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# Corporate Information

## BOARD OF DIRECTORS

### *Executive Directors*

Beh Kim Ling *(Chairman)*
Gan Sem Yam *(Managing Director)*
Gan Chu Cheng *(Finance Director)*
Zhang Pei Yu

### *Non-executive Director*

Gan Tiong Sia

### *Independent non-executive Directors*

Diong Tai Pew
Cheung Kwan Hung, Anthony
Tang Sim Cheow

## AUDIT COMMITTEE OF THE BOARD

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

## COMPANY SECRETARY

Felix Ooi Theng Kau, *CA, CPA, C.A.(M)*

## QUALIFIED ACCOUNTANT

Goh Thian Song, *FCCA*

## 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
P.O. Box 513 G.T.
2nd Floor, Strathvale House
North Church Street
George Town, Grand Cayman
Cayman Islands
British West Indies

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th 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

# Corporate Information

## MEMBERS OF THE GROUP

**V.S. International Industry Limited**
P.O. Box 957, Offshore Incorporations Centre
Road Town, Tortola
British Virgin Islands

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

**V.S. Corporation (Hong Kong) Co., Limited ("VSHK")**
**VSA Holding Hong Kong Co., Limited**
**V.S. Capital Holdings Limited**
41st Floor, Jardine House
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Tel. No: (852) 2511 9002
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Bao An District
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Guangdong Province
The People's Republic of China
Tel. No: (86) 755 2729 9480
Fax No: (86) 755 2729 7683/9484

**V.S. Industry (Shenzhen) Co., Ltd.**
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Bao An District
518104 Shenzhen
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The People's Republic of China
Tel. No: (86) 755 2729 9480
Fax No: (86) 755 2724 2763

**V.S. Technology Industry Park (Zhuhai) Co., Ltd.**
**V.S. Industry (Zhuhai) Co., Ltd.**
**VSA Electronics Technology (Zhuhai) Co., Ltd.**
Beisha Village, Tangjia Wan Town
Xiangzhou District
519085 Zhuhai
Guangdong Province
The People's Republic of China
Tel. No: (86) 756 3392 338
Fax No: (86) 756 3385 691/681

**Qingdao GS Electronics Plastic Co., Ltd.**
**Haivs Industry (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
Fax No: (86) 532 6762 233

# 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 2005, 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 2005**
*(Expressed in Hong Kong dollars)*

| | Note | Six months ended 31 January 2005 $'000 | 2004 $'000 |
|---|---|---|---|
| **Turnover** | 2 | **619,721** | 519,282 |
| Cost of sales | | **(521,703)** | (445,826) |
| | | **98,018** | 73,456 |
| Other net losses | | **(5,582)** | (1,366) |
| Distribution expenses | | **(12,264)** | (9,983) |
| Administrative expenses | | **(40,762)** | (36,724) |
| **Profit from operations** | | **39,410** | 25,383 |
| Finance costs | 3(a) | **(24,554)** | (20,014) |
| Non-operating expense | | **(318)** | (1,175) |
| Share of losses of associates | | **(403)** | – |
| **Profit from ordinary activities before taxation** | 3 | **14,135** | 4,194 |
| Income tax | 4(a) | **(2,360)** | (2,139) |
| **Profit from ordinary activities after taxation** | | **11,775** | 2,055 |
| Minority interests | | **(808)** | (97) |
| **Profit attributable to shareholders** | | **10,967** | 1,958 |
| **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 | | **1.34 cents** | 0.24 cents |
| – Diluted | | **N/A** | N/A |

The notes on pages 10 to 27 form part of this interim financial report.

# Consolidated Balance Sheet (Unaudited)

at 31 January 2005

*(Expressed in Hong Kong dollars)*

| | Note | At 31 January 2005 $'000 | At 31 July 2004 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | 7 | **835,379** | 870,904 |
| Construction in progress | 8 | **16,531** | 17,300 |
| Goodwill | 9 | **2,309** | 2,446 |
| Interest in associates | 10 | **12,215** | – |
| | | **866,434** | 890,650 |
| **Current assets** | | | |
| Inventories | 11 | **158,508** | 162,213 |
| Trade and other receivables | 12 | **258,343** | 250,440 |
| Deposits with banks | 13 | **156,080** | 135,606 |
| Cash and cash equivalents | 14 | **91,517** | 104,416 |
| | | **664,448** | 652,675 |
| **Current liabilities** | | | |
| Trade and other payables | 15 | **344,763** | 329,252 |
| Bank loans and overdrafts | 16 | **329,318** | 337,552 |
| Current portion of obligations under finance leases | 17 | **13,815** | 16,861 |
| Loan from a substantial shareholder | 23(b) | **4,892** | 4,892 |
| Taxation | 4(b) | **961** | 170 |
| | | **693,749** | 688,727 |
| **Net current liabilities** | | **(29,301)** | (36,052) |
| **Total assets less current liabilities** | | **837,133** | 854,598 |

# Consolidated Balance Sheet (Unaudited) (Continued)

at 31 January 2005
*(Expressed in Hong Kong dollars)*

| | Note | At 31 January 2005 $'000 | At 31 July 2004 $'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Non-current portion of bank loans | 16 | 363,373 | 371,828 |
| Non-current portion of obligations under finance leases | 17 | 14,443 | 24,535 |
| Loan from a substantial shareholder | 23(b) | 31,794 | 34,240 |
| Other payables (non-current) | 18 | 10,969 | 14,955 |
| Deferred tax liabilities | 4(c) | 16,482 | 16,643 |
| | | 437,061 | 462,201 |
| **Minority interests** | | 4,972 | 4,164 |
| **NET ASSETS** | | 395,100 | 388,233 |
| **CAPITAL AND RESERVES** | | | |
| **Share capital** | 19 | 41,000 | 41,000 |
| **Reserves** | 20 | 354,100 | 347,233 |
| | | 395,100 | 388,233 |

The notes on pages 10 to 27 form part of this interim financial report.

