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 and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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 ("Company") and its subsidiaries (collectively referred to as 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. Subsidiaries are considered to be controlled 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 its 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 consolidated income statement.

Where losses attributable to the minority exceed the minority's 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 (note 1(j)), 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Associates

An associate is an entity in which the Group or Company 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 consolidated financial statements 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 results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e). 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 its associates 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.

(e) 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(j)).

In respect of acquisitions of associates, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less accumulated amortisation and impairment losses (note 1(j)) is included in the carrying amount of the interest in associates.

On disposal of a controlled subsidiary or associate 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.

(f) 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 (note 1(i)). 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 (note 1(i)) and impairment losses (note 1(j)).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Fixed assets (continued)

(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.

(g) Leased assets

Leases of assets under which the leasee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases 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 Group will obtain ownership of the asset, the life of the asset, as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) 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 (note 1(j)). 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.

(i) 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;

– 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

(j) 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 and associates (except for those accounted for at fair value under note 1(c) and (d)); and

– positive goodwill.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of assets (continued)

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.

(k) 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.

(l) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) 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 ("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 pension scheme operated by local governments 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 in the Company at nominal 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.

(n) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Income tax (continued)

(iii) (continued)

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.

(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.

(o) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Provisions and contingent liabilities (continued)

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.

(p) 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.

(ii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in 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. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(q) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) 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.

(s) 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.

(t) 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 the aggregate invoiced value of goods sold. Turnover excludes value added or other sales taxes and is after deduction of any trade discounts.

An analysis of turnover derived from the principal activities of the Group is as follows:

	2005 $'000	2004 $'000
Breakdown of turnover by principal activities		
Plastic injection and moulding	1,005,676	731,046
Assembling of electronic products	161,069	224,956
Mould design and fabrication	60,164	65,216
	1,226,909	1,021,218

3 OTHER NET LOSSES

	2005 $'000	2004 $'000
Net loss on disposal of fixed assets*	14,364	3,262
Interest income	(3,048)	(2,792)
Management fee	(467)	–
Rental income	(1,854)	–
	8,995	470

* Included in net loss on disposal of fixed assets was loss on disposal of fixed asset amounting to $17,024,000 (2004: $3,274,000) arose from the relocation of certain business by the Group during the year (note 5(b)).

4 PERSONNEL EXPENSES

	2005 $'000	2004 $'000
Salaries, wages and allowances	121,769	90,303
Contributions to retirement benefit schemes	6,797	3,576
	128,566	93,879
Average number of employees during the year	8,022	5,288

Personnel expenses include directors' remuneration totalling $16,401,000 (2004: $14,312,000) (note (7)).

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 relevant processing agreements, labour required for production is provided by the Providers, who are responsible for the 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 staff engaged in the production is payable to the Providers. The Group has no obligations to pay any retirement benefits of existing and former staff 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 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):

		2005 $'000	2004 $'000
(a)	Finance costs:		
	Interest on bank advances repayable within five years	35,978	25,438
	Interest on bank advances repayable over five years	830	5,434
	Interest on other loans	1,905	2,045
	Bills discount expenses	885	551
	Finance charges on obligations under finance leases	1,731	1,661
	Total borrowing costs	41,329	35,129
	Less: Borrowing costs capitalised as construction in progress*	(998)	(1,083)
		40,331	34,046
	Exchange losses	3,132	3,368
	Other charges	2,148	2,547
		45,611	39,961

* The borrowing costs have been capitalised at an average cost of borrowings to the Group of 5.1% (2004: 4.8%) per annum for construction in progress.

		2005 $'000	2004 $'000
(b)	Other items:		
	Cost of inventories #	1,040,196	882,222
	Auditors' remuneration	1,280	1,230
	Provision for doubtful debts charged/(written back)	2,107	(313)
	Processing fees #	14,003	19,152
	Depreciation #		
	– owned assets	76,298	65,180
	– assets held under finance leases	4,414	5,819
	Operating lease charges #		
	– factory and hostel rentals	9,916	14,562
	Amortisation of goodwill	274	274
	Provision for slow moving inventories	2,261	4,872
	Costs of business relocation*	17,342	4,449

\# Cost of inventories includes $191,238,000 (2004: $142,584,000) 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.

