

# Report of the Directors

The Directors have pleasure in submitting their annual report together with the audited financial statements of the Group for the financial year ended 31 July 2006.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group is principally engaged in the manufacturing and sales of plastic moulded products and parts, assembling of electronic products and mould design and fabrication.

An analysis of the principal activities and geographical locations of the operations of the Group during the financial year is set out in note 13 on the audited financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	34%	–
Five largest customers in aggregate	61%	–
The largest supplier	–	17%
Five largest suppliers in aggregate	–	43%

At no time during the financial year had the Directors, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

## FINANCIAL STATEMENTS

The profit of the Group for the financial year ended 31 July 2006 and the state of the Company's and the Group's affairs as at 31 July 2006 are set out in the audited financial statements on pages 43 to 118.

## DIVIDENDS

The Board has recommended the payment of a final dividend of HK0.8 cents (2005: HK0.8 cents) per Share in respect of the financial year ended 31 July 2006, to the Shareholders whose name appears on the register of members of the Company on 15 December 2006. The proposed dividend will be paid on or about 15 January 2007 subject to approval thereof at the forthcoming annual general meeting of the Company to be held on 15 December 2006 ("Annual General Meeting").

# Report of the Directors

## FIXED ASSETS

Details of movements in fixed assets of the Company and the Group during the financial year are set out in note 14 on the audited financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the financial year are set out in note 27 on the audited financial statements.

## RESERVES

Details of movements in the reserves of the Company and the Group during the financial year are set out in note 28 on the audited financial statements.

## DISTRIBUTABLE RESERVES

As at 31 July 2006, the Company's reserves available for distribution calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands amounted to HK\$191,868,000 (2005 (restated): HK\$194,210,000). These reserves may be distributed provided that immediately following the date on which the distribution is proposed to be made, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

## DIRECTORS

The Directors during the financial year and up to the date of this report were:

### Executive Directors

Beh Kim Ling

Gan Sem Yam

Gan Chu Cheng

Zhang Pei Yu

### Non-executive Director

Gan Tiong Sia

### Independent non-executive Directors

Diong Tai Pew

Cheung Kwan Hung, Anthony

Tang Sim Cheow

In accordance with article 108(A) of the Company's articles of association, not less than one-third of the Directors for the time being should retire from office by rotation at each annual general meeting. Accordingly, Messrs. Beh Kim Ling, Gan Sem Yam and Gan Tiong Sia will retire from the Board by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election at such meeting.

# Report of the Directors

## DIRECTORS' SERVICE CONTRACTS

Each of Messrs. Beh Kim Ling, Gan Sem Yam, Zhang Pei Yu and Madam Gan Chu Cheng, being all the executive Directors, has entered into a service contract with the Company for an initial term of three years commencing from 1 August 2001, and is automatically renewable for successive terms of one year upon expiry of the then current term, until terminated by not less than three months' notice in writing served by either party to the other.

Mr. Gan Tiong Sia, and Messrs. Diong Tai Pew, Cheung Kwan Hung, Anthony and Tang Sim Cheow are currently appointed as a non-executive Director and independent non-executive Directors respectively. The appointments of Messrs. Gan Tiong Sia, Diong Tai Pew, Cheung Kwan Hung, Anthony and Tang Sim Cheow are for a term of one year from 1 August 2006 until terminated by not less than two months' notice in writing served by either party to the other.

No Director proposed for re-election at the Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

## DIRECTOR'S INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 July 2006, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance ("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 will be 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 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	39,200,775 Shares (L) (Notes 3 and 11)	4.67%
	VSHK	Beneficial owner	3,750,000 non-voting deferred shares of HK\$1 each (L)	5.00%
	V.S. Investment Holdings Limited ("VS Investment")	Beneficial owner	5 ordinary shares of HK\$1 each (L)	–

