



**V.S. International Group Limited**  
**威鉞國際集團有限公司**

(incorporated in the Cayman Islands with limited liability)  
(stock code: 1002)



Interim Report  
2006/07

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## Corporate Information

### BOARD OF DIRECTORS

#### Executive Directors

Beh Kim Ling (*Chairman*)

Gan Sem Yam (*Managing Director*)

Gan Chu Cheng (*Finance Director*)

Zhang Pei Yu

#### Non-executive Director

Gan Tiong Sia

#### Independent non-executive Directors

Diong Tai Pew

Cheung Kwan Hung, Anthony

Tang Sim Cheow

### AUDIT COMMITTEE OF THE BOARD

Diong Tai Pew (*Chairman of Audit Committee*)

Cheung Kwan Hung, Anthony

Tang Sim Cheow

### REMUNERATION COMMITTEE OF THE BOARD

Cheung Kwan Hung, Anthony

(*Chairman of the Remuneration Committee*)

Beh Kim Ling

Diong Tai Pew

### COMPANY SECRETARY

Goh Thian Song, FCCA, CPA

### QUALIFIED ACCOUNTANT

Goh Thian Song, FCCA, CPA

### REGISTERED OFFICE

Cricket Square

Hutchins Drive, P.O. Box 2681

Grand Cayman

KY1-1111

Cayman Islands

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

4106, 41st Floor

Office Tower, Convention Plaza

1 Harbour Road

Wanchai, Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited

36C Bermuda House, 3rd Floor

P.O. Box 513 G.T., Dr. Roy's Drive

George Town, Grand Cayman

British West Indies

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

46th Floor

Hopewell Centre

183 Queen's Road East

Wanchai, Hong Kong

### LEGAL ADVISERS

Chiu & Partners

41st Floor, Jardine House

1 Connaught Place

Central, Hong Kong

### AUDITORS

KPMG

*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

### PRINCIPAL BANKERS

Malayan Banking Berhad

United Overseas Bank Limited

China Minsheng Banking Corp., Ltd.

Industrial & Commercial Bank of China

## Corporate Information

### SUBSIDIARIES

#### V.S. International Industry Limited

#### V.S. Holding Vietnam Limited

P.O. Box 957, Offshore Incorporations Centre  
Road Town, Tortola  
British Virgin Islands

#### V.S. Investment Holdings Limited

Belmont Chambers, P.O. Box 3443  
Road Town, Tortola  
British Virgin Islands

#### V.S. Corporation (Hong Kong) Co., Limited

#### VSA Holding Hong Kong Co., Limited

#### V.S. Capital Holdings Limited

41st Floor, Jardine House  
1 Connaught Place  
Central, Hong Kong  
Tel. No: (852) 2511 9002  
Fax No: (852) 2511 9880

#### VSHK Processing Factory

#### V.S. Industry (Shenzhen) Co., Ltd.

Huangpu Village, Shajin Town  
Bao An District  
518104 Shenzhen  
Guangdong Province  
The People's Republic of China  
Tel. No: (86) 755 2729 9480  
Fax No: (86) 755 2724 2763

#### V.S. Technology Industry Park (Zhuhai) Co., Ltd.

#### V.S. Industry (Zhuhai) Co., Ltd.

#### VSA Electronics Technology (Zhuhai) Co., Ltd.

Beisha Village, Tangjia Wan Town  
Xiangzhou District  
519085 Zhuhai  
Guangdong Province  
The People's Republic of China  
Tel. No: (86) 756 3392 338  
Fax No: (86) 756 3385 691/681

#### Qingdao GS Electronics Plastic Co., Ltd.

#### Haivs Industry (Qingdao) Co., Ltd.

#### Qingdao GP Electronic Plastics Co., Ltd.

Qianwangang Road South  
Haier International Industrial Park  
Qingdao Economic and Technology Development Zone  
Huangdao District  
266510 Qingdao  
Shandong Province  
The People's Republic of China  
Tel. No: (86) 532 8676 2188  
Fax No: (86) 532 8676 2233

### ASSOCIATED COMPANIES

#### Wako VS Nano Technologies (Hong Kong) Co., Ltd.

Unit 1507, 15/F  
AXA Centre  
No 151 Gloucester Road  
Hong Kong  
Tel. No: (852) 2529 6976  
Fax No: (852) 2529 6791

#### Wako VS Nano Technologies (Zhuhai) Co., Ltd.

#### VS-USotor (Zhuhai) Co., Ltd.

Beisha Village, Tangjia Wan Town  
Xiangzhou District  
519085 Zhuhai  
Guangdong Province  
The People's Republic of China  
Tel. No: (86) 756 3392 338  
Fax No: (86) 756 3394 990/(86) 756 3392 992

#### VS Industry Vietnam Joint Stock Company

*(formerly known as VS Industry Vietnam Co., Ltd.)*

Quevo Industrial Park, Vanduong Commune  
Quevo District  
Bacninh Province  
Vietnam  
Tel. No: (84) 241 634 300  
Fax No: (84) 241 634 308

## Introduction

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The board (“Board”) of directors (“Directors”) of V.S. International Group Limited (“Company”) has pleasure to present the interim financial report of the Company and its subsidiaries (together, the “Group”) for the six months ended 31 January 2007, which has not been audited by the auditors of the Group, KPMG, but has been reviewed by KPMG and the audit committee (“Audit Committee”) of the Board.

## Consolidated Income Statement (Unaudited)

for the six months ended 31 January 2007  
(Expressed in Hong Kong dollars)

	Note	For the six months ended 31 January	
		2007 \$'000	2006 \$'000
<b>Turnover</b>	2	<b>793,620</b>	715,532
Cost of sales		<b>(670,294)</b>	(599,446)
<b>Gross profit</b>		<b>123,326</b>	116,086
Other net income/(losses)	3(a)	<b>6,768</b>	(432)
Distribution costs		<b>(18,233)</b>	(11,162)
Administrative expenses		<b>(42,978)</b>	(41,179)
Other operating expenses		<b>(120)</b>	–
<b>Profit from operations</b>		<b>68,763</b>	63,313
Finance costs	3(b)	<b>(26,579)</b>	(24,475)
Share of losses of associates		<b>(4,249)</b>	(2,973)
<b>Profit before taxation</b>	3	<b>37,935</b>	35,865
Income tax	4(a)	<b>(5,984)</b>	(401)
<b>Profit for the period</b>		<b>31,951</b>	35,464
<b>Attributable to:</b>			
Equity shareholders of the Company	19	<b>32,084</b>	35,041
Minority interests	19	<b>(133)</b>	423
<b>Profit for the period</b>		<b>31,951</b>	35,464
<b>Earnings per share</b>	6		
Basic		<b>3.78 cents</b>	4.26 cents
Diluted		<b>3.75 cents</b>	4.20 cents

The notes on pages 11 to 37 form part of this interim financial report.