* The Group has relocated certain parts of its business during the year. Costs associated with the relocation totalled $17,342,000 (2004:$4,449,000), of which $17,024,000 (2004: $3,274,000) 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 expenses" respectively.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2005 $'000	2004 $'000
Current tax – PRC		
Tax for the year	4,082	3,225
Deferred tax		
Origination and reversal of temporary differences	(740)	(324)
	3,342	2,901

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 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 are foreign investment enterprises that are granted certain tax reliefs, 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%.

Effective from 1 January 2005, two subsidiaries of the Company were in the fifth profit making year. 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 2005. Other subsidiaries of the Company in the PRC were either entitled to income tax exemption or sustained losses for taxation purpose for the year ended 31 July 2005.

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:

	2005 $'000	2004 $'000
Profit before tax	28,453	4,042
Notional tax on profit before tax, calculated at the rates applicable to profits in the jurisdictions concerned	4,268	606
Non-taxable revenue	(258)	(3,399)
Non-deductible expenses	1,424	8,128
Tax effect of tax reliefs granted	(2,092)	(2,434)
Actual tax expense	3,342	2,901

7 DIRECTORS' REMUNERATION

The remuneration of every director for the year ended 31 July 2005 is set out below:

	Fee $'000	Salary $'000	Discretionary bonus $'000 (Note)	Total $'000
Executive directors				
Beh Kim Ling	–	6,000	1,125	7,125
Gan Sem Yam	–	4,200	675	4,875
Gan Chu Cheng	–	3,000	338	3,338
Zhang Pei Yu	–	396	112	508
	–	13,596	2,250	15,846
Non-executive director				
Gan Tiong Sia	180	–	–	180
Independent non-executive directors				
Diong Tai Pew	125	–	–	125
Cheung Kwan Hung, Anthony	150	–	–	150
Tang Sim Cheow*	100	–	–	100
	375	–	–	375
	555	13,596	2,250	16,401

* Tang Sim Cheow was appointed as independent non-executive director of the Company on 30 September 2004.

The remuneration of every director for the year ended 31 July 2004 is set out below:

	Fee $'000	Salary $'000	Discretionary bonus $'000 (Note)	Total $'000
Executive directors				
Beh Kim Ling	–	6,000	44	6,044
Gan Sem Yam	–	4,200	44	4,244
Gan Chu Cheng	–	3,000	44	3,044
Zhang Pei Yu	–	396	44	440
	–	13,596	176	13,772
Non-executive director				
Gan Tiong Sia	180	–	–	180
Independent non-executive directors				
Diong Tai Pew	180	–	–	180
Cheung Kwan Hung, Anthony	180	–	–	180
	360	–	–	360
	540	13,596	176	14,312

Note: 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 of the Company for an amount to be determined by the board of directors which is subject to a cap amount.

7 DIRECTORS' REMUNERATION (CONTINUED)

In addition to the above remuneration, the directors were granted share options under the Company's share option scheme ("Scheme").

Under the Scheme described in note 26, the directors of the Company were granted a total of 30,400,000 options to subscribe for shares in the Company during the year. Options granted and the corresponding exercisable portion in respect of each director for the year ended 31 July 2005 are set out below:

		2005
	Granted number	Exercisable number
Executive directors		
Beh Kim Ling	8,200,000	2,050,000
Gan Sem Yam	8,200,000	2,050,000
Gan Chu Cheng	8,200,000	2,050,000
Zhang Pei Yu	2,500,000	625,000
	27,100,000	6,775,000
Non-executive director		
Gan Tiong Sia	2,000,000	500,000
Independent non-executive directors		
Diong Tai Pew	500,000	125,000
Cheung Kwan Hung, Anthony	500,000	125,000
Tang Sim Cheow	300,000	75,000
	1,300,000	325,000
	30,400,000	7,600,000