# Consolidated Statement of Changes in Equity (Unaudited)

for the six months ended 31 January 2005

*(Expressed in Hong Kong dollars)*

| | Note | Six months ended 31 January 2005 $'000 | 2004 $'000 |
|---|---|---|---|
| **Shareholders' equity at 1 August** | | **388,233** | 385,392 |
| Dividend approved and paid during the period | 5(b) | **(4,100)** | (4,100) |
| Net profit for the period | 20 | **10,967** | 1,958 |
| **Shareholders' equity at 31 January** | | **395,100** | 383,250 |

The notes on pages 10 to 27 form part of this interim financial report.

# Condensed Consolidated Cash Flow Statement (Unaudited)

for the six months ended 31 January 2005

*(Expressed in Hong Kong dollars)*

| | | Six months ended 31 January | |
|---|---|---|---|
| | | **2005** | 2004 |
| | Note | **$'000** | $'000 |
| **Cash generated from/(used in) operations** | | **63,361** | (13,319) |
| **Income tax paid by the subsidiaries in the People's Republic of China** | | **(1,730)** | (2,546) |
| **Net cash generated from/(used in) operating activities** | | **61,631** | (15,865) |
| **Net cash used in investing activities** | | **(13,603)** | (172,840) |
| **Net cash (used in)/generated from financing activities** | | **(59,353)** | 89,167 |
| **Net decrease in cash and cash equivalents** | | **(11,325)** | (99,538) |
| **Cash and cash equivalents at 1 August** | | **73,850** | 170,149 |
| **Cash and cash equivalents at 31 January** | | **62,525** | 70,611 |
| **Analysis of the balances of cash and cash equivalents:** | | | |
| Cash and cash equivalents | 14 | **91,517** | 100,726 |
| Bank overdrafts | 16(a) | **(28,992)** | (30,115) |
| | | **62,525** | 70,611 |

During the period, certain fixed assets of the Group with a net book value totalling $10,561,000 were transferred to an associate as part of the Group's capital injection therein.

*(Expressed in Hong Kong dollars)*

## 1 Basis of preparation

**(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 Institute of Certified Public Accountants ("HKICPA"). 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 25 "Interim financial reporting" issued by the HKICPA.

The financial information relating to the financial year ended 31 July 2004 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 2004 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 September 2004.

The same accounting policies adopted in the annual financial statements for the year ended 31 July 2004 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 an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 July 2004.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Company has not early adopted these new HKFRSs in the interim financial report for the six months ended 31 January 2005. The Company has already commenced an assessment of the impact of these new HKFRSs but is not in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

# Notes on the Interim Financial Report (Unaudited)

## 1 Basis of preparation (continued)

(b) The Group established certain associates during the six months ended 31 January 2005 and the following accounting policy in respect of the Group's interest in associates has been adopted.

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the interim financial report under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post acquisition results of the associate for the period, including any amortisation of positive or negative goodwill charged or credited during the period. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Unrealised profits and losses resulting from transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

## 2 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 Six months ended 31 January | | Assembling of electronic products Six months ended 31 January | | Mould design and fabrication Six months ended 31 January | | Consolidated Six months ended 31 January | |
|---|---|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Turnover from external customers | **489,713** | 364,170 | **89,081** | 131,926 | **40,927** | 23,186 | **619,721** | 519,282 |
| Segment results | **58,290** | 45,647 | **7,416** | 7,128 | **10,522** | 2,815 | **76,228** | 55,590 |
| Unallocated operating income and expenses | | | | | | | **(36,818)** | (30,207) |
| Profit from operations | | | | | | | **39,410** | 25,383 |
| Finance costs | | | | | | | **(24,554)** | (20,014) |
| Non-operating expense | | | | | | | **(318)** | (1,175) |
| Share of losses of associates | | | | | | | **(403)** | – |
| Income tax | | | | | | | **(2,360)** | (2,139) |
| Minority interests | | | | | | | **(808)** | (97) |
| Profit attributable to shareholders | | | | | | | **10,967** | 1,958 |
| Depreciation for the period | **25,108** | 20,437 | **7,365** | 5,172 | **2,867** | 2,956 | **35,340** | 28,565 |
| Unallocated depreciation and amortisation | | | | | | | **5,080** | 4,703 |
| | | | | | | | **40,420** | 33,268 |

## 2 Segment reporting (continued)

### (b) Geographical segments

The Group's business participates in five (2004: four) 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 expenditure are based on the geographical location of the assets. All segment assets and capital expenditure are in the People's Republic of China ("PRC").

Revenue from external customers is analysed as follows:

| | Six months ended 31 January 2005 $'000 | 2004 $'000 |
|---|---|---|
| PRC (other than Taiwan and Hong Kong) | **405,238** | 314,660 |
| Hong Kong | **132,815** | 155,782 |
| South East Asia | **30,234** | 25,521 |
| Northern Asia | **23,166** | 21,859 |
| Europe | **22,217** | – |
| Others | **6,051** | 1,460 |
| | **619,721** | 519,282 |

## 3 Profit from ordinary activities before taxation

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

| | Six months ended 31 January 2005 $'000 | 2004 $'000 |
|---|---|---|
| **(a) Finance costs:** | | |
| Interest on bank advances and other borrowings repayable within five years | **16,075** | 12,282 |
| Interest on bank advances and other borrowings repayable after more than five years | **415** | 2,880 |
| Interest on other loans | **978** | 1,059 |
| Finance charges on obligations under finance leases | **1,067** | 641 |
| Total borrowing costs | **18,535** | 16,862 |
| Less: Borrowing costs capitalised as construction in progress* | **(523)** | (387) |
| | **18,012** | 16,475 |
| Exchange losses | **5,299** | 2,413 |
| Other charges | **1,243** | 1,126 |
| | **24,554** | 20,014 |

* The borrowing costs have been capitalised at an average cost of borrowings to the Group of 4.95% (2004: 4.67%) per annum for construction in progress.

