selling of electronic products, parts and components
VSA Electronics Technology (Zhuhai) Co., Ltd. (note iii)	PRC	PRC	US$6,433,849	98.55%	–	98.55%	Assembling and selling of electronic products, parts and components
V.S. Capital Holdings Limited	Hong Kong	N/A	$2	100%	–	100%	Dormant
V.S. Industry (Zhuhai) Co., Ltd. (note (ii))	PRC	PRC	US$1,351,603	100%	–	100%	Manufacturing and selling of plastic moulded products and parts

17 Interest in subsidiaries (continued)

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 or any participation in the profits or assets of VSHK and is also not entitled to vote at any general meeting.

18 Inventories

	The Group	
	2004	2003
	$'000	$'000
Raw materials	**60,554**	65,882
Work-in-progress	**42,157**	46,102
Finished goods	**59,502**	44,338
	162,213	156,322

At 31 July 2004, inventories stated at net realisable value amounted to $3,526,000 (2003: $842,000).

19 Trade and other receivables

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Trade receivables	**180,115**	171,843	**–**	–
Bills receivable	**34,973**	38,989	**–**	–
Other receivables, prepayments and deposits	**35,352**	33,410	**96**	95
	250,440	244,242	**96**	95

At 31 July 2004, certain trade and bills receivable have been pledged as security for bank loans (note 23(b)) and other banking facilities (note 22(b)) respectively.

19 Trade and other receivables (continued)

(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	
	2004	2003
	$'000	$'000
Within 30 days	**91,506**	101,284
Over 30 days but within 90 days	**86,580**	79,236
Over 90 days and less than one year	**37,002**	30,312
	215,088	210,832

(b) Included in other receivables, prepayments and deposits was $4,159,000 (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.

20 Deposits with banks

	The Group	
	2004	2003
	$'000	$'000
Deposits with banks with original maturity date over three months	**58,491**	1,916
Pledged fixed deposits with banks	**77,115**	86,748
	135,606	88,664

Pledged fixed deposits with banks have been pledged to banks as security for the bank loans and overdrafts (note 23(b)), and other banking facilities (note 22(b)). Included in fixed deposits with banks as at 31 July 2003 was a fixed deposit of $283,000 which was pledged as security for the services provided by service agents.

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21 Cash and cash equivalents

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Deposits with banks with original maturity date within three months	**38,222**	47,076	**–**	–
Cash at bank and in hand	**66,194**	150,080	**1,174**	1,416
Cash and cash equivalents in the balance sheet	**104,416**	197,156	**1,174**	1,416
Bank overdrafts (note 23(a))	**(30,566)**	(27,007)		
Cash and cash equivalents in the consolidated cash flow statement	**73,850**	170,149		

Cash and cash equivalents are denominated in:

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Hong Kong dollars	**8,918**	5,844	**1,114**	1,257
Renminbi ("RMB")	**54,398**	77,257	**–**	4
United States dollars	**41,100**	114,055	**60**	155
Cash and cash equivalents in the balance sheet	**104,416**	197,156	**1,174**	1,416

The RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, in certain circumstances the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

22 Trade and other payables

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Trade payables	**145,618**	151,005	**–**	–
Bills payable	**29,247**	49,152	**–**	–
Accrued expenses and other payables	**154,387**	145,949	**3,124**	3,725
	329,252	346,106	**3,124**	3,725

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

22 Trade and other payables (continued)

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

	The Group	
	2004	2003
	$'000	$'000
Due within 30 days or on demand	**109,904**	111,528
Due after 30 days but within 90 days	**48,787**	54,628
Due after 90 days but within 180 days	**16,174**	21,390
Due over 180 days	**–**	12,611
	174,865	200,157

(b) Banking facilities in connection with trade finance are secured by the following assets of the Group:

	The Group	
	2004	2003
	$'000	$'000
Pledged fixed deposit with banks (note 20)	**450**	2,700
Bills receivable (note 19)	**28,154**	28,517
	28,604	31,217

23 Bank loans and overdrafts

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Current:				
Within 1 year or on demand	**337,552**	282,897	**900**	900
Non-current:				
After 1 year but within 2 years	**121,114**	1,677	**900**	900
After 2 years but within 5 years	**236,296**	202,913	**450**	1,350
After 5 years	**14,418**	94,339	**–**	–
	371,828	298,929	**1,350**	2,250
	709,380	581,826	**2,250**	3,150

(Expressed in Hong Kong dollars)

23 Bank loans and overdrafts (continued)

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

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Current:				
Overdrafts				
– secured	**29,008**	23,975	**–**	–
– unsecured	**1,558**	3,032	**–**	–
	30,566	27,007	**–**	–
Bank loans				
– secured	**142,563**	120,177	**900**	900
– unsecured	**164,423**	135,713	**–**	–
	306,986	255,890	**900**	900
	337,552	282,897	**900**	900
Non-current:				
Bank loans				
– secured	**331,241**	164,003	**1,350**	2,250
– unsecured	**40,587**	134,926	**–**	–
	371,828	298,929	**1,350**	2,250
	709,380	581,826	**2,250**	3,150