## Consolidated Balance Sheet (Unaudited)

at 31 January 2007  
(Expressed in Hong Kong dollars)

	Note	At 31 January 2007 \$'000	At 31 July 2006 \$'000
<b>Non-current assets</b>			
Fixed assets			
– Property, plant and equipment		745,150	722,818
– Interests in leasehold land held for own use under operating leases		23,098	22,816
	7	768,248	745,634
Goodwill	8	2,172	2,172
Interests in associates	9	7,638	12,007
		778,058	759,813
<b>Current assets</b>			
Inventories	10	166,276	162,593
Trade and other receivables	11	356,531	283,908
Deposits with banks	12	116,874	79,871
Cash and cash equivalents	13	107,594	161,485
		747,275	687,857
<b>Current liabilities</b>			
Trade and other payables	14	298,254	274,362
Interest-bearing borrowings	15	604,189	508,422
Obligations under finance leases	16	4,660	11,415
Loan from a substantial shareholder	21(c)	4,903	4,879
Current taxation	4(b)	586	917
		912,592	799,995
<b>Net current liabilities</b>		(165,317)	(112,138)
<b>Total assets less current liabilities</b>		612,741	647,675

## Consolidated Balance Sheet (Unaudited)

at 31 January 2007  
(Expressed in Hong Kong dollars)

	Note	At 31 January 2007 \$'000	At 31 July 2006 \$'000
<b>Non-current liabilities</b>			
Interest-bearing borrowings	15	165,100	236,782
Obligations under finance leases	16	5,004	6,974
Loan from a substantial shareholder	21(c)	22,063	24,395
		<b>192,167</b>	268,151
<b>NET ASSETS</b>			
		<b>420,574</b>	379,524
<b>CAPITAL AND RESERVES</b>			
Share capital	18	42,767	41,961
Reserves	19	373,409	332,453
<b>Total equity attributable to equity shareholders of the Company</b>			
		<b>416,176</b>	374,414
<b>Minority interests</b>	19	<b>4,398</b>	5,110
<b>TOTAL EQUITY</b>			
		<b>420,574</b>	379,524

The notes on pages 11 to 37 form part of this interim financial report.



## Consolidated Statement of Changes in Equity (Unaudited)

for the six months ended 31 January 2007  
(Expressed in Hong Kong dollars)

	Note	For the six months ended 31 January			
		2007		2006	
		\$'000	\$'000	\$'000	\$'000
<b>Total equity at 1 August:</b>					
Attributable to:					
– Equity shareholders of the Company		374,414		324,291	
– Minority interests	19	5,110		5,513	
At 1 August			379,524		329,804
<b>Net income for the period recognised directly in equity:</b>					
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	19	13,586		(595)	
Net income for the period recognised directly in equity			13,586		(595)
<b>Net profit for the period</b>	19		31,951		35,464

## Consolidated Statement of Changes in Equity (Unaudited)

for the six months ended 31 January 2007  
(Expressed in Hong Kong dollars)

	Note	For the six months ended 31 January			
		2007		2006	
		\$'000	\$'000	\$'000	\$'000
<b>Total recognised income and expense for the period</b>			<b>45,537</b>		<b>34,869</b>
Attributable to:					
– Equity shareholders of the Company		<b>32,084</b>		35,041	
– Minority interests		<b>(133)</b>		423	
		<b>31,951</b>		<b>35,464</b>	
Dividends declared and payable to:					
– Equity shareholders of the Company	5	<b>(6,840)</b>		(6,606)	
– Minority interests	19	<b>(579)</b>		(520)	
			<b>(7,419)</b>		<b>(7,126)</b>
<b>Movements in equity arising from capital transactions:</b>					
Shares issued under share option scheme		<b>2,900</b>		1,250	
Equity settled share-based transactions	19	<b>32</b>		1,114	
			<b>2,932</b>		<b>2,364</b>
<b>Total equity at 31 January</b>			<b>420,574</b>		<b>359,911</b>

The notes on pages 11 to 37 form part of this interim financial report.

## Condensed Consolidated Cash Flow Statement (Unaudited)

for the six months ended 31 January 2007  
(Expressed in Hong Kong dollars)

	Note	For the six months ended 31 January	
		2007 \$'000	2006 \$'000
Cash generated from operations		51,683	104,873
Income tax paid by the subsidiaries in the People's Republic of China ("PRC")		(6,315)	(151)
Net cash generated from operating activities		45,368	104,722
Net cash used in investing activities		(69,323)	(33,472)
Net cash used in financing activities		(33,130)	(75,551)
Net decrease in cash and cash equivalents		(57,085)	(4,301)
Cash and cash equivalents at 1 August	13	159,347	84,317
Effect of foreign exchange rate changes		2,581	(595)
Cash and cash equivalents at 31 January	13	104,843	79,421

# Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 BASIS OF PREPARATION

- (a) This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 July 2006, except as disclosed in note 1(b).

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which term collectively includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations issued by the HKICPA, that are effective for accounting periods beginning on or after 1 August 2006. The adoption of these new and revised HKFRSs did not result in significant changes to the accounting policies applied by the Company and the Group in this interim financial report for the periods presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 23).

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group and the Group’s interests in associates since the annual financial statements for the year ended 31 July 2006. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, “Engagements to review interim financial reports”, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 50.

The financial information relating to the financial year ended 31 July 2006 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 July 2006 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 September 2006.

As at 31 January 2007, the Group’s current liabilities exceeded its current assets by approximately \$165.32 million. At the date of this interim financial report, the Group has obtained an offer letter from a bank which currently provides borrowings to the Group to convert short term borrowings totalling \$158.00 million to long term borrowings. Accordingly, the interim financial report has been prepared on a going concern basis.

## Notes on the Interim Financial Report (Unaudited)

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(Expressed in Hong Kong dollars unless otherwise indicated)

### 1 BASIS OF PREPARATION (continued)

#### (b) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date, the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to the income statement, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

As at 31 January 2007, the Group has certain forward exchange contracts with aggregate notional contract amounts of US\$35,500,000. The net fair value of the forward exchange contracts at 31 January 2007 was not significant in the context of this interim financial report. All of the forward exchange contracts have maturities of less than one year after the balance sheet date.

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 2 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

#### (i) Business segments

The Group comprises the following main business segments:

Plastic injection and moulding	:	manufacture and sales of plastic moulded products and parts
Assembling of electronic products	:	assembly and sales of electronic products, including processing fees generated from assembling of electronics products
Mould design and fabrication	:	manufacture and sales of plastic injection moulds

	Plastic injection and moulding		Assembling of electronic products		Mould design and fabrication		Consolidated	
	For the six months ended 31 January		For the six months ended 31 January		For the six months ended 31 January		For the six months ended 31 January	
	2007	2006	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Turnover from external customers	602,532	568,897	123,675	97,819	67,413	48,816	793,620	715,532
Segment results	81,385	79,872	5,693	7,825	17,497	10,478	104,575	98,175
Unallocated operating income and expenses							(35,812)	(34,862)
Profit from operations							68,763	63,313
Finance costs							(26,579)	(24,475)
Share of losses of associates							(4,249)	(2,973)
Income tax							(5,984)	(401)
Profit for the period							31,951	35,464
Depreciation and amortisation for the period	25,077	23,942	9,142	8,843	3,704	3,995	37,923	36,780
Unallocated depreciation and amortisation							3,165	3,651
							41,088	40,431

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 2 SEGMENT REPORTING (continued)

#### (ii) Geographical segments

The Group's business participates in six (2006: six) major economic environments.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

Turnover from external customers is analysed as follows:

	For the six months ended 31 January	
	2007 \$'000	2006 \$'000
PRC (other than Taiwan and Hong Kong)	474,313	418,085
Hong Kong	178,618	186,069
Northern Asia	51,318	38,462
Europe	35,054	22,703
South East Asia	31,053	22,973
United States of America	22,829	26,850
Others	435	390
	<b>793,620</b>	<b>715,532</b>

