

Chairman's Statement

FINANCIAL HIGHLIGHTS

The Group's turnover and profits recorded substantial improvement in the current financial year. Turnover of the Group was HK\$1,226.91 million, representing a growth of 20.14% over last financial year ended 31 July 2004 and the Group's plastic injection division delivered record sales level in this financial year. Profit attributable to shareholders of the Company ("Shareholder(s)") for the year ended 31 July 2005 rebounded over 55 folds from HK\$0.42 million to HK\$23.76 million though the Group experienced a loss on disposal of fixed assets of HK\$17.02 million subsequent to the relocation of certain business in Shenzhen. The escalating operating costs and finance interests had also diminished the profitability of the Group. Nevertheless the increased turnover had cushioned such adverse impacts and even managed to drive the gross profit margin of the Group to a greater height in this financial year.

BUSINESS REVIEW AND PROSPECTS

The business operations of the Group spanned over three locations in China i.e. Zhuhai, Shenzhen and Qingdao. In the past years, the Group had been actively equipped its production sites with facilities and infrastructure to cater for major Original Equipment Manufacturers' projects and at the same time, performed certain strategic initiatives to sustain the competitive advantage for the Group. The efforts have proven to be successful in view that the Group has break through the down side in the previous year.

Plastic injection business which had in the past played a major role as turnover and profit contributors, is expected to continue its leading position in the year to come. However we envisage that its growth will be optimised soon and any further enhancement in business growth will highly depend on other business segments. To counter such problem, the Group has been aggressively developing potential customers that require our services in product assembly and mould design and fabrication with the aim to pave the way for future business advancement.

The reorganisation exercise to consolidate Qingdao and Shenzhen operations had facilitated the Group to better deploy internal resources. The rebound in performance of these two geographical locations had demonstrated that the decision to reorganise was absolutely appropriate and we have great confidence that their performance would accomplish a greater height in the years to come.





FUTURE STRATEGIES AND COMMITMENTS

Looking forward, it remains as our priority to rebuild the Group's balance sheet. The favourable prospects of our performance will strengthen our operating cash inflows and we endeavour to use the surplus funds to reduce our gearing to a more reasonable level. We will also strive to prevent the working capital being locked up in inventories and trade receivables. With these efforts, we expect to see improvement in the financial position of the Group in the coming year.

Though the overall outlook of the Group is optimistic, the soaring labour costs and uncertainties in the fuel oil prices will add pressure to the Group in maintaining its competitiveness. In light of the difficulties under the current operating conditions, the focus of future development will be continuous improvement and trim of its cost structure. We will also continue to create better synergies between our various facilities and strategic alliances in order to deliver high quality products at the best cost.

Today, the Group is moving ahead with greater confidence and momentum. We firmly believe the Group together with its associated companies will achieve its ultimate goal of becoming an integrated EMS provider with sustained high performance in the future.

APPRECIATION

On behalf of the board ("Board") of directors ("Directors") of the Company and the management team, I would like to thank our customers, suppliers, business associates and Shareholders for their continued support during the year. I also would like to take the opportunity to extend my heartfelt gratitude to our employees for their total commitment and dedication to the Group. We will continue to make our best efforts in developing our businesses to produce better return for our Shareholders.

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