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

23 Bank loans and overdrafts (continued)

(b) Banking facilities, including overdrafts and bank loans, are secured by the following assets of the Group and the Company:

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Trade receivables (note 19)	**9,594**	16,774	**–**	–
Fixed deposits (note 20)	**76,665**	83,765	**–**	–
Motor vehicles with aggregate carrying value (note 14(e))	**2,599**	4,677	**–**	–
Land and buildings with aggregate carrying value (note 14(e))	**178,791**	151,730	**7,200**	7,030
Plant and machinery with aggregate carrying value (note 14(e))	**33,653**	37,270	**–**	–
	301,302	294,216	**7,200**	7,030

Such banking facilities, totalling $528,698,000 (2003: $385,290,000), were utilised to the extent of $502,812,000 (2003: $308,155,000) at 31 July 2004.

24 Obligations under finance leases

At 31 July 2004, the Group had obligations under finance leases repayable as follows:

	The Group					
	2004			2003		
	Present value of the minimum lease payments	**Interest expense relating to future periods**	**Total minimum lease payments**	Present value of the minimum lease payments	Interest expense relating to future periods	Total minimum lease payments
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Amounts payable:						
Within 1 year	**16,861**	**1,449**	**18,310**	6,778	757	7,535
After 1 year but within 2 years	**14,346**	**736**	**15,082**	5,580	416	5,996
After 2 years but within 5 years	**10,189**	**218**	**10,407**	3,564	148	3,712
	24,535	**954**	**25,489**	9,144	564	9,708
	41,396	**2,403**	**43,799**	15,922	1,321	17,243

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

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

25 Other payables

Other payables represent the amounts due to suppliers in connection with the purchase of fixed assets. The Group is granted credit terms of 450 days to 540 days from the date of purchase of certain fixed assets. The amounts are expected to be settled over 1 year but within 2 years.

26 Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	The Group	
	2004	2003
	$'000	$'000
PRC income tax payable	**170**	531

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

Deferred tax arising from:	**The Group Revaluation of land and buildings** $'000
At 1 August 2002	4,705
Credited to the consolidated income statement	(100)
Charged to reserves (note 28(a))	11,266
At 31 July 2003	15,871
At 1 August 2003	15,871
Credited to the consolidated income statement	(324)
Charged to reserves (note 28(a))	1,096
At 31 July 2004	16,643

	The Group	
	2004	2003
	$'000	$'000
Net deferred tax liabilities recognised on the balance sheet	**16,643**	15,871

27 Share capital

	2004 Number of shares '000	2004 Amount $'000	2003 Number of shares '000	2003 Amount $'000
Authorised:				
Ordinary shares of $0.05 each	**4,000,000**	**200,000**	4,000,000	200,000
Issued and fully paid:				
Ordinary shares of $0.05 each	**820,000**	**41,000**	820,000	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 (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 2004 and 31 July 2003, no option had been granted to any such eligible participants under the Scheme.

28 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 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 10(b))	–	(4,100)	–	–	–	–	(4,100)
Revaluation surplus (note 14(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 26(b))	–	–	–	(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

28 Reserves (continued)

(a) The Group (continued)

	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 2003	63,755	39,900	304	88,949	6,846	144,638	344,392
Profit for the year	–	–	–	–	–	419	419
Dividend approved in respect of the previous year (note 10(b))	–	(4,100)	–	–	–	–	(4,100)
Revaluation surplus (note 14(d))	–	–	–	7,618	–	–	7,618
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	–	–	–	–	–	–	–
Deferred tax liability arising from revaluation (note 26(b))	–	–	–	(1,096)	–	–	(1,096)
Realisation of revaluation reserve	–	–	–	(1,851)	–	1,851	–
Appropriations	–	–	–	–	6,169	(6,169)	–
At 31 July 2004	63,755	35,800	304	93,620	13,015	140,739	347,233

(b) The Company

	Share premium $'000 (Note (i))	Contributed surplus $'000 (Note (i))	Land and buildings revaluation reserve $'000 (Note (ii))	Accumulated losses $'000	Total $'000
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 10(b))	–	(4,100)	–	–	(4,100)
At 31 July 2003	63,755	169,022	–	(9,473)	223,304
At 1 August 2003	63,755	169,022	–	(9,473)	223,304
Loss for the year	–	–	–	(525)	(525)
Revaluation surplus (note 14(d))	–	–	315	–	315
Dividend approved in respect of the previous year (note 10(b))	–	(4,100)	–	–	(4,100)
At 31 July 2004	63,755	164,922	315	(9,998)	218,994

28 Reserves (continued)

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 a 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 1(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 the Company.

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

(iv) Distributable reserves

At 31 July 2004, in the opinion of the Directors, the reserves of the Company available for distribution to shareholders amounted to $218,994,000 (2003: $223,304,000) subject to the restrictions stated above.