8 SENIOR MANAGEMENT'S EMOLUMENTS

Of the five individuals with the highest emoluments, three (2004: three) are directors whose remuneration is reflected in the analysis presented in note 7. The emoluments in respect of the other two (2004: two) individuals are as follows:

	2005 $'000	2004 $'000
Salaries, allowances and other benefits	1,135	1,208
Retirement benefit scheme contributions	–	–
Discretionary bonuses	210	201
	1,345	1,409

8 SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

The emoluments of the two (2004: two) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2005	2004
$Nil – $1,000,000	2	2

Under the Scheme described in note 26, the two individuals of the Company with the highest emoluments were granted with 688,000 and 556,000 options to subscribe for shares in the Company respectively during the year. 172,000 and 139,000 of the options granted were exercisable for the year ended 31 July 2005 respectively.

There were no amounts paid during the year ended 31 July 2005 and 2004 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 Group's profit attributable to shareholders includes a loss of $20,369,000 (2004: $525,000) which has been dealt with in the financial statements of the Company.

10 DIVIDEND

(a) Dividend attributable to the year

	2005 $'000	2004 $'000
Final dividend proposed after the balance sheet date of 0.8 cents (2004: 0.5 cents) per share	6,560	4,100

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

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

	2005 $'000	2004 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 0.5 cents (2004: 0.5 cents) per share	4,100	4,100

(Expressed in Hong Kong dollars)

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 $23,762,000 (2004: $419,000) and the weighted average number of 820,000,000 shares (2004: 820,000,000 shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of $23,762,000 (2004: $419,000) and the weighted average number of ordinary shares of 820,107,903 shares (2004: 820,000,000 shares) after adjusting for the effects of all dilutive potential ordinary shares under the Scheme.

(c) Reconciliations

	2005 Number of shares	2004 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	820,000,000	820,000,000
Deemed issue of ordinary shares for no consideration	107,903	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	820,107,903	820,000,000

12 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 sale of plastic moulded products and parts
Assembling of electronic products	:	assembly and sale of electronic products, including processing fees generated from the assembly of electronic products
Mould design and fabrication	:	manufacture and sale of plastic injection moulds

12 SEGMENT REPORTING (CONTINUED)

(a) Business segments (continued)

	Plastic injection and moulding		Assembling of electronic products		Mould design and fabrication		Consolidated	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Turnover from external customers	1,005,676	731,046	161,069	224,956	60,164	65,216	1,226,909	1,021,218
Segment result	117,565	84,220	12,830	11,758	15,880	10,297	146,275	106,275
Unallocated operating income and expenses							(68,597)	(61,097)
Profit from operations							77,678	45,178
Finance costs							(45,611)	(39,961)
Non-operating expenses							(318)	(1,175)
Share of losses of associates							(3,296)	–
Income tax							(3,342)	(2,901)
Minority interests							(1,349)	(722)
Profit attributable to shareholders							23,762	419
Depreciation for the year	47,546	41,608	13,246	13,106	8,910	7,136	69,702	61,850
Unallocated depreciation and amortisation							11,284	9,423
							80,986	71,273
Significant non-cash items (other than depreciation and amortisation)	3,173	(225)	474	4,955	105	(171)	3,752	4,559
Unallocated expenses							616	–
							4,368	4,559

12 SEGMENT REPORTING (CONTINUED)

(a) Business segments (continued)

	Plastic injection and moulding		Assembling of electronic products		Mould design and fabrication		Consolidated	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Segment assets	769,115	855,535	206,855	259,963	129,783	122,943	1,105,753	1,238,441
Unallocated assets							491,139	304,884
Total assets							1,596,892	1,543,325
Segment liabilities	230,929	234,157	39,563	107,618	28,284	35,419	298,776	377,194
Unallocated liabilities							857,051	773,734
Total liabilities							1,155,827	1,150,928
Capital expenditure incurred during the year	51,051	139,977	6,937	63,239	1,743	35,892	59,731	239,108
Unallocated capital expenditure							23,093	9,509
							82,824	248,617

(b) Geographical segments

The Group's business participates in six (2004: six) 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 PRC.