## 3 Profit from ordinary activities before taxation (continued)

| | Six months ended 31 January | |
|---|---|---|
| | **2005** | 2004 |
| | **$'000** | $'000 |
| **(b) Other items:** | | |
| Processing fees | **7,930** | 16,063 |
| Depreciation | **40,283** | 33,131 |
| Operating lease charges in respect of properties | **6,187** | 5,163 |
| Amortisation of goodwill | **137** | 137 |
| Provision for doubtful debts charged / (written back) | **1,080** | (407) |
| Provision for slow moving inventories charged / (written back) | **1,700** | (476) |
| Cost of business relocation* | **9,854** | 4,042 |

* The Group has relocated certain of its business during the period. Costs associated with the relocation totalled $9,854,000 (2004: $4,042,000), of which $9,536,000 (2004: $2,867,000) arose from the loss on disposal of certain fixed assets and $318,000 (2004: $1,175,000) arose from compensation paid for early termination of leases which were recorded in "Other net losses" and "Non-operating expense" respectively.

## 4 Income tax

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

| | Six months ended 31 January | |
|---|---|---|
| | **2005** | 2004 |
| | **$'000** | $'000 |
| **Current tax – PRC** | | |
| Tax for the period | **2,521** | 2,298 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(161)** | (159) |
| | **2,360** | 2,139 |

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 2005 and 2004.

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 that are granted certain tax relief, under which they are entitled to PRC 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%.

## 4 Income tax (continued)

**(a)** Income tax in the consolidated income statement (unaudited) represents: (continued)

Effective from 1 January 2005, two subsidiaries of the Company were in their fifth profit making year. Provision for PRC income tax of these subsidiaries was calculated at 7.5% of the estimated assessable profits for the six months ended 31 January 2005. Other 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 2005.

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.

**(b)** Income tax in the consolidated balance sheet (unaudited) represents:

| | **At 31 January 2005 $'000** | At 31 July 2004 $'000 |
|---|---|---|
| PRC income tax payable | **961** | 170 |

**(c)** Deferred taxation liability arose from the 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 2005 (2004: Nil).

### (b) Final dividend

| | **Six months ended 31 January** | |
|---|---|---|
| | **2005 $'000** | 2004 $'000 |
| Final dividend in respect of the previous financial year, approved and paid during the period, of 0.50 cents (2003: 0.50 cents) 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 $10,967,000 (2004: $1,958,000) and the weighted average number of 820,000,000 (2004: 820,000,000) shares in issue during the six months ended 31 January 2005.

### (b) Diluted earnings per share

There were no potential dilutive ordinary shares in existence during the six months ended 31 January 2005 and 2004.

## 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 2004 | 334,900 | 25,978 | 652,187 | 33,625 | 20,564 | 1,067,254 |
| Transfer from construction in progress (note 8) | 18,546 | – | 699 | 462 | – | 19,707 |
| Additions | 1,156 | – | 22,780 | 1,094 | – | 25,030 |
| Disposals | (7,994) | (10,277) | (42,967) | (5,833) | (263) | (67,334) |
| At 31 January 2005 | 346,608 | 15,701 | 632,699 | 29,348 | 20,301 | 1,044,657 |
| **Representing:** | | | | | | |
| Cost | 10,552 | 15,701 | 632,699 | 29,348 | 20,301 | 708,601 |
| Valuation | 336,056 | – | – | – | – | 336,056 |
| | 346,608 | 15,701 | 632,699 | 29,348 | 20,301 | 1,044,657 |
| **Accumulated depreciation:** | | | | | | |
| At 1 August 2004 | – | 11,628 | 160,540 | 13,852 | 10,330 | 196,350 |
| Charge for the period | 3,493 | 944 | 31,392 | 2,865 | 1,589 | 40,283 |
| Written back on disposals | (125) | (6,771) | (15,181) | (5,041) | (237) | (27,355) |
| At 31 January 2005 | 3,368 | 5,801 | 176,751 | 11,676 | 11,682 | 209,278 |
| **Net book value:** | | | | | | |
| At 31 January 2005 | 343,240 | 9,900 | 455,948 | 17,672 | 8,619 | 835,379 |
| At 31 July 2004 | 334,900 | 14,350 | 491,647 | 19,773 | 10,234 | 870,904 |

## 7 Fixed assets (continued)

At 31 January 2005, certain fixed assets had been pledged as security for the bank loans (note 16(b)).

The Group leases certain production plant and machinery under finance leases expiring in one to three years. At the end of the lease terms 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 these plant and machinery of the Group held under finance leases was $51,932,000 at 31 January 2005 (31 July 2004: $62,856,000).

## 8 Construction in progress

| | At 31 January 2005 $'000 | At 31 July 2004 $'000 |
|---|---|---|
| Balance at 1 August | 17,300 | 12,294 |
| Additions | 18,938 | 32,047 |
| Transfer to fixed assets (note 7) | (19,707) | (27,041) |
| Balance at 31 January 2005/31 July 2004 | 16,531 | 17,300 |

Construction in progress at 31 January 2005 mainly represents costs of factory buildings and production plants under construction in Zhuhai.

## 9 Goodwill

| | At 31 January 2005 $'000 | At 31 July 2004 $'000 |
|---|---|---|
| **Cost:** | | |
| At beginning and end of period | 2,743 | 2,743 |
| **Accumulated amortisation:** | | |
| At beginning of period | 297 | 23 |
| Amortisation for the period | 137 | 274 |
| At end of period | 434 | 297 |
| **Carrying amount:** | | |
| At end of period | 2,309 | 2,446 |

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

## 10 Interest in associates

| | At 31 January 2005 $'000 | At 31 July 2004 $'000 |
|---|---|---|
| Share of net assets | 12,215 | – |

Set out below are the particulars of the associates:

| Name of associate | Form of business structure | Place of incorporation | Place of operation | Particulars of issued and paid up capital | Proportion of ownership interest: Group's effective interest | Proportion of ownership interest: Held by a subsidiary | Principal activity |
|---|---|---|---|---|---|---|---|
| Wako VS Nano Technologies (Zhuhai) Co., Ltd. ("Wako VS Zhuhai") | Sino-foreign equity joint venture | PRC | PRC | Registered capital of US$3,900,000 | 47.2% (note i) | 35.1% | Manufacturing and selling of plastic parts and components of electronic products using spray painting technology |
| Wako VS Nano Technologies (Hong Kong) Co., Ltd. ("Wako VS HK") | Limited liability company | Hong Kong | PRC | 2,600,000 ordinary shares of US$1 each | 18.9% (note ii) | 18.9% | Investment holding |

Notes:

(i) Wako VS HK holds a direct equity interest of 64.1% in Wako VS Zhuhai. Hence, the Group's effective equity interest in Wako VS Zhuhai is 47.2%.