29 Commitments

(a) Capital commitments

Capital commitments outstanding at 31 July 2004 not provided for in the financial statements are as follows:

	The Group	
	2004	2003
	$'000	$'000
Contracted for	**10,806**	64,423
Authorised but not contracted for	**9,895**	4,245
	20,701	68,668

29 Commitments (continued)

(b) Investment commitment

As at 31 July 2004, the Group had a commitment totalling $66,730,000 (2003: $66,871,000) 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 1 year to 30 years with an option to renew the lease upon expiry when all terms are renegotiated. Lease charges of $14,562,000 (2003: $11,652,000) 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	
	2004	2003
	$'000	$'000
Within 1 year	**10,804**	9,808
After 1 but within 5 years	**40,744**	48,877
After 5 years	**136,268**	197,002
	187,816	255,687

30 Contingent liabilities

(a) At 31 July 2004, contingent liabilities of the Group and the Company were as follows:

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Guarantees given to banks by the Company in respect of banking facilities utilised by certain wholly owned subsidiaries	**–**	–	**715,552**	503,762
Guarantees given to suppliers of credit facilities utilised by certain subsidiaries	**–**	–	**49,946**	58,208
Bills discounted with banks	**14,713**	11,406	**–**	–
	14,713	11,406	**765,498**	561,970

30 Contingent liabilities (continued)

(b) During the year ended 31 July 2004, a PRC custom authority carried out an examination of value-added tax and custom duties paid by one of the Group's subsidiary in Zhuhai for the period from April 2001 to September 2003. According to the result of examination, the subsidiary was requested to pay further value-added tax and custom duties, totalling to $1,497,000 (equivalent to RMB1,587,000) and $924,000 (equivalent to RMB979,000) respectively. These amounts have been recognised in the financial statements at 31 July 2004. The directors have performed an assessment as to whether any further liability may be incurred by this subsidiary in this regard. Based on this assessment, the directors are of the opinion that there is no further liability that would have significant financial impact on the Group.

31 Material related party transactions

(a) During the year ended 31 July 2004, significant transactions with related parties were as follows:

	The Group	
	2004	2003
	$'000	$'000
Sales to a shareholder	**2,996**	1,297
Sales to a company controlled by a shareholder	**199**	2,272
Sales to related companies of the former minority shareholder of Qingdao GS	**–**	175,918
Sales to a minority shareholder of VSA(HK)	**30,226**	1,415
	33,421	180,902
Interest paid and payable to a shareholder (note (i))	**2,045**	2,287
Sales of fixed assets to a shareholder	**–**	323
Royalty fee to a minority shareholder of VSA(HK)	**482**	–
Operating lease charges to a company controlled by a director	**2,049**	–
Purchase of fixed assets from a shareholder	**–**	678
Purchase of raw materials from related companies of the former minority shareholder of Qingdao GS	**–**	46,381
Purchase of construction materials from related companies of the former minority shareholder of Qingdao GS	**–**	35
Payment of electricity expenses to a related company of the former minority shareholder of Qingdao GS	**–**	4,119

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.

(Expressed in Hong Kong dollars)

31 Material related party transactions (continued)

(b) At 31 July 2004, amounts due from related parties included as part of trade and other receivables were as follows:

	The Group	
	2004	2003
	$'000	$'000
Amount due from a company controlled by a shareholder	**81**	2,838
Amount due from a minority shareholder of VSA(HK)	**284**	519
Amount due from a company controlled by a director	**2,757**	–
Amount due from a shareholder (note (i))	**1,177**	–
	4,299	3,357

(c) At 31 July 2004, amounts due to related parties were as follows:

	The Group			
	2004		2003	
	Trade and other payables	**Loan from a shareholder**	Trade and other payables	Loan from a shareholder
	$'000	**$'000**	$'000	$'000
Amount due to directors	**475**	**–**	–	–
Amount due to a company controlled by a director	**368**	**–**	–	–
Amount due to a minority shareholder of VSA(HK)	**538**	**–**	466	–
Amount due to a shareholder				
– current portion	**–**	**4,892**	2,108	4,892
– non-current portion (note (i))	**–**	**34,240**	–	39,132
	1,381	**39,132**	2,574	44,024

Note (i): Pursuant to the loan agreement entered into between the Group and the shareholder 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 (2003: 5%) on the outstanding balance. Interest paid and payable to the shareholder, amounted to $2,045,000 (2003: $2,287,000) for the year ended 31 July 2004.

At 31 July 2004, the amount due from a shareholder of $1,177,000 (2003: due to a shareholder of $2,180,000) which was included in "Other receivables, prepayment and deposits" (2003: "Accrued expenses and other payables") is unsecured, interest free and with no fixed repayment terms.

32 Post balance sheet event

On 8 September 2004, the Group entered into a conditional joint venture agreement with an independent third party for the cooperation and joint investment in the PRC ("Joint Venture"). Through this Joint Venture, two companies, namely Wako VS Nano Technologies (Hong Kong) Co., Ltd. and Wako VS Nano Technologies (Zhuhai) Co., Ltd. were established in which the Group has effective equity interests of 18.9% and 47.2% respectively. The total investment of the Group will be approximately US$1,861,000 (equivalent to approximately $14,500,000). The principal activities of the Joint Venture will be the manufacturing and selling of plastic parts and components for electronic products using spray painting technology.