Turnover from external customers is analysed as follows:

	2005 $'000	2004 $'000
PRC (other than Taiwan and Hong Kong)	766,483	621,400
Hong Kong	297,699	297,661
South East Asia	58,361	53,642
Northern Asia	46,143	43,561
Europe	32,565	238
United States of America	24,763	1,273
Others	895	3,443
	1,226,909	1,021,218

13 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 2004	334,900	25,978	652,187	33,625	20,564	1,067,254
Exchange adjustments	6,878	144	9,739	435	315	17,511
Transfer from construction in progress (note 14)	21,636	–	1,867	758	–	24,261
Additions	2,456	692	48,873	1,751	600	54,372
Disposals	(7,995)	(10,277)	(57,578)	(7,539)	(1,063)	(84,452)
Surplus on revaluation	12,186	–	–	–	–	12,186
At 31 July 2005	370,061	16,537	655,088	29,030	20,416	1,091,132
Representing:						
Cost	–	16,537	655,088	29,030	20,416	721,071
Valuation	370,061	–	–	–	–	370,061
	370,061	16,537	655,088	29,030	20,416	1,091,132
Accumulated depreciation:						
At 1 August 2004	–	11,628	160,540	13,852	10,330	196,350
Exchange adjustments	–	49	1,866	187	156	2,258
Charge for the year	7,957	1,739	63,668	4,847	2,501	80,712
Written back on disposals	(726)	(6,771)	(23,385)	(5,445)	(1,009)	(37,336)
Written back on revaluation	(7,231)	–	–	–	–	(7,231)
At 31 July 2005	–	6,645	202,689	13,441	11,978	234,753
Net book value:						
At 31 July 2005	370,061	9,892	452,399	15,589	8,438	856,379
At 31 July 2004	334,900	14,350	491,647	19,773	10,234	870,904

13 FIXED ASSETS (CONTINUED)

(b) The Company

	Land and buildings held for own use $'000	Office equipment, furniture and fixtures $'000	Total $'000
Cost:			
At 1 August 2004	7,200	193	7,393
Surplus on revaluation	2,300	–	2,300
At 31 July 2005	9,500	193	9,693
Representing:			
Cost	–	193	193
Valuation	9,500	–	9,500
	9,500	193	9,693
Accumulated depreciation:			
At 1 August 2004	–	88	88
Charge for the year	145	39	184
Written back on revaluation	(145)	–	(145)
At 31 July 2005	–	127	127
Net book value:			
At 31 July 2005	9,500	66	9,566
At 31 July 2004	7,200	105	7,305

13 FIXED ASSETS (CONTINUED)

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

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
In Hong Kong				
– Medium-term leases	9,500	7,200	9,500	7,200
Outside Hong Kong				
– Medium-term leases	360,561	327,700	–	–
	370,061	334,900	9,500	7,200

(d) The Group's and the Company's land and buildings held for own use were revalued at 31 July 2005 by DTZ Debenham Tie Leung Limited, an independent firm of professional valuers in Hong Kong, at their open market value.

The revaluation surpluses of $19,417,000 (2004: $7,618,000) and $2,445,000 (2004: $315,000) have been transferred to the land and buildings revaluation reserve of the Group and the Company respectively (note 29).

The carrying amount of revalued land and buildings held for own use of the Group and the Company at 31 July 2005 would have been $342,360,000 (2004: $224,637,000) and $6,740,000 (2004: $6,885,000) respectively had they been carried at cost less accumulated depreciation.

(e) During the year, certain fixed assets with net book value of $10,561,000 were transferred to an associate as part of the Group's capital injection therein. In addition, certain fixed assets with net book value of $11,816,000 were sold to an associate (note 32(a)).

(f) At 31 July 2005 and 2004, certain fixed assets have been pledged as security for the bank loans (note 23(b)).

(g) The Group leases certain production plant and machinery under finance leases expiring in two to three 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 $40,128,000 (2004: $62,856,000).