### 3 PROFIT BEFORE TAXATION

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

	For the six months ended 31 January	
	2007 \$'000	2006 \$'000
<b>(a) Other net (income)/losses:</b>		
Interest income	(4,579)	(2,922)
Rental income	(1,515)	(1,353)
Net loss on disposal of fixed assets	45	4,585
Others	(719)	122
	<b>(6,768)</b>	<b>432</b>

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 3 PROFIT BEFORE TAXATION (continued)

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

	For the six months ended 31 January	
	2007 \$'000	2006 \$'000
<b>(b) Finance costs:</b>		
Interest on bank advances repayable within five years	26,052	22,879
Interest on loan from a substantial shareholder	685	857
Finance charges on obligations under finance leases	651	791
Total borrowing costs	27,388	24,527
Less: Borrowing costs capitalised as construction in progress*	(1,271)	(679)
	26,117	23,848
Other charges	462	627
	26,579	24,475

\* The borrowing costs have been capitalised at an average cost of borrowings to the Group of 7.03% (2006: 5.70%) per annum for construction in progress.

	For the six months ended 31 January	
	2007 \$'000	2006 \$'000
<b>(c) Other items:</b>		
Processing fees	9,497	8,546
Amortisation of interests in leasehold land held for own use under operating leases	249	211
Depreciation		
– other assets	39,445	37,891
– assets held under finance leases	1,394	2,329
Operating lease charges in respect of properties		
– factory and hostel rentals	5,219	4,324
Impairment losses for doubtful debts charged/(reversed)	1,215	(214)
Impairment loss for interests in associates	120	–
Net foreign exchange losses/(gains)	3,538	(575)



## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 4 INCOME TAX

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

	For the six months ended 31 January	
	2007 \$'000	2006 \$'000
<b>Current tax – PRC</b>		
Tax for the period	5,984	401

No provision has been made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax during the six months ended 31 January 2007 and 2006.

Taxable income for the subsidiaries of the Company in the PRC is subject to PRC income tax. Subsidiaries of the Company in the PRC which are foreign investment enterprises that are granted certain tax relief, under which they are entitled to PRC income tax exemption for two years commencing from the first profit making year and to a 50% relief from PRC income tax for the following three years. After the expiry of the tax relief period, the subsidiaries' profits are subject to PRC income tax at the rate of 15%.

Subsidiaries of the Company in the PRC were either entitled to income tax exemption or sustained losses for taxation purposes for the six months ended 31 January 2007 except for the following four subsidiaries of the Company in the PRC which are subject to standard or preferential income tax rate as follows:

Name of subsidiary	Period	Income tax rate
V.S. Technology Industry	1 August 2005 to 31 December 2005	7.5%
Park (Zhuhai) Co., Ltd.	1 January 2006 to 31 January 2007	15.0%
Haivs Industry (Qingdao) Co., Ltd.	1 August 2005 to 31 December 2006	7.5%
	1 January 2007 to 31 January 2007	15.0%
V.S. Industry (Zhuhai) Co., Ltd.	1 January 2007 to 31 January 2007	7.5%
Qingdao GS Electronics Plastic Co., Ltd.	1 January 2007 to 31 January 2007	7.5%

A subsidiary of the Company has entered into processing arrangements with certain independent third parties (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.

Pursuant to the laws, rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 4 INCOME TAX (continued)

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

	At 31 January 2007 \$'000	At 31 July 2006 \$'000
PRC income tax payable	586	917

### (c) Deferred tax assets not recognised

No deferred tax assets in respect of accumulated tax losses of \$22,152,000 (31 July 2006: \$27,552,000) have been recognised as it is not probable that the Group will be able to generate future taxable profits against which the losses can be utilised. Under the relevant PRC tax rules and regulations, the tax losses as at 31 January 2007 will expire between year 2008 and year 2011. In addition, other deferred tax assets or liabilities have not been recognised as all the deductible or temporary differences are not material.

## 5 DIVIDENDS

### (a) Dividends attributable to the interim period

The Directors do not recommend any payment of interim dividend for the six months ended 31 January 2007 (2006: Nil).

### (b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period

	For the six months ended 31 January	
	2007 \$'000	2006 \$'000
Final dividend in respect of the previous financial year, approved and paid during the period, of 0.8 cents (2006: 0.8 cents) per share	6,840	6,606

During the period from the date of proposal of the final dividend for the year ended 31 July 2006 to the date of approval of such final dividend, 15,810,000 share options were exercised. Accordingly, a final dividend amounting to \$6,840,000 was approved and paid during the period.

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 6 EARNINGS PER SHARE

#### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$32,084,000 (2006: \$35,041,000) and the weighted average number of 848,590,103 shares (2006: 822,323,391 shares) in issue during the six months ended 31 January 2007, calculated as follows:

	2007 Number of shares	2006 Number of shares
Issued ordinary shares at 1 August	827,806,022	820,000,000
Effect of share options exercised (note 17)	20,784,081	2,323,391
Weighted average number of ordinary shares at 31 January	<b>848,590,103</b>	822,323,391

#### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$32,084,000 (2006: \$35,041,000) and the weighted average number of ordinary shares of 855,102,270 (2006: 833,458,705) shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme, calculated as follows:

	2007 Number of shares	2006 Number of shares
Weighted average number of ordinary shares at 31 January	848,590,103	822,323,391
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 17)	6,512,167	11,135,314
Weighted average number of ordinary shares (diluted) at 31 January	<b>855,102,270</b>	833,458,705

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 7 FIXED ASSETS

	Buildings held for own use	Leasehold improvements	Plant and machinery	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Sub-total	Interests in leasehold land held for own use under operating leases	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost:</b>									
At 1 August 2006	234,307	25,748	715,820	26,313	20,807	25,339	1,048,334	24,862	1,073,196
Exchange adjustments	5,944	363	15,243	638	453	793	23,434	576	24,010
Transfer	2,936	-	594	103	-	(3,633)	-	-	-
Additions	1,776	236	16,519	1,382	2,293	23,807	46,013	-	46,013
Disposals	-	-	(11,155)	-	(222)	-	(11,377)	-	(11,377)
At 31 January 2007	244,963	26,347	737,021	28,436	23,331	46,306	1,106,404	25,438	1,131,842
<b>Accumulated depreciation and amortisation:</b>									
At 1 August 2006	19,500	8,683	266,881	15,933	14,519	-	325,516	2,046	327,562
Exchange adjustments	490	69	4,577	347	295	-	5,778	45	5,823
Charge for the period	2,404	1,261	33,750	1,798	1,626	-	40,839	249	41,088
Written back on disposals	-	-	(10,718)	-	(161)	-	(10,879)	-	(10,879)
At 31 January 2007	22,394	10,013	294,490	18,078	16,279	-	361,254	2,340	363,594
<b>Net book value:</b>									
At 31 January 2007	222,569	16,334	442,531	10,358	7,052	46,306	745,150	23,098	768,248
At 31 July 2006	214,807	17,065	448,939	10,380	6,288	25,339	722,818	22,816	745,634

During the six months ended 31 January 2006, the Group acquired items of fixed assets with a cost of \$44,988,000. Items of fixed assets with a net book value of \$6,455,000 were disposed of during the six months ended 31 January 2006, resulting a loss on disposal of \$4,585,000.