(ii) Although the Group is only holding an 18.9% equity interest in Wako VS HK, by virtue of the significant influence over its management, including participation in the financial and operating policy decisions, Wako VS HK is considered as an associate of the Group.

## 11 Inventories

| | At 31 January 2005 $'000 | At 31 July 2004 $'000 |
|---|---|---|
| Raw materials | 66,703 | 60,554 |
| Work-in-progress | 34,051 | 42,157 |
| Finished goods | 57,754 | 59,502 |
| | 158,508 | 162,213 |

At 31 January 2005, inventories stated at net realisable value amounted to $2,286,000 (31 July 2004: $3,526,000).

## 12 Trade and other receivables

| | At 31 January 2005 $'000 | At 31 July 2004 $'000 |
|---|---|---|
| Trade receivables | 190,172 | 180,115 |
| Bills receivable | 24,183 | 34,973 |
| Other receivables, prepayments and deposits | 43,988 | 35,352 |
| | 258,343 | 250,440 |

Certain bills receivables have been pledged as security for banking facilities at 31 January 2005 (note 15(b)).

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:

| | At 31 January 2005 $'000 | At 31 July 2004 $'000 |
|---|---|---|
| Within 30 days | 104,906 | 91,506 |
| Over 30 days but within 90 days | 85,707 | 86,580 |
| Over 90 days and less than one year | 23,742 | 37,002 |
| | 214,355 | 215,088 |

## 13 Deposits with banks

| | At 31 January 2005 $'000 | At 31 July 2004 $'000 |
|---|---|---|
| Deposits with banks with original maturity date over three months | **1,887** | 58,491 |
| Fixed deposits with banks | **154,193** | 77,115 |
| | **156,080** | 135,606 |

The above fixed deposits with banks have been pledged to banks as security for the bank loans and overdraft (note 16(b)), and other banking facilities (note 15(b)).

## 14 Cash and cash equivalents

| | At 31 January 2005 $'000 | At 31 July 2004 $'000 |
|---|---|---|
| Deposits with banks with original maturity date within three months | **–** | 38,222 |
| Cash at bank and in hand | **91,517** | 66,194 |
| | **91,517** | 104,416 |

Cash and cash equivalents are denominated in:

| | At 31 January 2005 $'000 | At 31 July 2004 $'000 |
|---|---|---|
| Hong Kong dollars | **10,043** | 8,918 |
| Renminbi ("RMB") | **21,138** | 54,398 |
| United States ("US") dollars | **60,336** | 41,100 |
| | **91,517** | 104,416 |

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.

## 15 Trade and other payables

| | At 31 January 2005 $'000 | At 31 July 2004 $'000 |
|---|---|---|
| Trade payables | **142,776** | 145,618 |
| Bills payable | **89,483** | 29,247 |
| Accrued expenses and other payables | **112,504** | 154,387 |
| | **344,763** | 329,252 |

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

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

| | At 31 January 2005 $'000 | At 31 July 2004 $'000 |
|---|---|---|
| Due within 30 days or on demand | **59,668** | 109,904 |
| Due after 30 days but within 90 days | **154,282** | 48,787 |
| Due after 90 days but within 180 days | **18,309** | 16,174 |
| | **232,259** | 174,865 |

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

| | At 31 January 2005 $'000 | At 31 July 2004 $'000 |
|---|---|---|
| Pledged fixed deposits with banks (note 13) | **77,358** | 450 |
| Bills receivable (note 12) | **13,068** | 28,154 |
| | **90,426** | 28,604 |

## 16 Bank loans and overdrafts

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

| | At 31 January 2005 $'000 | At 31 July 2004 $'000 |
|---|---|---|
| **Current:** | | |
| Overdrafts | | |
| – secured | 28,992 | 29,008 |
| – unsecured | – | 1,558 |
| | 28,992 | 30,566 |
| Bank loans | | |
| – secured | 156,490 | 142,563 |
| – unsecured | 143,836 | 164,423 |
| | 300,326 | 306,986 |
| | 329,318 | 337,552 |
| **Non-current:** | | |
| Bank loans | | |
| – secured | 322,786 | 331,241 |
| – unsecured | 40,587 | 40,587 |
| | 363,373 | 371,828 |
| | 692,691 | 709,380 |

(b) Banking facilities of $510,558,000 (31 July 2004: $528,698,000), including overdrafts and bank loans, are secured by the following assets of the Group:

| | At 31 January 2005 $'000 | At 31 July 2004 $'000 |
|---|---|---|
| Trade receivables | – | 9,594 |
| Fixed deposits (note 13) | 76,828 | 76,665 |
| Motor vehicles with aggregate carrying value (note 7) | 1,355 | 2,599 |
| Land and buildings with aggregate carrying value (note 7) | 208,886 | 178,791 |
| Plant and machinery with aggregate carrying value (note 7) | 151,845 | 33,653 |
| | 438,914 | 301,302 |

Such banking facilities were utilised to the extent of $508,268,000 (31 July 2004: $502,812,000) at 31 January 2005.