14 CONSTRUCTION IN PROGRESS

	The Group	
	2005 $'000	2004 $'000
At 1 August	17,300	12,294
Additions	28,452	32,047
Transfer to fixed assets (note 13(a))	(24,261)	(27,041)
At 31 July	21,491	17,300

15 GOODWILL

	The Group Positive goodwill $'000
Cost:	
At 1 August 2004 and 31 July 2005	2,743
Accumulated amortisation:	
At 1 August 2004	297
Amortisation for the year	274
At 31 July 2005	571
Carrying amount:	
At 31 July 2005	2,172
At 31 July 2004	2,446

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

16 INTEREST IN SUBSIDIARIES

	The Company	
	2005 $'000	2004 $'000
Unlisted shares, at cost	258,122	258,122
Amounts due from subsidiaries	50,673	54,479
Amounts due to subsidiaries	(73,785)	(55,808)
	235,010	256,793

Balances with subsidiaries are unsecured, interest free and have no fixed terms of repayment. Details of the subsidiaries at 31 July 2005 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.

(Expressed in Hong Kong dollars)

16 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$25,200,000	100%	–	100%	Manufacturing, assembling and selling of plastic moulded products and electronic products, parts and components
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. (note (i))	PRC	PRC	RMB73,980,000	100%	–	100%	Manufacturing and selling of plastic moulded products and parts

(Expressed in Hong Kong dollars)

16 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	Proportion of ownership interest: held by the Company	Proportion of ownership interest: held by subsidiary	Principal activity
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$1,510,183	100%	–	100%	Manufacturing and selling of plastic moulded products and parts

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.

17 INTEREST IN ASSOCIATES

	2005 $'000	2004 $'000
Share of net assets	9,528	–

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 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 participating the financial and operating policy decisions, Wako VS HK is considered as an associate of the Group.

18 INVENTORIES

	The Group	
	2005 $'000	2004 $'000
Raw materials	72,858	60,554
Work-in-progress	33,548	42,157
Finished goods	74,406	59,502
	180,812	162,213

At 31 July 2005, inventories stated at net realisable value amounted to $7,631,000 (2004: $3,526,000).

19 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Trade receivables	212,973	180,115	–	–
Bills receivable	10,422	34,973	–	–
Other receivables, prepayments and deposits	36,781	35,352	64	96
	260,176	250,440	64	96

At 31 July 2005, certain bills receivable have been pledged as security for banking facilities (note 22(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:

	The Group	
	2005 $'000	2004 $'000
Within 30 days	121,433	91,506
Over 30 days but within 90 days	81,271	86,580
Over 90 days and less than one year	20,691	37,002
	223,395	215,088

20 DEPOSITS WITH BANKS

	The Group	
	2005 $'000	2004 $'000
Current:		
Deposits with banks with original maturity date over three months	1,923	58,491
Pledged fixed deposit with banks with maturity date within one year	154,780	10,019
	156,703	68,510
Non-current:		
Pledged fixed deposit with banks with maturity date over one year	–	67,096
	156,703	135,606

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)).

21 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Deposits with banks with original maturity date within three months	–	38,222	–	–
Cash at bank and in hand	109,631	66,194	371	1,174
Cash and cash equivalents in the balance sheet	109,631	104,416	371	1,174
Bank overdrafts (note 23(a))	(25,314)	(30,566)		
Cash and cash equivalents in the consolidated cash flow statement	84,317	73,850		

21 CASH AND CASH EQUIVALENTS (CONTINUED)

Cash and cash equivalents are denominated in:

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Hong Kong dollars	9,816	8,918	335	1,114
Renminbi ("RMB")	16,053	54,398	–	–
United States dollars	83,762	41,100	36	60
Cash and cash equivalents in the balance sheet	109,631	104,416	371	1,174

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	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Trade payables	187,344	145,618	–	–
Bills payable	20,883	29,247	–	–
Accrued expenses and other payables	94,456	154,387	5,691	3,124
	302,683	329,252	5,691	3,124

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:

	The Group	
	2005 $'000	2004 $'000
Due within 30 days or on demand	150,342	109,904
Due after 30 days but within 90 days	38,339	48,787
Due after 90 days but within 180 days	19,546	16,174
	208,227	174,865