At 31 January 2007, certain fixed assets have been pledged as security for the bank loans (note 15(b)).

The Group leases certain production plant and machinery under finance leases expiring in one to three years. At the end of the respective lease terms, the Group has the option to purchase the equipment at a price deemed to be a bargain purchase options. None of the leases includes contingent rentals.

The net book value of plant and machinery of the Group held under finance leases was \$23,954,000 at 31 January 2007 (31 July 2006: \$53,594,000).

The land use right certificate relating to a land use right with a net book value of \$3,559,000 at 31 January 2007 (31 July 2006: \$3,503,000) has yet to be obtained.

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 8 GOODWILL

	The Group positive goodwill \$'000
<b>Cost and carrying amount:</b>	
At 31 July 2006 and 31 January 2007	<u>2,172</u>

The Directors make an assessment on the recoverable amount of goodwill annually and considered that there was no indication of impairment at 31 January 2007.

### 9 INTERESTS IN ASSOCIATES

	At 31 January 2007 \$'000	At 31 July 2006 \$'000
Share of net assets	7,758	12,007
Less: impairment loss	(120)	–
	<u>7,638</u>	<u>12,007</u>

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 9 INTEREST IN ASSOCIATES (continued)

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or the assets of the Group.

Name of associate	Form of business structure	Place of incorporation	Place of operation	Particulars of capital	Proportion of ownership interest		
					Group's effective interest	Held by subsidiaries	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
VS Industry Vietnam Joint Stock Company (formerly known as VS Industry Vietnam Co., Ltd.) ("VS Vietnam")	Limited liability company	Vietnam	Vietnam	Legal capital of US\$5,956,500	15.0% (note (ii))	15.0%	Manufacturing and selling of plastic moulded products and parts
VS-USotor (Zhuhai) Co., Ltd. ("VS-USotor")	Sino-foreign equity joint venture	PRC	PRC	Registered capital HK\$5,000,000	19.0% (note (ii))	19.0%	Manufacturing and selling of metal stamped parts and components

#### 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's equity interests in Wako VS HK, VS Vietnam and VS-USotor are 18.9%, 15.0% and 19.0% respectively, by virtue of the significant influence over their management, including participation in the financial and operating policy decisions, they are considered to be associates of the Group.
- (iii) As Wako VS Zhuhai sustained losses for several years, the Directors evaluated the business activity and future performance of Wako VS Zhuhai and Wako VS HK, and considered that the carrying amounts of interests in Wako VS Zhuhai and Wako VS HK were impaired. Accordingly, the Group has recognised in the consolidated income statement an impairment loss of \$120,000 for interests in associates.

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 10 INVENTORIES

(a) Inventories in the consolidated balance sheet (unaudited) comprise:

	At 31 January 2007 \$'000	At 31 July 2006 \$'000
Raw materials	73,731	68,196
Work-in-progress	49,008	50,679
Finished goods	43,537	43,718
	<b>166,276</b>	<b>162,593</b>

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	For the six months ended 31 January	
	2007 \$'000	2006 \$'000
Carrying amount of inventories sold	669,075	597,772
Write down of inventories	1,219	1,702
Reversal of write-down of inventories	-	(28)
	<b>670,294</b>	<b>599,446</b>

The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value of certain goods as a result of a change in consumer preferences.

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 11 TRADE AND OTHER RECEIVABLES

	At 31 January 2007 \$'000	At 31 July 2006 \$'000
Trade receivables	278,452	210,809
Bills receivable	31,439	30,841
Other receivables, prepayments and deposits	46,640	42,258
	<b>356,531</b>	<b>283,908</b>

Bills discounted to banks with recourse totalling \$31,355,000 (31 July 2006: \$22,676,000) were included in bills receivable (note 15(b)) as at 31 January 2007.

All of the trade and other receivables are expected to be recovered within one year.

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses for bad and doubtful debts) with the following ageing analysis as at the balance sheet date:

	At 31 January 2007 \$'000	At 31 July 2006 \$'000
Within 30 days	135,404	126,614
Over 30 days but within 90 days	146,965	85,411
Over 90 days but within one year	27,522	29,625
	<b>309,891</b>	<b>241,650</b>

Credit terms granted by the Group to customers generally range from 30 to 120 days.



## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 12 DEPOSITS WITH BANKS

	At 31 January 2007 \$'000	At 31 July 2006 \$'000
Deposits with banks with original maturity date over three months	12,526	18,542
Pledged fixed deposits with banks	104,348	61,329
	<b>116,874</b>	<b>79,871</b>

Pledged fixed deposits with banks have been pledged to banks as security for the bank loans and overdrafts (note 15(b)), and other banking facilities (note 14(b)).

### 13 CASH AND CASH EQUIVALENTS

	At 31 January 2007 \$'000	At 31 July 2006 \$'000
Cash at bank and in hand	107,594	161,485
Cash and cash equivalents in the balance sheet	107,594	161,485
Bank overdrafts (note 15(a))	(2,751)	(2,138)
Cash and cash equivalents in the consolidated cash flow statement	<b>104,843</b>	<b>159,347</b>

### 14 TRADE AND OTHER PAYABLES

	At 31 January 2007 \$'000	At 31 July 2006 \$'000
Trade payables	209,107	191,033
Bills payable	19,422	4,873
Accrued expenses and other payables	69,725	78,456
	<b>298,254</b>	<b>274,362</b>

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

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 14 TRADE AND OTHER PAYABLES (continued)

- (a) Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as at the balance sheet date:

	At 31 January 2007 \$'000	At 31 July 2006 \$'000
Due within 30 days or on demand	92,258	84,561
Due after 30 days but within 90 days	112,366	87,968
Due after 90 days but within 180 days	18,905	18,504
Due after 180 days but within one year	5,000	4,873
	<b>228,529</b>	<b>195,906</b>

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

	At 31 January 2007 \$'000	At 31 July 2006 \$'000
Pledged fixed deposits with banks (note 12)	19,574	4,873

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 15 INTEREST-BEARING BORROWINGS

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

	At 31 January 2007 \$'000	At 31 July 2006 \$'000
<b>Current:</b>		
Overdrafts		
– secured	2,751	2,138
Bank loans		
– secured	437,159	353,580
– unsecured	164,279	152,704
	<b>601,438</b>	506,284
	<b>604,189</b>	508,422
<b>Non-current:</b>		
Bank loans		
– secured	165,100	236,782
	<b>769,289</b>	745,204

None of the non-current bank loans is expected to be settled within one year.

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 15 INTEREST-BEARING BORROWINGS (continued)

(b) Certain banking facilities, including overdrafts and bank loans, are secured by the following assets of the Group:

	At 31 January 2007 \$'000	At 31 July 2006 \$'000
Bills receivable (note 11)	31,355	22,676
Fixed deposits (note 12)	84,774	56,456
Interests in leasehold land held for own use under operating leases with aggregate carrying value (note 7)	10,736	10,582
Buildings held for own use with aggregate carrying value (note 7)	206,200	197,648
Plant and machinery with aggregate carrying value (note 7)	236,876	199,086
	<b>569,941</b>	<b>486,448</b>

Such banking facilities, totalling \$632,323,000 (31 July 2006: \$621,291,000), were utilised to the extent of \$605,010,000 (31 July 2006: \$592,500,000) at 31 January 2007.