# Report of the Directors

## DIRECTOR'S INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (CONTINUED)

<b>Name of Director</b> (Note 1)	<b>The Company/ name of associated corporation</b>	<b>Capacity</b>	<b>Number and class of securities</b> (Note 2)	<b>Approximate percentage of interest</b>
Gan Sem Yam	The Company	Beneficial owner	39,200,775 Shares (L) (Notes 4 and 11)	4.67%
	VSHK	Beneficial owner	3,750,000 non-voting deferred shares of HK\$1 each (L)	5.00%
	VS Investment	Beneficial owner	5 ordinary shares of HK\$1 each (L)	–
Gan Chu Cheng	The Company	Beneficial owner	39,200,775 Shares (L) (Notes 5 and 11)	4.67%
	VSHK	Beneficial owner	3,750,000 non-voting deferred shares of HK\$1 each (L)	5.00%
	VS Investment	Beneficial owner	5 ordinary shares of HK\$1 each (L)	–
Zhang Pei Yu	The Company	Beneficial owner	1,250,000 Shares (L) (Notes 6 and 11)	0.15%

# Report of the Directors

## DIRECTOR'S INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (CONTINUED)

Name of Director (Note 1)	The Company/ name of associated corporation	Capacity	Number and class of securities (Note 2)	Approximate percentage of interest
Gan Tiong Sia	The Company	Beneficial owner	29,900,775 Shares (L) (Notes 7 and 11)	3.56%
	VSHK	Beneficial owner	3,750,000 non-voting deferred shares of HK\$1 each (L)	–
Diong Tai Pew	The Company	Beneficial owner	500,000 Shares (L) (Notes 8 and 11)	0.06%
Cheung Kwan Hung, Anthony	The Company	Beneficial owner	500,000 Shares (L) (Notes 9 and 11)	0.06%
Tang Sim Cheow	The Company	Beneficial owner	300,000 Shares (L) (Notes 10 and 11)	0.04%

### 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 shares and underlying shares of the Company or its associated corporations.
3. 8,200,000 of these Shares were Shares that would be allotted and issued upon exercise in full of share options granted to Mr. Beh Kim Ling by the Company under its share option scheme, details of which are set out in note 11 below.
4. 8,200,000 of these Shares were Shares that would be allotted and issued upon exercise in full of share options granted to Mr. Gan Sem Yam by the Company under its share option scheme, details of which are set out in note 11 below.
5. 2,050,000 of these Shares were Shares that would be allotted and issued upon exercise in full of share options granted to Madam Gan Chu Cheng by the Company under its share option scheme, details of which are set out in note 11 below.

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## DIRECTOR'S INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (CONTINUED)

Notes: (continued)

6. 625,000 of these Shares were Shares that would be allotted and issued upon exercise in full of share options granted to Mr. Zhang Pei Yu by the Company under the share option scheme of the Company, details of which are set out in note 11 below.
7. 2,000,000 of these Shares were Shares that would be allotted and issued upon exercise in full of share options granted to Mr. Gan Tiong Sia by the Company under its share option scheme, details of which are set out in note 11 below.
8. These were Shares that would be allotted and issued upon exercise in full of share options granted to Mr. Diong Tai Pew by the Company under its share option scheme, details of which are set out in note 11 below.
9. These were Shares that would be allotted and issued upon exercise in full of share options granted to Mr. Cheung Kwan Hung, Anthony by the Company under its share option scheme, details of which are set out in note 11 below.
10. These were Shares that would be allotted and issued upon exercise in full of share options granted to Mr. Tang Sim Cheow by the Company under its share option scheme, details of which are set out in note 11 below.
11. On 12 July 2005, share options were granted by the Company under its share option scheme to, among other eligible participants, the Directors. All these share options, which remained outstanding as at 31 July 2006, are exercisable at a subscription price of HK\$0.18 per Share during the exercise periods set out below. Details of the share options granted are as follows:

Name of Director	Number of Shares that would be allotted and issued	Exercise period
Beh Kim Ling	(i) 2,050,000	12 July 2005 to 12 July 2007
	(ii) 2,050,000	25 November 2005 to 12 July 2007
	(iii) 2,050,000	10 April 2006 to 12 July 2007
	(iv) 2,050,000	23 August 2006 to 12 July 2007
Gan Sem Yam	(i) 2,050,000	12 July 2005 to 12 July 2007
	(ii) 2,050,000	25 November 2005 to 12 July 2007
	(iii) 2,050,000	10 April 2006 to 12 July 2007
	(iv) 2,050,000	23 August 2006 to 12 July 2007
Gan Chu Cheng	(i) 2,050,000	23 August 2006 to 12 July 2007
Zhang Pei Yu	(i) 625,000	23 August 2006 to 12 July 2007
Gan Tiong Sia	(i) 500,000	12 July 2005 to 12 July 2007
	(ii) 500,000	25 November 2005 to 12 July 2007
	(iii) 500,000	10 April 2006 to 12 July 2007
	(iv) 500,000	23 August 2006 to 12 July 2007
Diong Tai Pew	(i) 125,000	12 July 2005 to 12 July 2007
	(ii) 125,000	25 November 2005 to 12 July 2007
	(iii) 125,000	10 April 2006 to 12 July 2007
	(iv) 125,000	23 August 2006 to 12 July 2007

# Report of the Directors

## DIRECTOR'S INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (CONTINUED)

Notes: (continued)

Name of Director	Number of Shares that would be allotted and issued		Exercise period
Cheung Kwan Hung, Anthony	(i)	125,000	12 July 2005 to 12 July 2007
	(ii)	125,000	25 November 2005 to 12 July 2007
	(iii)	125,000	10 April 2006 to 12 July 2007
	(iv)	125,000	23 August 2006 to 12 July 2007
Tang Sim Cheow	(i)	75,000	12 July 2005 to 12 July 2007
	(ii)	75,000	25 November 2005 to 12 July 2007
	(iii)	75,000	10 April 2006 to 12 July 2007
	(iv)	75,000	23 August 2006 to 12 July 2007

Save as disclosed above, none of the Directors and chief executive of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its 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.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Details of share options granted to the Directors which remained outstanding as at 31 July 2006 are given in the section headed "Share Option Scheme" in this report.

Other than as disclosed above, at no time during the financial year ended 31 July 2006 was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### DIRECTORS' INTERESTS IN CONTRACTS

Apart from the related party transactions as disclosed in note 32 on the audited financial statements, no contract of significance to which the Company, any of its holding company, subsidiaries or fellow subsidiaries was a party, in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 July 2006, 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 of the Company as recorded in the register required to be kept under section 336 of the SF Ordinance:

Name of Shareholder	Number of Shares held (Note 1)	Nature of interest/Capacity	Approximate percentage of interest
VS Berhad	371,996,900 (L)	Beneficial owner	44.33%
Inabata Sangyo (HK) Limited	82,000,000 (L)	Beneficial owner	9.77%
Atlantis Investment Management Ltd	48,156,000 (L)	Investment manager	5.74%

Note:

1. The letter "L" represents the person's interest in the Shares.

## SHARE OPTION SCHEME

The Company operates a share option scheme ("Share Option 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 Share Option Scheme became effective on 8 February 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Details of the Share Option Scheme are set out in note 25 on the audited financial statements.

Eligible participants of the Share Option Scheme include the following:

- (i) any employee or proposed employee (whether full time or part time) of the Group or any entity ("Invested Entity") in which any member of the Group holds any equity interest (including any executive director but excluding any non-executive director of the Group or any Invested Entity);
- (ii) any non-executive directors (including independent non-executive directors) of the Group or any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;



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## SHARE OPTION SCHEME (CONTINUED)

- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (vii) (for so long as VS Berhad remains as a controlling Shareholder (as defined in the Listing Rules)) any employee or proposed employee (whether full time or part time) of VS Berhad, any of its subsidiaries or any entity in which VS Berhad or any of its subsidiaries holds an equity interest, including any executive director of VS Berhad, any of such subsidiaries or any entity in which VS Berhad or any of its subsidiaries holds an equity interest;
- (viii) (for so long as VS Berhad remains as a controlling Shareholder) any non-executive directors (including independent non-executive directors) of VS Berhad, any of its subsidiaries or any entity in which VS Berhad or any of its subsidiaries holds an equity interest; and
- (ix) any other group or classes of participants from time to time determined by the Board as having contributed or may contribute by way of joint venture and business alliances to the development and growth of the Group.