22 TRADE AND OTHER PAYABLES (CONTINUED)

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

	The Group	
	2005 $'000	2004 $'000
Pledged fixed deposit with banks (note 20)	13,807	450
Bills receivable (note 19)	5,769	28,154
	19,576	28,604

23 BANK LOANS AND OVERDRAFTS

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Current:				
Within 1 year or on demand	501,881	337,552	900	900
Non-current:				
After 1 year but within 2 years	118,867	121,114	450	900
After 2 years but within 5 years	158,138	236,296	–	450
After 5 years	–	14,418	–	–
	277,005	371,828	450	1,350
	778,886	709,380	1,350	2,250

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	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Current:				
Overdrafts				
– secured	25,314	29,008	–	–
– unsecured	–	1,558	–	–
	25,314	30,566	–	–
Bank loans				
– secured	279,331	142,563	900	900
– unsecured	197,236	164,423	–	–
	476,567	306,986	900	900
	501,881	337,552	900	900
Non-current:				
Bank loans				
– secured	277,005	331,241	450	1,350
– unsecured	–	40,587	–	–
	277,005	371,828	450	1,350
	778,886	709,380	1,350	2,250

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	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Trade receivables (note 19)	–	9,594	–	–
Fixed deposits (note 20)	140,973	76,665	–	–
Motor vehicles with aggregate carrying value (note 13(f))	828	2,599	–	–
Land and buildings with aggregate carrying value (note 13(f))	342,360	178,791	9,500	7,200
Plant and machinery with aggregate carrying value (note 13(f))	175,385	33,653	–	–
	659,546	301,302	9,500	7,200

Such banking facilities, totalling $595,539,000 (2004: $528,698,000), were utilised to the extent of $581,650,000 (2004: $502,812,000) at 31 July 2005.

24 OBLIGATIONS UNDER FINANCE LEASES

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

	The Group					
	2005			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	12,063	598	12,661	16,861	1,449	18,310
After 1 year but within 2 years	8,310	167	8,477	14,346	736	15,082
After 2 years but within 5 years	319	1	320	10,189	218	10,407
	8,629	168	8,797	24,535	954	25,489
	20,692	766	21,458	41,396	2,403	43,799

The Company has given a corporate guarantee in respect of the lease obligations.

(Expressed in Hong Kong dollars)

25 OTHER PAYABLES

The amount at 31 July 2004 represented amounts due to suppliers in connection with the purchase of fixed assets which were fully settled during the current year.

26 SHARE OPTION SCHEME

The Company has a share option scheme which was approved by the then shareholders on 20 January 2002 whereby directors of the Company are authorised, at their discretion, to invite eligible participants, including directors of any Company in the Group, to take up options to subscribe for shares of the Company.

The exercise price of options granted, as specified in the rules governing the share option scheme, is to be not less than the higher of the closing price of the shares of the Company on The Stock Exchange of Hong Kong Limited ("Stock Exchange") on the date of the offer of grant of the options, the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant of the options and the nominal value of a share. For acceptance of options granted by the Company, an eligible participant is required to remit $1 to the Company at the principal place of business of the Company in Hong Kong within 21 days from the date of receiving the offer of the options. Up to 31 July 2005, 58 eligible participants have accepted the offer of options granted by the Company.

The options are exercisable during the following exercise periods, all of which fall within the period of two years commencing from 12 July 2005:

Date granted	**Exercise period**	**Percentage of options granted**
12 July 2005	12 July 2005 to 24 November 2005	25%
	25 November 2005 to 9 April 2006	50%
	10 April 2006 to 22 August 2006	75%
	23 August 2006 to 12 July 2007	100%

(a) Movement in share options

	2005 Number	2004 Number
At 1 August	–	–
Granted	48,988,000	–
At 31 July	48,988,000	–
Option exercisable at 31 July	12,247,000	–