## 17 Obligations under finance leases

At 31 January 2005, the Group had obligations under finance leases repayable as follows:

| | At 31 January 2005 | | | At 31 July 2004 | | |
|---|---|---|---|---|---|---|
| | 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 | 13,815 | 932 | 14,747 | 16,861 | 1,449 | 18,310 |
| After 1 year but within 2 years | 11,729 | 329 | 12,058 | 14,346 | 736 | 15,082 |
| After 2 years but within 5 years | 2,714 | 39 | 2,753 | 10,189 | 218 | 10,407 |
| | 14,443 | 368 | 14,811 | 24,535 | 954 | 25,489 |
| | 28,258 | 1,300 | 29,558 | 41,396 | 2,403 | 43,799 |

The Company has given corporate guarantees in respect of these lease obligations.

## 18 Other payables (non-current)

Other payables represent amounts due to suppliers in connection with the purchase of fixed assets. The Group is granted a credit term of 15 to 24 months from the date of purchase of certain fixed assets. The amounts are expected to be settled after 1 year but within 2 years.

## 19 Share capital

| | At 31 January 2005 $'000 | At 31 July 2004 $'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 |

## 19 Share capital (continued)

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 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 January 2005, no option had been granted to any such eligible participants under the Scheme.

## 20 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 2004 | 63,755 | 35,800 | 304 | 93,620 | 13,015 | 140,739 | 347,233 |
| Profit for the period | – | – | – | – | – | 10,967 | 10,967 |
| Dividend approved in respect of the previous year (note 5(b)) | – | (4,100) | – | – | – | – | (4,100) |
| Realisation of revaluation reserve | – | – | – | (914) | – | 914 | – |
| Appropriations | – | – | – | – | 3,980 | (3,980) | – |
| At 31 January 2005 | 63,755 | 31,700 | 304 | 92,706 | 16,995 | 148,640 | 354,100 |

## 21 Commitments

### (a) Capital commitments

Capital commitments outstanding at 31 January 2005 not provided for in the interim financial report were as follows:

| | **At 31 January 2005 $'000** | At 31 July 2004 $'000 |
|---|---|---|
| Contracted for | **2,634** | 10,806 |
| Authorised but not contracted for | **3,432** | 9,895 |
| | **6,066** | 20,701 |

## 21 Commitments (continued)

### (b) 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 $6,187,000 (2004: $5,163,000) were recognised as expenses in the consolidated income statement (unaudited) 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:

| | **At 31 January 2005 $'000** | At 31 July 2004 $'000 |
|---|---|---|
| Within 1 year | **15,059** | 10,804 |
| After 1 year but within 5 years | **23,094** | 40,744 |
| After 5 years* | **–** | 136,268 |
| | **38,153** | 187,816 |

* The Group paid a compensation of $318,000 for early termination of leases (note 3(b)).

## 22 Contingent liabilities

As at 31 January 2005, contingent liabilities of the Group were as follows:

| | **At 31 January 2005 $'000** | At 31 July 2004 $'000 |
|---|---|---|
| Bills discounted with banks with recourse | **15,819** | 14,713 |

## 23 Material related party transactions

**(a)** During the six months ended 31 January 2005, significant transactions with related parties were as follows:

| | Six months ended 31 January | |
|---|---|---|
| | **2005** | 2004 |
| | **$'000** | $'000 |
| Sales to an associate | **1,397** | – |
| Sales to a substantial shareholder | **1** | 1,257 |
| Sales to a company controlled by a substantial shareholder | **75** | 211 |
| Sales to a minority shareholder of VSA Holding Hong Kong Co., Limited ("VSA (HK)") | **17,773** | 13,080 |
| | **19,246** | 14,548 |
| Sales of fixed assets to an associate | **15,854** | – |
| Interest paid and payable to a substantial shareholder | **978** | 1,059 |
| Royalty fee paid to a minority shareholder of VSA (HK) | **315** | 204 |
| Operating lease charges paid to a company controlled by a director | **3,226** | 385 |
| Rental income received from an associate | **257** | – |
| Refund of deposit by a company controlled by a director on behalf of the Zhuhai Land Resources Administration Bureau | **4,159** | – |

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.

**(b)** At 31 January 2005, the outstanding balances arising from the above transactions were as follows:

| | **At 31 January 2005** | At 31 July 2004 |
|---|---|---|
| | **$'000** | $'000 |
| **Receivables:** | | |
| Amount due from a company controlled by a substantial shareholder | **–** | 81 |
| Amount due from a minority shareholder of VSA (HK) | **3,387** | 284 |
| Lease prepayment to a company controlled by a director | **1,646** | 2,757 |
| Amount due from a substantial shareholder | **–** | 1,177 |
| Amount due from an associate | **10,340** | – |
| | **15,373** | 4,299 |

## 23 Material related party transactions (continued)

**(b)** At 31 January 2005, the outstanding balances arising from the above transactions were as follows: (continued)

| | At January 2005 | | At 31 July 2004 | |
|---|---|---|---|---|
| | Trade and other payables $'000 | Loan from a substantial shareholder $'000 | Trade and other payables $'000 | Loan from a substantial shareholder $'000 |
| **Payables:** | | | | |
| Amount due to directors | 1,532 | – | 475 | – |
| Amount due to a company controlled by a director | – | – | 368 | – |
| Amount due to a minority shareholder of VSA (HK) | 384 | – | 538 | – |
| Amount due to a substantial shareholder | | | | |
| – current portion (note i) | 1,930 | 4,892 | – | 4,892 |
| – non-current portion (note i) | – | 31,794 | – | 34,240 |
| | 3,846 | 36,686 | 1,381 | 39,132 |

Note (i): Pursuant to the loan agreement entered into between the Group and the then holding company, V.S. Industry Berhad (a company incorporated in Malaysia) dated 20 January 2002, the loan, which amounted to US$6,279,000 (equivalent to $48,916,000) is repayable in twenty equal consecutive half-yearly instalments on 1 February and 1 August each year commencing on August 2002. The loan is unsecured and carries interest at 5% per annum (2004: 5%) on the outstanding balance.

## 24 Comparative figures

In order to have a better business analysis, certain comparative figures in the segment reporting and the presentation of non-operating expense have been reclassified to conform with the current period's presentation.