As at the date of this report, the total number of Shares available for issue, save for those granted but yet to be exercised, under the Share Option Scheme is 35,024,000, which represented approximately 4.15% of the issued share capital of the Company as at the date of this report. The maximum number of Shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

Share options granted to a Director, chief executive of the Company or substantial Shareholder, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive Directors (excluding independent non-executive Director who is the grantee of the options). In addition, where any grant of share options to a substantial Shareholder or an independent non-executive Director, or to any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in excess of 0.1% of the Shares in issue and with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK\$5 million, in a 12-month period up to and including the date of grant, such grant of share options are subject to Shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 by the grantee. The exercise period for the share options granted is determined by the Board, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the option subject to the provisions for early termination under the Share Option Scheme.

# Report of the Directors

## SHARE OPTION SCHEME (CONTINUED)

The subscription price for Shares under the Share Option Scheme shall be a price determined by the Board, but shall not be less than the highest of:-

- (i) the closing price of Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the grant, which must be a business day;
- (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant; and
- (iii) the nominal value of the Shares.

The following table discloses details of share options held by the grantees and movements in such holdings during the financial year ended 31 July 2006:

Name of grantee	Date of grant (Note 1)	Exercisable period	Exercise price HK\$	Weighted average closing price on the date immediately before the exercise date HK\$	Outstanding at 1 August 2005	Exercised during the year	Granted during the year	Lapsed during the year	Outstanding at 31 July 2006
<b>Directors</b>									
Beh Kim Ling	12 July 2005	12 July 2005 to 12 July 2007	0.18	N/A	2,050,000	-	-	-	2,050,000
		25 November 2005 to 12 July 2007	0.18	N/A	2,050,000	-	-	-	2,050,000
		10 April 2006 to 12 July 2007	0.18	N/A	2,050,000	-	-	-	2,050,000
		23 August 2006 to 12 July 2007	0.18	N/A	2,050,000	-	-	-	2,050,000
Gan Sem Yam	12 July 2005	12 July 2005 to 12 July 2007	0.18	N/A	2,050,000	-	-	-	2,050,000
		25 November 2005 to 12 July 2007	0.18	N/A	2,050,000	-	-	-	2,050,000
		10 April 2006 to 12 July 2007	0.18	N/A	2,050,000	-	-	-	2,050,000
		23 August 2006 to 12 July 2007	0.18	N/A	2,050,000	-	-	-	2,050,000
Gan Chu Cheng	12 July 2005	12 July 2005 to 12 July 2007	0.18	0.295	2,050,000	(2,050,000)	-	-	-
		25 November 2005 to 12 July 2007	0.18	0.295	2,050,000	(2,050,000)	-	-	-
		10 April 2006 to 12 July 2007	0.18	0.295	2,050,000	(2,050,000)	-	-	-
		23 August 2006 to 12 July 2007	0.18	N/A	2,050,000	-	-	-	2,050,000

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## SHARE OPTION SCHEME (CONTINUED)