(b) Terms of unexpired and unexercised share options at balance sheet date

Date granted	**Exercise period**	**Exercise price**	2005 Number	2004 Number
12 July 2005	12 July 2005 to 12 July 2007	$0.18	12,247,000	–
	25 November 2005 to 12 July 2007	$0.18	12,247,000	–
	10 April 2006 to 12 July 2007	$0.18	12,247,000	–
	23 August 2006 to 12 July 2007	$0.18	12,247,000	–
			48,988,000	–

26 SHARE OPTION SCHEME (CONTINUED)

(c) Details of share options granted during the year at nominal consideration are as follows:

Exercise period	**Exercise price**	2005 Number	2004 Number
12 July 2005 to 12 July 2007	$0.18	12,247,000	–
25 November 2005 to 12 July 2007	$0.18	12,247,000	–
10 April 2006 to 12 July 2007	$0.18	12,247,000	–
23 August 2006 to 12 July 2007	$0.18	12,247,000	–
		48,988,000	–

No share options were exercised during the year.

27 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	The Group	
	2005 $'000	2004 $'000
PRC income tax payable	82	170

(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 2003	15,871
Credited to the consolidated income statement	(324)
Charged to reserves (note 29(a))	1,096
At 31 July 2004	16,643
At 1 August 2004	16,643
Exchange adjustments	796
Credited to the consolidated income statement	(740)
Charged to reserves (note 29(a))	2,545
At 31 July 2005	19,244

27 INCOME TAX IN THE BALANCE SHEET (CONTINUED)

(b) Deferred tax assets and liabilities recognised: (continued)

	The Group	
	2005 $'000	2004 $'000
Net deferred tax liabilities recognised in the consolidated balance sheet	19,244	16,643

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of tax losses of $1,558,000 (2004: $20,843,000) as the future taxable profits if available, against which the assets can be utilised, are subject to the tax reliefs as set out in note 6(a). The tax losses do not expire under current tax legislation.

28 SHARE CAPITAL

	2005		2004	
	Number of shares '000	Amount $'000	Number of shares '000	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.

29 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 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 13(d))	–	–	–	7,618	–	–	7,618
Deferred tax liability arising from revaluation of land and buildings (note 27(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
At 1 August 2004	63,755	35,800	304	93,620	13,015	140,739	347,233
Profit for the year	–	–	–	–	–	23,762	23,762
Dividend approved in respect of the previous year (note 10(b))	–	(4,100)	–	–	–	–	(4,100)
Revaluation surplus (note 13(d))	–	–	–	19,417	–	–	19,417
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	–	–	10,785	–	–	–	10,785
Deferred tax liability arising from revaluation of land and buildings (note 27(b))	–	–	–	(2,545)	–	–	(2,545)
Realisation of revaluation reserve	–	–	–	(1,826)	–	1,826	–
Appropriations	–	–	–	–	5,140	(5,140)	–
At 31 July 2005	63,755	31,700	11,089	108,666	18,155	161,187	394,552

Included in the retained profits is an amount of $3,296,000 (2004: Nil), being the accumulated losses attributable to associates.

29 RESERVES (CONTINUED)

(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 2003	63,755	169,022	–	(9,473)	223,304
Loss for the year	–	–	–	(525)	(525)
Revaluation surplus (note 13(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
At 1 August 2004	63,755	164,922	315	(9,998)	218,994
Loss for the year	–	–	–	(20,369)	(20,369)
Revaluation surplus (note 13(d))	–	–	2,445	–	2,445
Dividend approved in respect of the previous year (note 10(b))	–	(4,100)	–	–	(4,100)
At 31 July 2005	63,755	160,822	2,760	(30,367)	196,970

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 the contributed surplus amount.

(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(f)).

29 RESERVES (CONTINUED)

(b) The Company (continued)

Notes: (continued)

(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 the 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.

The 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 2005, in the opinion of the Directors, the reserves of the Company available for distribution to shareholders amounted to $196,970,000 (2004: $218,994,000) subject to the restrictions stated above.