## 25 Approval of interim financial report

The interim financial report was approved by the Board on 29 March 2005.

## OVERVIEW

The consolidation and streamlining programs that took place during the previous financial year have created synergistic effect and generated fruitful results to the Group in the six months ended 31 January 2005.

During the period under review, the Group recorded satisfactory turnover of HK$619.72 million, representing a rise of 19.34% as compared to that of HK$519.28 million for the last corresponding period. The Group's gross profit margin had also registered a promising growth of 11.80% to stand at 15.82% for the period under review.

Profit attributable to shareholders had soared from HK$1.96 million in the last corresponding period to HK$10.97 million for the period under review despite that a cost of business relocation of HK$9.85 million was incurred.

## BUSINESS AND FINANCIAL REVIEW

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

### *Plastic injection and moulding business*

The Group's principal business, plastic injection and moulding business continued to record positive growth during the period under review. Sales generated from this business segment had boosted to HK$489.71 million, as compared to HK$364.17 million for the last corresponding period. Its contribution to the Group's turnover leapt from 70.13% to 79.02% and this increase was largely derived from the operations in Zhuhai which are capable of handling customers' need for high volume production ramp. The efforts in broadening products range had helped to enhance the utilisation of production facilities which, in turn, boosted the sales performance of the Group. The Group had also successfully spanned its customer base from Asia and America to Europe during the six months period ended 31 January 2005.

In terms of segment result, the plastic injection and moulding business had registered improvement from HK$45.65 million for the last corresponding period to HK$58.29 million for the period under review. Contribution margin had dropped 5.03% against the last corresponding period as this segment had incurred more spending in developing sales network and capturing new markets during the period under review as a course to optimise the utilisation of its current production facilities.

Price hikes of plastic resin were experienced during the period under review but this segment result was not significantly affected as the Group managed to shift the impact substantially to its customers.

### *Assembling of electronic products business*

Turnover for the assembling of electronic products business had reduced by 32.48% against the last corresponding period. This was mainly due to the fact that the Group was still in the process of securing potential customers to mitigate the impact arising from the significant reduction in sales orders from certain major customers of the Group in the semi assembly of audio products.

Also included in this segment were fees generated from the processing of printed circuit boards for electronic products and its related electronic products using surface mounting technologies. Contrary to the reduced sales from assembling of electronic products, the processing of printed circuit board business achieved positive growth of 36.16% as compared to the last corresponding period, to register sales of HK$17.81 million during the six months period ended 31 January 2005.

Despite a decline in sales performance, this segment had achieved an overall improved contribution margin of 8.33% during the period under review as compared to 5.40% for the last corresponding period. This was mainly attributable to the increase in the weighting of fees generated from processing of printed circuit boards which carried higher margins against the total turnover of this segment during the period under review. Furthermore, the Group had expanded its products range and at the same time, reduced the composition of thinner margin products.

### *Mould design and fabrication business*

The investment in sophisticated facilities for this business segment in the past years had brought about increased returns to the Group during the period under review. Sales generated from the mould design and fabrication business showed a sharp rise of 76.52% and accounted for 6.60% of the total sales of the Group during the period under review.

This segment had also recorded higher contribution margin of 25.71% during the period under review as compared to 12.14% for the last corresponding period. Significant increase in sales was one of the key factors contributing to such an improvement. This also demonstrated that the move in consolidating these operations in Zhuhai in the previous financial year was a success as internal resources were better deployed.

### *Other net losses*

As compared against the last corresponding period, the Group recorded higher other net losses of HK$5.58 million as a result of a loss on disposal of fixed assets totaling HK$9.54 million during the period under review. The loss was principally due to the close down of a major part of a factory of the Group in Shenzhen after the Group relocated the assembly and tooling businesses of the factory to Zhuhai completely.

### *Distribution and administrative expenses*

During the period under review, the Group recorded total distribution expenses of HK$12.26 million, representing an increase of 22.85% as compared to that of the last corresponding period. The increase was mainly related to the manifested growth in sales. The expenses as a percentage over turnover continued to be kept below 2.00%.

Administrative expenses for the period under review had also recorded an increase of 11.00% compared to that of the last corresponding period, to register at HK$40.76 million. The increase was in line with the overall expansion in the business activities of the Group.

### *Finance costs*

During the period under review, the Group incurred higher finance costs which amounted to HK$24.55 million as compared to HK$20.01 million for the last corresponding period. The key contributor to the increase was a net exchange loss of HK$5.30 million incurred during the period under review as compared to HK$2.41 million in the last corresponding period. The net exchange loss for the period under review largely resulted from the acquisition of machinery and equipment that were denominated in Japanese Yen which had appreciated against Hong Kong dollars.

### *Non-operating expense*

The Group had incurred a non-operating expense of HK$0.32 million during the period under review. This expense was in respect of a payment made to the landlord of a factory in Shenzhen as compensation for an early lease termination.

### *Share of losses of associates*

During the period under review, the Group established two associated companies namely, Wako VS Zhuhai and Wako VS HK at a total investment cost of HK$14.52 million.

Wako VS Zhuhai was principally engaged in the spray painting business. Wako VS Zhuhai had not operated in full swing during the period under review as it had placed much emphasis in aligning its production processes and manning while developing potential customers through producing mock-up samples. As for Wako VS HK, it was established principally for investment holding purpose and had very minimal dealings during the period under review. Since the companies' inception in September 2004, the Group had recorded share of losses of associates of HK$0.40 million.

# Future Prospects

The initiatives taken in the past year have proven to be successful in steering business growth and stimulating better operation efficiency of the Group. Both sales and profits of the Group have shown satisfactory improvements.