Name of grantee	Date of grant (Note 1)	Exercisable period	Exercise price HK\$	Weighted average closing price on the date immediately before the exercise date HK\$	Outstanding at 1 August 2005	Exercised during the year	Granted during the year	Lapsed during the year	Outstanding at 31 July 2006
Zhang Pei Yu	12 July 2005	12 July 2005 to 12 July 2007	0.18	0.31	625,000	(625,000)	-	-	-
		25 November 2005 to 12 July 2007	0.18	0.28	625,000	(625,000)	-	-	-
		10 April 2006 to 12 July 2007	0.18	0.31	625,000	(625,000)	-	-	-
		23 August 2006 to 12 July 2007	0.18	N/A	625,000	-	-	-	625,000
Gan Tiong Sia	12 July 2005	12 July 2005 to 12 July 2007	0.18	N/A	500,000	-	-	-	500,000
		25 November 2005 to 12 July 2007	0.18	N/A	500,000	-	-	-	500,000
		10 April 2006 to 12 July 2007	0.18	N/A	500,000	-	-	-	500,000
		23 August 2006 to 12 July 2007	0.18	N/A	500,000	-	-	-	500,000
Diong Tai Pew	12 July 2005	12 July 2005 to 12 July 2007	0.18	N/A	125,000	-	-	-	125,000
		25 November 2005 to 12 July 2007	0.18	N/A	125,000	-	-	-	125,000
		10 April 2006 to 12 July 2007	0.18	N/A	125,000	-	-	-	125,000
		23 August 2006 to 12 July 2007	0.18	N/A	125,000	-	-	-	125,000
Cheung Kwan Hung, Anthony	12 July 2005	12 July 2005 to 12 July 2007	0.18	N/A	125,000	-	-	-	125,000
		25 November 2005 to 12 July 2007	0.18	N/A	125,000	-	-	-	125,000
		10 April 2006 to 12 July 2007	0.18	N/A	125,000	-	-	-	125,000
		23 August 2006 to 12 July 2007	0.18	N/A	125,000	-	-	-	125,000
Tang Sim Cheow	12 July 2005	12 July 2005 to 12 July 2007	0.18	N/A	75,000	-	-	-	75,000
		25 November 2005 to 12 July 2007	0.18	N/A	75,000	-	-	-	75,000
		10 April 2006 to 12 July 2007	0.18	N/A	75,000	-	-	-	75,000
		23 August 2006 to 12 July 2007	0.18	N/A	75,000	-	-	-	75,000
					30,400,000	(8,025,000)	-	-	22,375,000

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## SHARE OPTION SCHEME (CONTINUED)

Name of grantee	Date of grant (Note 1)	Exercisable period	Exercise price HK\$	Weighted average closing price on the date immediately before the exercise date HK\$	Outstanding at 1 August 2005	Exercised during the year	Granted during the year	Lapsed during the year	Outstanding at 31 July 2006
<b>Other employees</b>	12 July 2005	12 July 2005 to 12 July 2007	0.18	0.265	4,522,000	(4,127,000)	-	(161,000)	234,000
		25 November 2005 to 12 July 2007	0.18	0.276	4,522,000	(3,881,000)	-	(347,000)	294,000
		10 April 2006 to 12 July 2007	0.18	0.324	4,522,000	(3,182,000)	-	(752,000)	588,000
		23 August 2006 to 12 July 2007	0.18	N/A	4,522,000	-	-	(752,000)	3,770,000
					18,088,000	(11,190,000)	-	(2,012,000)	4,886,000
<b>Employees of VS Berhad</b>	12 July 2005	12 July 2005 to 12 July 2007	0.18	N/A	125,000	-	-	-	125,000
		25 November 2005 to 12 July 2007	0.18	N/A	125,000	-	-	-	125,000
		10 April 2006 to 12 July 2007	0.18	N/A	125,000	-	-	-	125,000
		23 August 2006 to 12 July 2007	0.18	N/A	125,000	-	-	-	125,000
					500,000	-	-	-	500,000
					48,988,000	(19,215,000)	-	(2,012,000)	27,761,000

### Notes:

- The closing price of the Shares immediately before 12 July 2005, being the date of the grant of share options, was HK\$0.185.
- Other employees include employees of the Group (other than the Directors) working under employment contracts with the Group which are regarded as "continuous contracts" for the purpose of the Employment Ordinance (Cap.57, Laws of Hong Kong).
- There were no share options being cancelled during the financial year ended 31 July 2006.

The share options granted were fully vested at the date of grant.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the financial year ended 31 July 2006.

# Report of the Directors

## CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Details of the significant related party transactions for the financial year ended 31 July 2006 are set out in note 32 on the audited financial statements.