(c) Two of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 January 2007 and 31 July 2006, none of the covenants relating to drawn down facilities had been breached.

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 16 OBLIGATIONS UNDER FINANCE LEASES

At 31 January 2007, the Group had obligations under finance leases repayable as follows:

	At 31 January 2007			At 31 July 2006		
	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
Within 1 year	4,660	545	5,205	11,415	910	12,325
After 1 year but within 2 years	3,176	245	3,421	3,676	389	4,065
After 2 years but within 5 years	1,828	40	1,868	3,298	125	3,423
	<b>5,004</b>	<b>285</b>	<b>5,289</b>	6,974	514	7,488
	<b>9,664</b>	<b>830</b>	<b>10,494</b>	18,389	1,424	19,813

### 17 SHARE OPTION SCHEME

The Company has a share option scheme (the "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 in 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 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. As at 12 July 2005, 58 eligible participants accepted the offer of options granted by the Company. No further options have been granted since that date.

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 17 SHARE OPTION SCHEME (continued)

- (a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

Date granted	Vesting period	Exercise period	Options granted		Total
			Directors '000	Employees '000	
12 July 2005	–	12 July 2005 to 12 July 2007	7,600	4,647	12,247
	12 July 2005 to 24 November 2005	25 November 2005 to 12 July 2007	7,600	4,647	12,247
	12 July 2005 to 9 April 2006	10 April 2006 to 12 July 2007	7,600	4,647	12,247
	12 July 2005 to 22 August 2006	23 August 2006 to 12 July 2007	7,600	4,647	12,247
			<u>30,400</u>	<u>18,588</u>	<u>48,988</u>

Pursuant to the rules of the Share Option Scheme, options will lapse when the grantee ceases to be an employee of the Group for reasons other than death, ill-health or retirement.

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 17 SHARE OPTION SCHEME (continued)

(b) The number and weighted average exercise prices of options are as follows:

	At 31 January 2007		At 31 July 2006	
	Weighted average exercise price	Number of options '000	Weighted average exercise price	Number of options '000
Outstanding at the beginning of the period/year	\$0.18	27,761	\$0.18	48,988
Exercised during the period/year	\$0.18	(16,110)	\$0.18	(19,215)
Lapsed during the period/year	–	–	\$0.18	(2,012)
Outstanding at the end of the period/year	\$0.18	11,651	\$0.18	27,761
Exercisable at the end of the period/year	\$0.18	11,651	\$0.18	15,514

The weighted average share price at the date of exercise for options exercised during the period was \$0.29 (31 July 2006: \$0.29).

The options outstanding at 31 January 2007 had an exercise price of \$0.18 (31 July 2006: \$0.18) and a weighted average remaining contractual life of 0.5 year (31 July 2006: 1 year).

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 18 SHARE CAPITAL

	At 31 January 2007		At 31 July 2006	
	Number of shares '000	Amount \$'000	Number of shares '000	Amount \$'000
<b>Authorised:</b>				
Ordinary shares of \$0.05 each	4,000,000	200,000	4,000,000	200,000
<b>Issued and fully paid:</b>				
At the beginning of the period/year	839,215	41,961	820,000	41,000
Shares issued under the Share Option Scheme	16,110	806	19,215	961
At the end of the period/year	855,325	42,767	839,215	41,961

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

#### Shares issued under the Share Option Scheme

During the period under review, options were exercised to subscribe for 16,110,000 (2006: 6,946,000) ordinary shares in the Company at a consideration of \$2,900,000 (2006: \$1,250,000) of which \$806,000 (2006: \$347,000) was credited to share capital and the balance of \$2,094,000 (2006: \$903,000) was credited to the share premium account. \$750,000 (2006: \$307,000) has been transferred from the employee share-based capital reserve to the share premium account.

#### Terms of unexpired and unexercised options at balance sheet date

Exercise period	Exercise price	Number of options	
		At 31 January 2007 '000	At 31 July 2006 '000
12 July 2005 to 12 July 2007	\$0.18	2,889	5,284
25 November 2005 to 12 July 2007	\$0.18	2,889	5,344
10 April 2006 to 12 July 2007	\$0.18	2,889	5,638
23 August 2006 to 12 July 2007	\$0.18	2,984	11,495
		<b>11,651</b>	<b>27,761</b>

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 17 to the interim financial report.



## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 19 RESERVES

		Attributable to equity shareholders of the Company								
		Foreign exchange			Employee		Retained profits	Total	Minority interests	Total
		Share premium	Contributed surplus	translation reserve	Statutory reserve fund	share-based capital reserve				
Note		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	At 1 August 2005	63,755	31,700	9,576	18,155	689	159,416	283,291	5,513	288,804
	Dividend approved in respect of the previous year	-	(6,606)	-	-	-	-	(6,606)	(520)	(7,126)
18	Shares issued under share option scheme	1,210	-	-	-	(307)	-	903	-	903
	Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	-	-	(595)	-	-	-	(595)	-	(595)
17	Equity settled share-based transactions	-	-	-	-	1,114	-	1,114	-	1,114
17	Share options lapsed during the period	-	-	-	-	(43)	43	-	-	-
	Profit for the period	-	-	-	-	-	35,041	35,041	423	35,464
	At 31 January 2006	64,965	25,094	8,981	18,155	1,453	194,500	313,148	5,416	318,564
18	Shares issued under share option scheme	2,146	-	-	-	(552)	-	1,594	-	1,594
	Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	-	-	7,027	-	-	-	7,027	-	7,027
17	Equity settled share-based transactions	-	-	-	-	402	-	402	-	402
17	Share options lapsed during the period	-	-	-	-	(49)	49	-	-	-
	Appropriation of reserves	-	-	-	4,768	-	(4,768)	-	-	-
	Profit for the period	-	-	-	-	-	10,282	10,282	(306)	9,976
	At 31 July 2006	67,111	25,094	16,008	22,923	1,254	200,063	332,453	5,110	337,563

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 19 RESERVES (continued)

		Attributable to equity shareholders of the Company								
		Share		Foreign	Employee		Retained		Minority	
		Premium	Contributed	exchange	Statutory	capital	profits	Total	interests	
		surplus	translation	reserve	share-based	reserve	profits	Total	interests	
		fund	reserve	fund	reserve	profits	Total	interests	Total	
Note		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
	At 1 August 2006	67,111	25,094	16,008	22,923	1,254	200,063	332,453	5,110	337,563
	Dividend approved in respect of the previous year	-	(6,840)	-	-	-	-	(6,840)	(579)	(7,419)
18	Shares issued under share option scheme	2,844	-	-	-	(750)	-	2,094	-	2,094
	Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	-	-	13,586	-	-	-	13,586	-	13,586
17	Equity settled share-based transactions	-	-	-	-	32	-	32	-	32
	Profit for the period	-	-	-	-	-	32,084	32,084	(133)	31,951
	At 31 January 2007	69,955	18,254	29,594	22,923	536	232,147	373,409	4,398	377,807

### 20 COMMITMENTS

#### (a) Capital commitments

Capital commitments outstanding at 31 January 2007 not provided for in the interim financial report were as follows:

	At 31 January 2007 \$'000	At 31 July 2006 \$'000
Contracted for	12,729	22,905
Authorised but not contracted for	-	12,792
	12,729	35,697

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 20 COMMITMENTS (continued)

#### (b) 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 \$5,219,000 (2006: \$4,324,000) were recognised as expenses in the consolidated income statement (unaudited) in respect of operating leases. None of the leases includes contingent rentals.