The plastic injection and moulding business of the Group, which has demonstrated steady growth in the past few years, is envisaged to continue its leading position in the year to come. The Group would continue to act aggressively in expanding its business network and capturing new markets. One proven effort is that the Group has recently solicited a television set project which is expected to generate handsome revenue in the next financial year ending 31 July 2006. In anticipation of the great potential of this project and the future growth of the other existing customers, the Group has set to establish a spray room that could cater for the paint spraying of larger size products and build an additional warehouse in Zhuhai. The estimated capital investment in the spray room and warehouse would be in the region of HK$18 million. Overall, the Directors believe that the plastic injection and moulding business still has enormous room for expansion and will closely monitor the increasing resin price that was so far managed to be shifted significantly to the major customers of the Group.

Another business segment which had recorded promising results during the period under review was the mould design and fabrication business. This segment had continuously been recording double digits growth in sales since financial year 2003. It is anticipated that this segment would continue to achieve remarkable growth in the second half of the current financial year and become a major sale and profit contributor of the Group.

As for the assembling of electronic products business, its sales performance had dropped drastically in recent years. The Group has been making full effort to secure potential customers and make product mix adjustments to cushion the impact from such reduction and the Directors are confident that the efforts would bear fruits over time. On the other hand, the processing of printed circuit board business of the Group, which had continually been achieving growth since its inception at the end of 2002, is expected to sustain a positive growth in the remainder of the financial year.

Several initiatives aiming at creating better synergies between our various facilities and expanding our customer base would also be continued so that the Group could stay competitive and accomplish its business targets. We would align our strategies to become an integrated electronics manufacturing service provider and strive to capture the growing business opportunities of the global outsourcing market.

Barring any material change in the macro-economic environment, the Directors are optimistic that the Group would achieve better results in this financial year.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 January 2005, the Group had cash and bank deposits of HK$247.60 million (31 July 2004: HK$240.02 million) of which HK$154.19 million (31 July 2004: HK$77.12 million) were pledged to banks for banking facilities granted to the Group. The cash and bank deposits were denominated in US dollars, RMB and Hong Kong dollars which represented 55.40%, 40.55% and 4.05% 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 2005, the Group had unutilised banking facilities of HK$33.93 million.

The Group's total borrowings as at 31 January 2005 amounted to HK$757.64 million (31 July 2004: HK$789.91 million) which included a substantial shareholder's loan of HK$36.69 million (31 July 2004: HK$39.13 million). The remaining balance of borrowings was mainly for business expansion, capital expenditure and working capital purposes with interest rates ranging from 2.22% per annum to 6.59% per annum. The amounts of borrowings denominated in US dollars, RMB and Hong Kong dollars were the equivalent of HK$269.40 million, HK$394.09 million and HK$94.15 million, respectively.

The Group's gearing ratio, represented by the interest bearing borrowings over the Group's total asset as at 31 January 2005, was 49.49% (31 July 2004: 51.18%). The improved gearing ratio was principally due to the Group trimming down its capital expenditure, coupled with the overall improvement in the financial results of the Group during the period under review. The Directors would 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 2005, certain assets of the Group with aggregate carrying value of HK$529.34 million (31 July 2004: HK$329.91 million) were pledged to secure banking facilities granted to the Group.

## CONTINGENT LIABILITIES

The Group's contingent liabilities as at 31 January 2005, which consisted of bills discounted with banks on recourse basis, amounted to HK$15.82 million (31 July 2004: HK$14.71 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 as most of its transactions, including borrowings, were denominated in US dollars and RMB, which have a narrow exchange rate fluctuation band against Hong Kong dollars.

Owing mainly to the fluctuations in Japanese Yen, the Group reported a net exchange loss of HK$5.30 million during the period under review, against a net exchange loss of HK$2.41 million in the last corresponding period.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 January 2005, the Group had a total of 6,676 employees (31 July 2004: 5,846). On top of that, 824 (31 July 2004: 1,381) persons were engaged by the Providers 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 fees paid to the Providers under the processing arrangements) amounted to HK$58.95 million during the period under review, representing a marginal increase of 2.41% as compared to that of the last corresponding period. Remuneration packages are maintained at competitive level and the Group's employees are rewarded on a performance basis.

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 laws, rules and regulations of the PRC.

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 (each a "Share") of HK$0.05 each in the share capital of the Company. The subscription price, exercisable period and the maximum number of options to be granted are determined in accordance with the terms of the Scheme. During the period under review, no options were granted under the Scheme.

## DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 January 2005, 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 Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), ("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 were 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 Issuers 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) | Approximate percentage of interest |
|---|---|---|---|---|
| Beh Kim Ling | The Company | Beneficial owner | 31,000,775 Shares (L) | 3.78% |
| | VSHK | Beneficial owner | 3,750,000 non-voting deferred shares of HK$1 each (L) | 5.00% |

## DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

| Name of Director (Note 1) | The Company/ name of associated corporation | Capacity | Number and class of securities (Note 2) | Approximate percentage of interest |
|---|---|---|---|---|
| | V.S. Investment Holdings Limited ("VS Investment") | Beneficial owner | 3,600,000 ordinary shares of HK$1 each (L) (Notes 3 and 6) | 6.67% |
| Gan Sem Yam | The Company | Beneficial owner | 31,000,775 Shares (L) | 3.78% |
| | VSHK | Beneficial owner | 3,750,000 non-voting deferred shares of HK$1 each (L) | 5.00% |
| | VS Investment | Beneficial owner | 3,600,000 ordinary shares of HK$1 each (L) (Notes 4 and 6) | 6.67% |
| Gan Chu Cheng | The Company | Beneficial owner | 31,000,775 Shares (L) | 3.78% |
| | VSHK | Beneficial owner | 3,750,000 non-voting deferred shares of HK$1 each (L) | 5.00% |
| | VS Investment | Beneficial owner | 3,600,000 ordinary shares of HK$1 each (L) (Notes 5 and 6) | 6.67% |
| Gan Tiong Sia | The Company | Beneficial owner | 27,900,775 Shares (L) | 3.40% |
| | VSHK | Beneficial owner | 3,750,000 non-voting deferred shares of HK$1 each (L) | 5.00% |

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 interest in the share and underlying shares of the Company or its associated corporations.