30 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 July 2005 not provided for in the financial statements are as follows:

	The Group	
	2005 $'000	2004 $'000
Contracted for	22,122	10,806
Authorised but not contracted for	6,429	9,895
	28,551	20,701

(b) Investment commitment

As at 31 July 2005, the Group had a commitment totalling $66,559,000 (2004: $66,730,000) in respect of the outstanding registered capital to be injected into a subsidiary in the PRC.

30 COMMITMENTS (CONTINUED)

(c) Operating lease commitments

The Group leases a number of properties under operating leases. The leases typically run for periods from one year to three years with an option to renew the lease upon expiry when all terms are renegotiated. Lease charges of $9,916,000 (2004: $14,562,000) 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	
	2005 $'000	2004 $'000
Within 1 year	19,464	10,804
After 1 but within 5 years	11,809	40,744
After 5 years*	–	136,268
	31,273	187,816

* The Group paid a compensation of $318,000 for early termination of a lease (note 5(b)).

31 CONTINGENT LIABILITIES

At 31 July 2005, contingent liabilities of the Group and the Company were as follows:

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Guarantees given to banks by the Company in respect of banking facilities utilised by certain subsidiaries	–	–	645,733	715,552
Guarantees given to suppliers of credit facilities utilised by certain subsidiaries	–	–	33,447	49,946
Bills discounted with banks	30,220	14,713	–	–
	30,220	14,713	679,180	765,498

32 MATERIAL RELATED PARTY TRANSACTIONS

(a) During the year ended 31 July 2005, significant transactions with related parties were as follows:

	The Group	
	2005 $'000	2004 $'000
Sales to a substantial shareholder	1,139	2,996
Sales to a company controlled by a substantial shareholder	207	199
Sales to an associate	3,458	–
Sales to a minority shareholder of VSA(HK)	37,211	30,226
	42,015	33,421
Interest paid and payable to a substantial shareholder (note 32(c)(i))	1,905	2,045
Sales of fixed assets to an associate*	15,854	–
Royalty fee to a minority shareholder of VSA(HK)	729	482
Operating lease charges to a company controlled by a director	7,014	2,049
Operating lease charges to an associate	698	–
Purchase of raw materials from a substantial shareholder	560	–
Management fee charged to an associate	467	–
Sub-contracting fee charged by an associate	5,774	–

* During the year, the Group sold certain fixed assets with net book value of $11,816,000 to an associate for a consideration of $15,854,000. The gain on disposal after eliminating the unrealised portion is recorded in "Other net losses".

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.

32 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) At 31 July 2005, amounts due from related parties included as part of trade and other receivables were as follows:

	The Group	
	2005 $'000	2004 $'000
Amount due from a company controlled by a substantial shareholder	–	81
Amount due from a minority shareholder of VSA(HK)	5,554	284
Amount due from a company controlled by a director	2,235	2,757
Amount due from an associate	3,370	–
Amount due from a substantial shareholder	–	1,177
	11,159	4,299

(c) At 31 July 2005, amounts due to related parties were as follows:

	The Group			
	2005		2004	
	Trade and other payables $'000	Loan from a substantial shareholder $'000	Trade and other payables $'000	Loan from a substantial shareholder $'000
Amount due to directors	3,539	–	475	–
Amount due to a company controlled by a director	–	–	368	–
Amount due to a minority shareholder of VSA(HK)	503	–	538	–
Amount due to a substantial shareholder				
– current portion	2,487	4,892	–	4,892
– non-current portion (note (i))	–	29,348	–	34,240
	6,529	34,240	1,381	39,132

Note (i): Pursuant to the loan agreement entered into between the Group and the substantial 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 commencing on 1 August 2002. The loan is unsecured and carries interest at 5% per annum (2004: 5%) on the outstanding balance. Interest paid and payable to the substantial shareholder, amounted to $1,905,000 (2004: $2,045,000) for the year ended 31 July 2005.

33 COMPARATIVE FIGURES

In order to reflect better the presentation of the results and assets of the Group, certain comparative figures in the segment reporting, the presentation of deposits with banks and non-operating expenses have been reclassified to conform with current year's presentation.

34 RECENTLY ISSUED ACCOUNTING STANDARDS

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 Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 July 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.