The total future minimum lease payments of properties under non-cancellable operating leases are payable as follows:

	At 31 January 2007 \$'000	At 31 July 2006 \$'000
Within 1 year	795	1,158
After 1 year but within 5 years	1,192	1,202
	<b>1,987</b>	<b>2,360</b>

Significant leasing arrangements in respect of machinery classified as being held under finance leases and land held under operating leases are described in notes 7 and 16.

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 21 MATERIAL RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances disclosed elsewhere in this interim financial report, the Group entered into the following material related party transactions:

	For the six months ended 31 January	
	2007 \$'000	2006 \$'000
Sales to associates	949	2,450
Sales to a substantial shareholder	13	5,366
Sales to minority shareholders of VSA Holding Hong Kong Co., Limited ("VSA(HK)")	16,748	23,999
	<b>17,710</b>	<b>31,815</b>
Interest paid and payable to a substantial shareholder (Note 21(c))	685	857
Royalty fee paid to a minority shareholder of VSA(HK)	473	528
Operating lease charges paid to a company controlled by a director	4,087	3,670
Operating lease charges received and receivable from an associate	463	449
Purchase of raw materials from a substantial shareholder	-	437
Purchase of raw materials from an associate	1,510	-
Management fee paid and payable to a company controlled by a director	295	31
Sub-contracting fee paid and payable to a substantial shareholder	43	-
Sub-contracting fee paid and payable to associates	237	1,681
Dividend paid to minority shareholders of VSA (HK)	579	520

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.

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 21 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Amounts due from related parties included as part of trade and other receivables were as follows:

	At 31 January 2007 \$'000	At 31 July 2006 \$'000
Amounts due from minority shareholders of VSA(HK)	1,373	1,372
Amount due from a company controlled by a director	2,612	2,644
Amounts due from associates	7,214	7,915
Amount due from a substantial shareholder	2,378	133
	<b>13,577</b>	12,064

Amounts due from related parties are interest free, unsecured and have no fixed terms of repayment.

(c) Amounts due to related parties were detailed as follows:

	At 31 January 2007		At 31 July 2006	
	Trade and other payables \$'000	Loan from a substantial shareholder* \$'000	Trade and other payables \$'000	Loan from a substantial shareholder* \$'000
Amounts due to directors	3,800	–	8,796	–
Amount due to a company controlled by a director	427	–	–	–
Amounts due to associates	696	–	518	–
Amount due to a substantial shareholder				
– current portion	765	4,903	619	4,879
– non-current portion	–	22,063	–	24,395
	<b>5,688</b>	<b>26,966</b>	9,933	29,274

\* 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 (2006: 5%) on the outstanding balance.

Except for the loan from a substantial shareholder of the Company, the amounts due to other related parties are interest-free, unsecured and have no fixed terms of repayment.

## Notes on the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 22 POST BALANCE SHEET EVENT

On 16 March 2007, the National People's Congress of the PRC adopted and promulgated a new enterprise income tax law that imposes a single uniform income tax rate of 25% for most domestic enterprises and foreign-invested enterprises. This new law will be effective from 1 January 2008. It contemplates various transition periods and measures for existing preferential tax policies and empowers the State Council of the PRC to enact appropriate implementing rules and regulations. As a result, the subsidiaries of the Company established in the PRC currently cannot assess the impact of the above mentioned new law.

### 23 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE PERIOD ENDED 31 JANUARY 2007

Up to the date of issue of this interim financial report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting year ending 31 July 2007 and which have not been adopted in this interim financial report.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendments to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

### 24 APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the Board on 28 March 2007.

# Management Discussion and Analysis of Results of Operations

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## OVERVIEW

During the financial period under review, the Group continued to implement and execute various strategies to widen its customer base and impose stringent cost control measures.

Despite the challenging operating environment, the Group's turnover and profit before taxation increased to \$793.62 million and \$37.94 million, representing an increase of 10.91%, and 5.77% respectively as compared to previous corresponding period. However, due to higher tax expense as a result of the expiry of certain tax incentives, net profit after taxation was reduced by \$3.51 million to \$31.95 million.

## BUSINESS AND FINANCIAL REVIEW

### Turnover and gross profit by business activities of the Group

#### *Plastic injection moulding business*

During the financial period under review, this segment remained the Group's core business, which contributed 75.92% of the Group's turnover. The turnover for the plastic injection moulding business increased to \$602.53 million as compared to the previous corresponding period of \$568.90 million, representing an increase of 5.91%. The increase was mainly attributable to increased orders from existing core customers and new customers.

The segment's margin increased to \$81.39 million as compared to the previous corresponding period of \$79.87 million. With higher utilization of production capacity and stringent cost control, we were able to achieve a margin of 13.51% as compared to previous corresponding period of 14.04%, notwithstanding the increase in raw materials and production overheads.

#### *Assembling of electronic products business*

Turnover for the assembling of electronic products business increased from \$97.82 million to \$123.68 million, representing an increase of 26.44% due to increased orders from existing customers. However, due to competitive market conditions, the margin from this segment declined from 8.00% to 4.60%.

#### *Mould design and fabrication business*

Mould design and fabrication business recorded a remarkable growth in turnover to \$67.41 million, representing an increase of 38.08% as compared to the previous corresponding period.

The Group's ability in delivery of quality mould within short production time had attracted more orders from existing and new customers. As a result, profit margin had increased from 21.46% to 25.96%.

## Management Discussion and Analysis of Results of Operations

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### *Distribution and administrative expenses*

During the period under review, the distribution expenses amounted to \$18.23 million, representing 2.30% of turnover as compared to 1.56% of previous corresponding period. The increase in distribution expenses was primarily due to the impairment losses for bad and doubtful debts of \$1.22 million and the increase in transportation costs for overseas delivery requested by certain customers.

The Group recorded administrative expenses of \$42.98 million as compared to the previous corresponding period of \$41.18 million.

### *Finance costs*

The Group incurred finance cost amounted to \$26.58 million as compared to the previous corresponding period of \$24.48 million, representing an increase of \$2.10 million. The increase was primarily due to increase in interest rates during the period.

### *Share of losses of associates*

The Group's share of associates' losses amounted to \$4.25 million as compared to the previous corresponding period of \$2.97 million. The losses incurred were mainly attributable to the under utilisation of production capacity in Wako VS Zhuhai, a company which engages in the manufacturing of plastic parts and components using spray painting technology.

During the financial period under review, the management had written off the Group's investment in Wako VS Zhuhai due to the continuous losses incurred.



## Future Prospects

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Overall, the Directors are satisfied with the Group's financial results during the period under review. The Group's objective has always been to maximise the long term value of the shareholders, even though this may be achieved at the expense of temporary high financial leverage in support of the expansion programme. The Directors consider that the current financial leverage situation is manageable and that it will help the Group to build a solid platform for future prosperity.

The plastic injection and moulding business have demonstrated continuous growth over the past few years and looking forward, the Group will continue to enhance its plastic injection and moulding business. The Group's success in upgrading its quality in mould design and fabrication services had and will further complement its plastic injection and assembly business in the foreseeable future.

