

Chairman's Statement

Dear shareholders,

On behalf of the board ("Board") of directors ("Directors") of the Company, I am delighted to present the annual report of the Group for the financial year ended 31 July 2006.

FINANCIAL HIGHLIGHTS

The result of the financial year 2005/06 was remarkable for the Group. Compared with the previous financial year, the Group's turnover had increased by 14.29% to HK\$1,402.26 million. Profit attributable to equity shareholders of the Company ("Shareholder(s)") increased by 84.34% to HK\$45.32 million. Basic earnings per share had also improved significantly from HK3.00 cents to HK5.48 cents.

The Directors recommended the payment of final dividends of HK0.8 cents per ordinary share (each a "Share") for the financial year ended 31 July 2006 (2005: HK0.8 cents). Subject to Shareholders' approval of payment of final dividends at the forthcoming annual general meeting, the final dividend will be payable on or about 15 January 2007 to the Shareholders whose names appear on the register of members of the Company on 15 December 2006.

BUSINESS REVIEW AND PROSPECTS

We are grateful to report that all business segments of the Group recorded solid growth in turnover during this financial year. The Group's plastic injection and moulding business had achieved record result in this financial year while assembly business had rebounded after suffering sales drop for the past three consecutive years. Our moulds design and fabrication business was also experiencing a rapid growth of 83.69% over the previous financial year. The increased orders from customers had utilised the Group's manufacturing facilities more efficiently and in return, the Group's bottom line had significantly improved despite that the operating overhead had become more costly generally. Looking forward, we expect the strong momentum of all business segments to continue in the year to come.

Increasing demand from the plastic injection market had driven us to expand our business during this financial year. We had extended our footprint in Vietnam through participation in a joint venture with various parties. Additionally, the Group had



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also started the construction of a new plant in Qingdao to capitalise on the increasing numbers of good potential customers in Northern China. We see significant growth potential in these markets and trust the new investments would enable us to capture the promising opportunities of these attractive markets.

To further underpin our integrated manufacturing solutions to our customers, we had ventured into metal stamping business through a joint venture with some experts in this area. Though the investment was insignificant at this stage, it was the first move of the Group to diversify from its current core businesses. We hope a more competitive business model can be built through this investment and the Group would be better equipped for future growth.

We recognise that heavy depreciation and amortisation charges as well as finance costs, which amounted to HK\$88.13 million and HK\$53.45 million respectively, had significantly eaten into our profit for the financial year ended 31 July 2006. These costs had soared inevitably as a result of new capital expenditure and rising interest rates throughout the financial year under review. Therefore it is our priority to reduce the gearing level to a more reasonable level and adopt a more prudent capital investment policy so that the costs can be reduced over time.

During the financial year under review, the Group had put much efforts to control its inventory level to minimise working capital tied up. Further, improved sales and prompt collection of receivables from customers had



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also eased the cash flows of the Group. As a result, the Group's financial position had improved and we expect the improvement will continue in the future.

APPRECIATION

On behalf of the Board and the management team, I would like to thank our customers, suppliers, business associates and Shareholders for their continual support during the year. I also wish to extend my heartfelt gratitude to our employees for their contribution and dedication to the Group. We will continue making our best efforts in developing our businesses to produce better return for the Shareholders.

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