The Group had entered into the following connected transactions during the financial year ended 31 July 2006, details of which are required to be disclosed in this report pursuant to Chapter 14A of the Listing Rules:–

(i) **Continuing connected transactions with Sumitronics Hong Kong Ltd (“STX”)**

VSA(HK), a non-wholly owned subsidiary of the Company, has been engaged by STX for the processing of printed circuit boards for electronic products using the SMT since April 2003. The terms and conditions of each of the transactions were negotiated between the parties on a case-by-case basis. The processing fee payable by STX to VSA(HK) amounted to HK\$28.89 million during the financial year ended 31 July 2006. These transactions constituted ongoing connected transactions for the Company by reason that STX was a substantial shareholder of VSA(HK).

A waiver from strict compliance of the requisite disclosure and independent Shareholders’ approval requirements under the then Chapter 14 of the Listing Rules in respect of these transactions was granted by the Stock Exchange subject to certain conditions, details of which were set out in the Company’s announcement dated 21 November 2003 and circular dated 12 December 2003.

(ii) **Continuing connected transactions with 威士茂(珠海)管理有限公司 (V.S. (Zhuhai) Management Co., Ltd.) (“VS Management”)**

VS Zhuhai, a wholly owned subsidiary of the Company entered into a lease agreement with VS Management for leasing the residential units comprising 26 buildings and other facilities on 11 December 2003 for a period of nine years. The rental and related management fee were payable by cash in advance on the date of commencement for each six-month period. During the financial year ended 31 July 2006, the aggregate rental and management fee paid to VS Management by VS Zhuhai amounted to HK\$8.54 million. These transactions constituted ongoing connected transactions for the Company by reason that the entire issued share capital of VS Management was wholly owned by Mr. Beh Kim Ling, an executive Director and the chairman of the Company.

A waiver from strict compliance of the requisite disclosure and independent Shareholders’ approval requirements under the then Chapter 14 of the Listing Rules in respect of these transactions was granted by the Stock Exchange subject to certain conditions, details of which were set out in the Company’s announcement dated 11 December 2003 and circular dated 31 December 2003.

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## CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS (CONTINUED)

### (iii) Continuing connected transactions with VS Berhad

V.S. International Industry Limited (“VSIL”) (for itself and on behalf of its subsidiaries (collectively, “VSIL Group”)), a wholly owned subsidiary of the Company entered into a master supply agreement with VS Berhad Group on 28 December 2005. VSIL Group also entered into a master manufacturing agreement with VS Berhad Group on 12 May 2006. Pursuant to these agreements, the VSIL Group has supplied certain plastic moulded products and parts as well as moulds, and sub-contracted the design and fabrication of moulds to VS Berhad Group amounting to HK\$2.91 million and HK\$2.03 million respectively during the financial year ended 31 July 2006. The quantity, specification, payment terms and fees under both master supply agreement and master manufacturing agreement were subject to the individual manufacturing orders placed by the VSIL Group or VS Berhad Group or vice versa. These transactions constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules by reason that VS Berhad was a substantial Shareholder.

Announcements dated 29 December 2005 and 15 May 2006 were made by the Company pursuant to Rule 14A.34 of the Listing Rules in respect of these transactions.

### (iv) Connected transactions with B&E Holding Limited (“B&E”)

V.S. Holding Vietnam Limited (“VSHVL”), a wholly owned subsidiary of the Company entered into a legal capital transfer agreement with Mr. Beh Kim Siea to acquire 18.8% interest in VS Vietnam on 20 February 2006. On the same date, VSHVL entered into a joint venture contract with B&E and VNT Company Limited for the cooperation and joint investment in VS Vietnam for the manufacture and sales of plastic moulded products and parts. The purchase price paid to Mr. Beh Kim Siea by VSHVL for the acquisition of approximately 18.8% interest in VS Vietnam was a nominal consideration of US\$1, as the relevant legal capital had not been injected into VS Vietnam by Mr. Beh Kim Siea in whole or in part. The price for such acquisition was determined after arm’s length negotiations among the parties.

In pursuant to the legal capital transfer agreement, the purchase price of US\$1 was paid to Mr. Beh Kim Siea in cash by VSHVL within three months after the date on which approval for the transfer was obtained from the relevant government authorities in Vietnam.