The Group had been successful in establishing a new business line in assembling digital photo printer and is anticipating an increase in the turnover and profit contribution from this new business.

The newly set up factory in Qingdao, namely Qingdao GP Electronic Plastics Co., Ltd., a wholly own subsidiary of the Company, has started operating during the financial period under review. With the strengthening of our production facilities in Qingdao, the Group is anticipating higher contributions of turnover and profitability from Northern China.

The Directors are aware that the Group will continue to face challenges in the next six months in the midst of rising cost in China, appreciating Renminbi ("RMB") and higher interest rates which may continue to have adverse impact on our profitability. However, the management is confident that the measures taken which include procuring higher value added orders, enhancing the enterprise resources management and working capital management will minimise the impact.

## Other Information

### LIQUIDITY AND FINANCIAL RESOURCES

During the financial period under review, the Group financed its operations through a combination of shareholders' funds, internally generated cash flows and additional borrowings from banks in Hong Kong and the PRC.

As at 31 January 2007, the Group had cash and bank deposits of \$224.47 million (31 July 2006: \$241.36 million) of which \$104.35 million (31 July 2006: \$61.33 million) were pledged to banks for banking facilities granted to the Group. The cash and bank deposits were denominated in United States ("US") dollars, RMB and Hong Kong dollars in the proportion of 64.91%, 28.76% and 6.33% respectively.

The Group's total borrowings stated at \$805.92 million (31 July 2006: \$792.87 million) included a shareholder's loan of \$26.97 million (31 July 2006: \$29.27 million). The borrowings were utilised for capital expenditure and working capital purposes with interest rates ranging from 5.27% per annum to 9.75% per annum. The amounts of borrowings denominated in US dollars, RMB and Hong Kong dollars were in the amount of \$350.45 million, \$443.05 million and \$12.42 million respectively.

The Group's gearing ratio, represented by the net interest bearing borrowings over the Group's total assets as at 31 January 2007, was 38.12% (31 July 2006: 38.10%). The Group reported a comparable gearing ratio, which was principally due to the increase in total borrowings and total assets of the Group during the period under review. The Directors are confident that the gearing ratio will be reduced in the coming years.

At the date of this interim financial report, the Group has obtained an offer letter from a bank to provide HK\$158.00 million long term borrowings. The Directors will continue to monitor the borrowings level and attempt to reduce the gearing ratio of the Group.

### CHARGES ON ASSETS

As at 31 January 2007, certain assets of the Group with aggregate carrying value of HK\$589.51 million (31 July 2006: HK\$491.32million) were pledged to secure loan and trade financing facilities for the Group.

### FOREIGN EXCHANGE EXPOSURE

The Group's exposure to foreign exchange rate fluctuations during the period under review including turnover, purchases and borrowings, was denominated in US dollars, Japanese Yen and RMB. With the appreciation of RMB against US dollars, the Group reported a net exchange loss of \$3.54 million during the period under review, against a net exchange gain of \$0.57 million in the last corresponding period. The Group foresees that RMB will continue to strengthen against US dollars and the management will closely monitor the exchange rate fluctuations to ensure sufficient precautionary measures against any adverse impacts.

## Other Information

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### EMPLOYEES AND REMUNERATION POLICY

As at 31 January 2007, the Group had a total number of 8,580 employees (31 July 2006: 7,864). On top of that, 1,259 (31 July 2006: 1,193) persons were engaged by certain independent third parties under processing arrangements. During the period under review, there was no significant change in the Group's remuneration policies for its employees.

Employees' costs of the Group (excluding Directors' emoluments and wages paid to employees employed under the processing arrangements with the Providers) for the period under review amounted to \$94.83 million (31 January 2006: \$89.92 million). The Group's remuneration packages are maintained at competitive level and the Group's employees are rewarded on a performance basis and according to the experience of the individual employees.

The Group has adopted a provident fund scheme as required under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. It also participates in a government pension scheme for its employees in the PRC pursuant to the relevant laws, rules and regulations of the PRC.

The Group also operates the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. The Board granted options under the Scheme to subscribe for shares of the Company to its employees and Directors. Details of the scheme are set out in note 17 on this interim financial report.

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

During the period under review, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

### AUDIT COMMITTEE

The Board established the Audit Committee on 20 January 2002 with written terms of reference in compliance with the code provisions set out in Appendix 14 to the Listing Rules. The Audit Committee was re-constituted on 30 September 2004. The primary duties of the Audit Committee are to review the Group's financial reporting process, internal controls system and the Group's financial statements.

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Diong Tai Pew, Mr. Cheung Kwan Hung, Anthony and Mr. Tang Sim Cheow.

The Audit Committee has reviewed the Group's interim financial report for the six months ended 31 January 2007 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.

## Other Information

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

As at 31 January 2007, 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 7)	4.58%
	V.S. Corporation (Hong Kong) Co. Limited ("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)	–
Gan Sem Yam	The Company	Beneficial owner	39,200,775 Shares (L)	4.58%
	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)	4.58%
	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)	–

## Other Information

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

Name of Director (Note 1)	The Company/ name of associated corporation	Capacity	Number and class of securities (Note 2)	Approximate percentage of interest
Zhang Pei Yu	The Company	Beneficial owner	2,000 Shares (L)	0%
Gan Tiong Sia	The Company	Beneficial owner	25,400,775 Shares (L) (Notes 4 and 7)	2.96%
	VSHK	Beneficial owner	3,750,000 non-voting deferred shares of HK\$1 each (L)	5.00%
Diong Tai Pew	The Company	Beneficial owner	500,000 Shares (L)	0.06%
Cheung Kwan Hung, Anthony	The Company	Beneficial owner	500,000 Shares (L) (Notes 5 and 7)	0.06%
Tang Sim Cheow	The Company	Beneficial owner	300,000 Shares (L) (Notes 6 and 7)	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 the share options granted to Mr. Beh Kim Ling by the Company under the Share Option Scheme, details of which are set out in note 7 below.
4. 2,000,000 of these Shares were Shares that would be allotted and issued upon exercise in full of the share options granted to Mr. Gan Tiong Sia by the Company under the Share Option Scheme, details of which are set out in note 7 below.
5. These were Shares that would be allotted and issued upon exercise in full of the share options granted to Mr. Cheung Kwan Hung, Anthony by the Company under the Share Option Scheme, details of which are set out in note 7 below.
6. These were Shares that would be allotted and issued upon exercise in full of the share options granted to Mr. Tang Sim Cheow by the Company under the Share Option Scheme, details of which are set out in note 7 below.

## Other Information

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

Notes: (continued)

7. 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 January 2007, are exercisable at a subscription price of HK\$0.18 per Share during the subscription 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 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
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 and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SF Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he/she was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to Section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Details of share options granted to the Directors which remained outstanding as at 31 January 2007 are given in the section headed "Share Option Scheme" in this report.

Other than as disclosed above, at no time during the period ended 31 January 2007 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 21 on this interim financial report, 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 period under review or at any time during the period under review.