3. Mr. Beh Kim Ling's interests in these shares comprised 5 shares registered under his name and the 3,599,995 outstanding options granted to him under the Option Deed (as defined below) as referred to in note 6 below.

4. Mr. Gan Sem Yam's interests in these shares comprised 5 shares registered under his name and the 3,599,995 outstanding options granted to him under the Option Deed (as defined below) as referred to in note 6 below.

5. Madam Gan Chu Cheng's interests in these shares comprised 5 shares registered under her name and the 3,599,995 outstanding options granted to her under the Option Deed (as defined below) as referred to in note 6 below.

## DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

6. The following options were granted to the following Directors under an option deed dated 20 January 2002 ("Option Deed") and entered into between, among others, VS Investment and them, which were, as at 31 January 2005, outstanding:

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

These options are exercisable at any time during the period of 36 months from and including 8 February 2002 to 5:00 p.m. (Hong Kong time) on the last date of such 36 months period or, if that date is not a business day in Hong Kong, on the business day in Hong Kong immediately before that date

Save as disclosed above, none of the Directors 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 Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

## DISCLOSEABLE INTEREST UNDER DIVISION 2 AND 3 OF PART XV OF THE SF ORDINANCE AND SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at 31 January 2005, the following persons, 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 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance:

| Name of shareholder | Number of Shares held (Note 1) | Nature of interest/capacity | Approximate percentage of interest |
|---|---|---|---|
| V.S. Industry Berhad | 371,996,900 (L) | Beneficial owner | 45.37% |
| Atlantis Investment Management Ltd. | 51,676,000 (L) | Investment manager | 6.30% |
| Value Partners Limited ("Value Partners") | 48,928,000 (L) | Investment manager | 5.97% |
| Cheah Cheng Hye | 48,928,000 (L) | Interest of a controlled corporation (Note 2) | 5.97% |

Notes:

1. The letter "L" represents the person's interest in the Shares.
2. These Shares were registered in the name of and beneficially owned by Value Partners, 31.82% of the entire issued share capital of which is beneficially owned by Mr. Cheah Cheng Hye.

## DISCLOSEABLE INTEREST UNDER DIVISION 2 AND 3 OF PART XV OF THE SF ORDINANCE AND SUBSTANTIAL SHAREHOLDERS (continued)

Save as disclosed above, 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.

As at the date of this report, no option has been granted or agreed to be granted under the Scheme.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the period under review.

## AUDIT COMMITTEE

The Board established the Audit Committee on 20 January 2002, which was re-constituted on 30 September 2004, comprising three independent non-executive Directors, pursuant to the Code of Best Practice as set forth in Appendix 14 to the Listing Rules in force before its revisions took effect on 1 January 2005. The primary duties of the Audit Committee are to review the Group's financial reporting process, internal controls system and Group's financial statements. The Audit Committee has reviewed the Group's financial statements for the period ended 31 January 2005 and of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and the requirements of applicable laws, codes and regulations and that adequate disclosure pursuant thereto have been made.

## COMPLIANCE WITH APPENDIX 14 TO THE LISTING RULES

Save that the non-executive Director and the independent non-executive Directors are not appointed for specific terms, 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 ended 31 January 2005, in compliance with the relevant requirements of Appendix 14 to the Listing Rules in force during the Period.

## COMPLIANCE WITH APPENDIX 10 TO THE LISTING RULES

On 20 January 2002 the Company adopted its securities dealing code ("Substituted Code") regarding the dealings of the Directors and members of the senior management of the Group in securities of the Company on terms no less exacting than the required standard under the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules then in force.

# Other Information

## COMPLIANCE WITH APPENDIX 10 TO THE LISTING RULES (continued)

The Company adopted on 30 September 2004 its new securities dealing code ("New Code") on terms no less exacting than the required standard under the Model Code for Securities Transactions by Directors of Listed Issuers set out in the revised Appendix 10 to the Listing Rules which came into effect on 31 March 2004.

The Company, having made specific enquiry on all Directors, is not aware of any non-compliance by any Director during the period under review with the New Code or, as the case may be, the Substituted Code and Appendix 10 to the Listing Rules then in force.

## DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

The table below sets out the details, as required by Rule 13.15 of the Listing Rules, of advances to entities by the Group, which continued to exist and were discloseable pursuant to Rule 13.13 of the Listing Rules as at 31 January 2005:

| Name of entity (and affiliated companies) | Nature of advances giving rise to the disclosure obligation | Aggregate amount due to the Group as at 31 January 2005 | Terms of advances |
|---|---|---|---|
| Canon Zhongshan Business Machines Co, Ltd.<br>Canon Zhuhai Inc.<br>Canon Logistic Inc.<br>Canon Engineering (H.K) Co., Ltd.<br>Canon Finetech Industries Development Co., Ltd. | Trade receivables arising from mould design and fabrication, and sales of plastic moulded parts by the Group | HK$40,510,000 | Unsecured, interest free and with payment terms ranging from 30 to 60 days |
| 青島海爾國際貿易有限公司 *<br>(Qingdao Haier International Trading Company Limited)<br>大連海爾國際貿易有限公司 *<br>(Dalian Haier International Trading Company Limited)<br>海爾集團大連電器產業有限公司 *<br>(Haier (Dalian) Electrical Appliances Company Limited)<br>青島海爾零部件採購有限公司 *<br>(Qingdao Haier Components Purchase Co Ltd.)<br>青島海爾洗碗機有限公司 *<br>(Qingdao Haier Dishwasher Co., Ltd.) | Trade receivables and deposits for guarantee arising from the sales of injection plastic moulded parts and the provision of assembly services by the Group | HK$17,090,000 | Unsecured, interest free and with payment terms ranging from 45 to 90 days |

* These companies may or may not be affiliated to one another.

By order of the Board

**Beh Kim Ling**
*Chairman*

Zhuhai, the PRC
29 March 2005

# Independent Review Report

**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 27.

## 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 Institute of Certified Public 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 Institute of Certified Public 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 2005.

**KPMG**
*Certified Public Accountants*
Hong Kong,
29 March 2005