According to the joint venture contract, VSVHL agreed to contribute US\$895,500 (equivalent to approximately HK\$6,984,900), representing approximately 18.8% of the initial legal capital of VS Vietnam in cash. These transactions constituted connected transactions for the Company under Chapter 14A of the Listing Rules by reasons that Mr. Beh Kim Siea was an associate of Mr. Beh Kim Ling, an executive Director and the chairman of the Company.

An announcement dated 21 February 2006 was made by the Company pursuant to Rule 14A.34 of the Listing Rules in respect of these transactions.

# Report of the Directors

## CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS (CONTINUED)

### (v) Continuing connected transactions with Andes

VSILL (for itself and on behalf of the other members of the VSILL Group) entered into a master supply agreement with Andes on 13 April 2006. The quantity, specification and price of the products to be supplied by VSILL Group under the master supply agreement were subject to the individual manufacturing orders placed by Andes with the VSILL Group. Pursuant to this agreement, the VSILL Group has supplied certain plastic moulded products and parts to Andes amounting to HK\$1.56 million during the financial year ended 31 July 2006. These transactions constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules by reason that Andes was a substantial shareholder of VSA(HK), a non-wholly owned subsidiary of the Company.

An announcement dated 13 April 2006 was made by the Company pursuant to Rule 14A.34 of the Listing Rules in respect of these transactions.

The Board, including the independent non-executive Directors, confirmed that each of the continuing connected transactions set out in paragraphs (i), (ii), (iii) and (v) above had been entered into:

1. in the ordinary and usual course of business of the Group;
2. on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
3. in accordance with the relevant agreement governing them on terms that were fair and reasonable and in the interests of the Shareholders as a whole.

The auditors of the Company also confirmed that the continuing connected transactions set out in paragraphs (i), (ii), (iii) and (v) above:-

1. had been approved by the Board;
2. (where applicable) were in accordance with the pricing policies of the Group;
3. had been entered into in accordance with the terms of the agreements relating to these transactions; and
4. the aggregate consideration received or paid in respect of the above continuing connected transactions during the financial year ended 31 July 2006 had not exceeded the cap disclosed in the respective announcement and/or circular.

# Report of the Directors

## CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS (CONTINUED)

Save as disclosed therein, there were no other connected transactions which are required to be disclosed in this report in accordance with the requirements of Chapter 14A of the Listing Rules.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association although there are no restrictions against such rights under the law in the Cayman Islands.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the financial year ended 31 July 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 July 2006 are set out in notes 23, 24 and 32(c) on the audited financial statements.

## INTEREST CAPITALISED

The amount of interest capitalised by the Group during the financial year ended 31 July 2006 is set out in note 6(a) on the audited financial statements.

## FIVE YEARS SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 122 of this annual report.

## PROPERTIES

Particulars of the major properties and property interests of the Group are shown on page 121 of this annual report.

## RETIREMENT SCHEMES

Particulars of the retirement schemes of the Group are set out in note 5 on the audited financial statements.

## AUDIT COMMITTEE

The Board established the Audit Committee on 20 January 2002 with written terms of reference in compliance with the Code of Best Practice as set out in the then Appendix 14 of the Listing Rules. The Audit Committee was re-constituted on 30 September 2004.

The role, function and composition of the Audit Committee are set out on pages 22 to 23 of this annual report.



# Report of the Directors

## AUDIT COMMITTEE (CONTINUED)

The Audit Committee has reviewed the Group's financial statements for the financial year ended 31 July 2006 and is 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.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors confirmation of his independence from the Group and the Company considers that each of them to be independent pursuant to Rule 3.13 of the Listing Rules.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the best knowledge of the Directors at the date of this annual report, there was a sufficient prescribed public float of the issued Shares under the Listing Rules at any time during the financial year ended 31 July 2006.

## AUDITORS

KPMG will retire and, being eligible, offer themselves for re-appointment at the Annual General Meeting. A resolution for the re-appointment of KPMG as auditors of the Company will be proposed at the Annual General Meeting.

By order of the Board

**Beh Kim Ling**

*Chairman*

Zhuhai, the PRC

22 September 2006