## Other Information

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

As at 31 January 2007, the following Shareholders, other than a director or chief executive of the Company, had an interest or a short position in the Shares and underlying shares in the Company 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
V.S. Industry Berhad ("VS Berhad")	371,996,900 (L)	Beneficial owner	43.49%
Inabata Sangyo (HK) Limited	82,000,000 (L)	Beneficial owner	9.59%
Atlantis Investment Management Ltd.	48,156,000 (L)	Investment manager	5.63%

Notes:

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

### SHARE OPTION SCHEME

The following table discloses details of share options held by the grantees and movements in such holdings during the six months ended 31 January 2007:

Name of grantee	Date of grant (Note 1)	Exercisable period	Exercise price HK\$	Outstanding at 1 August 2006	Exercised during the period (Note 4)	Granted during the period	Lapsed during the period	Outstanding at 31 January 2007 (Note 3)
<b>Directors</b>								
Beh Kim Ling	12 July 2005	12 July 2005 to 12 July 2007	0.18	2,050,000	-	-	-	2,050,000
		25 November 2005 to 12 July 2007	0.18	2,050,000	-	-	-	2,050,000
		10 April 2006 to 12 July 2007	0.18	2,050,000	-	-	-	2,050,000
		23 August 2006 to 12 July 2007	0.18	2,050,000	-	-	-	2,050,000
Gan Sem Yam	12 July 2005	12 July 2005 to 12 July 2007	0.18	2,050,000	(2,050,000)	-	-	-
		25 November 2005 to 12 July 2007	0.18	2,050,000	(2,050,000)	-	-	-
		10 April 2006 to 12 July 2007	0.18	2,050,000	(2,050,000)	-	-	-
		23 August 2006 to 12 July 2007	0.18	2,050,000	(2,050,000)	-	-	-

## Other Information

### SHARE OPTION SCHEME (continued)

Name of grantee	Date of grant (Note 1)	Exercisable period	Exercise price HK\$	Outstanding at 1 August 2006	Exercised during the period (Note 4)	Granted during the period	Lapsed during the period	Outstanding at 31 January 2007 (Note 3)
<i>Directors (continued)</i>								
Gan Chu Cheng	12 July 2005	12 July 2005 to 12 July 2007	0.18	-	-	-	-	-
		25 November 2005 to 12 July 2007	0.18	-	-	-	-	-
		10 April 2006 to 12 July 2007	0.18	-	-	-	-	-
		23 August 2006 to 12 July 2007	0.18	2,050,000	(2,050,000)	-	-	-
Zhang Pei Yu	12 July 2005	12 July 2005 to 12 July 2007	0.18	-	-	-	-	-
		25 November 2005 to 12 July 2007	0.18	-	-	-	-	-
		10 April 2006 to 12 July 2007	0.18	-	-	-	-	-
		23 August 2006 to 12 July 2007	0.18	625,000	(625,000)	-	-	-
Gan Tiong Sia	12 July 2005	12 July 2005 to 12 July 2007	0.18	500,000	-	-	-	500,000
		25 November 2005 to 12 July 2007	0.18	500,000	-	-	-	500,000
		10 April 2006 to 12 July 2007	0.18	500,000	-	-	-	500,000
		23 August 2006 to 12 July 2007	0.18	500,000	-	-	-	500,000
Diong Tai Pew	12 July 2005	12 July 2005 to 12 July 2007	0.18	125,000	(125,000)	-	-	-
		25 November 2005 to 12 July 2007	0.18	125,000	(125,000)	-	-	-
		10 April 2006 to 12 July 2007	0.18	125,000	(125,000)	-	-	-
		23 August 2006 to 12 July 2007	0.18	125,000	(125,000)	-	-	-
Cheung Kwan Hung, Anthony	12 July 2005	12 July 2005 to 12 July 2007	0.18	125,000	-	-	-	125,000
		25 November 2005 to 12 July 2007	0.18	125,000	-	-	-	125,000
		10 April 2006 to 12 July 2007	0.18	125,000	-	-	-	125,000
		23 August 2006 to 12 July 2007	0.18	125,000	-	-	-	125,000



## Other Information

### SHARE OPTION SCHEME (continued)

Name of grantee	Date of grant (Note 1)	Exercisable period	Exercise price HK\$	Outstanding at 1 August 2006	Exercised during the period (Note 4)	Granted during the period	Lapsed during the period	Outstanding at 31 January 2007 (Note 3)
<b>Directors (continued)</b>								
Tang Sim Cheow	12 July 2005	12 July 2005 to 12 July 2007	0.18	75,000	-	-	-	75,000
		25 November 2005 to 12 July 2007	0.18	75,000	-	-	-	75,000
		10 April 2006 to 12 July 2007	0.18	75,000	-	-	-	75,000
		23 August 2006 to 12 July 2007	0.18	75,000	-	-	-	75,000
				22,375,000	(11,375,000)	-	-	11,000,000
<b>Other employees</b> (Note 2)	12 July 2005	12 July 2005 to 12 July 2007	0.18	234,000	(95,000)	-	-	139,000
		25 November 2005 to 12 July 2007	0.18	294,000	(155,000)	-	-	139,000
		10 April 2006 to 12 July 2007	0.18	588,000	(449,000)	-	-	139,000
		23 August 2006 to 12 July 2007	0.18	3,770,000	(3,536,000)	-	-	234,000
				4,886,000	(4,235,000)	-	-	651,000
<b>Employees of VS Berhad</b>	12 July 2005	12 July 2005 to 12 July 2007	0.18	125,000	(125,000)	-	-	-
		25 November 2005 to 12 July 2007	0.18	125,000	(125,000)	-	-	-
		10 April 2006 to 12 July 2007	0.18	125,000	(125,000)	-	-	-
		23 August 2006 to 12 July 2007	0.18	125,000	(125,000)	-	-	-
				500,000	(500,000)	-	-	-
				27,761,000	(16,110,000)	-	-	11,651,000

## Other Information

### SHARE OPTION SCHEME (continued)

Notes:

1. The closing price of the Shares immediately before 12 July 2005, being the date of the grant of share options was HK\$0.185.
2. 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).
3. There were no share options being cancelled during the six-month period ended 31 January 2007.
4. The weighted average closing price of the securities immediately before the dates on which the options were exercised was HK\$0.29.

The share options granted were fully vested at the date of this interim financial report.

### COMPLIANCE WITH APPENDIX 14 TO THE LISTING RULES

Save that the non-executive director and two of the independent non-executive directors are not appointed for specific terms, none of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not, at any time during the six months ended 31 January 2007, in compliance with the relevant requirements of Appendix 14 to the Listing Rules. The Board is considering to change the term of appointment of such Directors to a specific term.

### COMPLIANCE WITH APPENDIX 10 TO THE LISTING RULES

The Company adopted on 30 September 2004 its new securities dealing code (“New Code”) regarding the dealings of the Directors and members of the senior management of the Group in securities of the Company, on terms no less exacting than the required standard under the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.

The Company, having made specific enquiry on all Directors, is not aware of any non-compliance by any Directors during the period under review with the New Code and Appendix 10 to the Listing Rules.

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

Zhuhai, the PRC  
28 March 2007

## Independent Review Report

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### **Independent review report to the board of directors of V.S. International Group Limited**

*(Incorporated in the Cayman Islands with limited liability)*

#### **INTRODUCTION**

We have been instructed by the Company to review the interim financial report set out on pages 5 to 37.

#### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### **REVIEW WORK PERFORMED**

We conducted our review in accordance with Statement of Auditing Standards 700, "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as test of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

#### **REVIEW CONCLUSION**

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 31 January 2007.

#### **KPMG**

*Certified Public Accountants*

Hong Kong,

28 March 2007