V.S. INTERNATIONAL GROUP LIMITED
威 鋮 國 際 集 團 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(stock code: 1002)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 JULY 2009

RESULTS

- Turnover decreased by 12.76% to HK$1,198.83 million;
- Loss attributable to equity shareholders of the Company was HK$68.69 million; and
- Basic loss per share was HK7.92 cents.

The board ("**Board**") of directors ("**Directors**") of V.S. International Group Limited ("**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (together, the "**Group**") for the financial year ended 31 July 2009, prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), together with comparative figures for the previous financial year. The figures in respect of the preliminary announcement of the Group's results for the financial year ended 31 July 2009 have been compared by the Company's auditors, KPMG, Certified Public Accountants, with the amounts set out in the Group's draft financial statements for the year ended 31 July 2009 and the amounts were found to be in agreement. The work performed by KPMG in respect of this announcement was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement. In addition, this announcement (including the annual results) has been reviewed by the audit committee of the Company ("**Audit Committee**").

CONSOLIDATED INCOME STATEMENT

For the year ended 31 July 2009

	Note	2009 HK\$'000	2008 HK\$'000
Turnover	3	**1,198,829**	1,374,223
Cost of sales		**(1,093,067)**	(1,231,561)
Gross profit		**105,762**	142,662
Other net (loss)/income	4	**(4,016)**	30,937
Distribution costs		**(37,623)**	(33,577)
Administrative expenses		**(81,980)**	(81,914)
Other operating income		**–**	120
(Loss)/profit from operations		**(17,857)**	58,228
Finance costs	5(a)	**(47,296)**	(47,650)
Share of profits less losses of associates		**844**	1,903
Gain on disposal of associates		**–**	5,286
(Loss)/profit before taxation	5	**(64,309)**	17,767
Income tax expense	6	**(4,558)**	(6,625)
(Loss)/profit for the year		**(68,867)**	11,142
Attributable to:			
Equity shareholders of the Company		**(68,685)**	11,464
Minority interests		**(182)**	(322)
(Loss)/profit for the year		**(68,867)**	11,142
(Loss)/earnings per share	7		
Basic		**(7.92) cents**	1.32 cents
Diluted		**(7.92) cents**	1.32 cents

CONSOLIDATED BALANCE SHEET

As at 31 July 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Fixed assets			
– Property, plant and equipment		**856,758**	821,111
– Interests in leasehold land held for own use under operating leases		**24,815**	25,533
		881,573	846,644
Goodwill		**2,172**	2,172
Deferred tax assets		**6,499**	–
Interest in associates		**22,692**	21,848
		912,936	870,664
Current assets			
Inventories		**144,890**	163,493
Trade and other receivables	*8*	**307,153**	347,158
Deposits with banks		**50,621**	56,159
Cash and cash equivalents		**100,431**	115,626
		603,095	682,436
Current liabilities			
Trade and other payables	*9*	**343,901**	319,531
Interest-bearing borrowings		**334,824**	354,316
Obligations under finance leases		**8,289**	3,270
Loan from a substantial shareholder		**7,300**	4,899
Current taxation		**8,144**	883
		702,458	682,899
Net current liabilities		**(99,363)**	(463)
Total assets less current liabilities		**813,573**	870,201

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 July 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current liabilities			
Other payables		**17,057**	–
Interest-bearing borrowings		**306,974**	318,613
Obligations under finance leases		**14,090**	–
Loan from a substantial shareholder		**9,733**	14,697
Deferred tax liabilities		**1,398**	2,046
		349,252	335,356
NET ASSETS		**464,321**	534,845
CAPITAL AND RESERVES			
Share capital		**43,349**	43,349
Reserves		**417,391**	487,733
Total equity attributable to equity shareholders of the Company		**460,740**	531,082
Minority interests		**3,581**	3,763
TOTAL EQUITY		**464,321**	534,845

Notes:

1. (a) **Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities ("**Listing Rules**") on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**").

(b) **Basis of preparation**

As at 31 July 2009, the Group's current liabilities exceeded its current assets by approximately HK$99.36 million and the Group incurred a loss of HK$68.87 million for the year ended 31 July 2009. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. As at 31 July 2009, the Group had undrawn banking facilities totalling HK$163.55 million for working capital purposes. In addition, the Group is currently in the process of negotiating with certain banks to renew the current bank loans upon expiry or to obtain additional banking facilities in order to improve the liquidity position. The Directors have evaluated all the relevant facts available to them and are of the opinion that there are good track records or relationships with banks which enhance the Group's ability to renew the current bank loans upon expiry or to secure adequate banking facilities to enable the Group to meet its financial obligations as and when they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis. Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The effect of these adjustments has not been reflected in these financial statements.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2. Changes in accounting policies

The HKICPA has issued the following new Interpretations and an amendment to HKFRSs that are first effective for the current accounting period for the Group.

- HK(IFRIC) 11, HKFRS 2 – Group and treasury share transactions

- HK(IFRIC) 12, Service concession arrangements

- HK(IFRIC) 14, HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

- Amendment to HKAS 39, Financial instruments: Recognition and measurement, and HKFRS 7, Financial instruments: Disclosures – Reclassification of financial assets

These HKFRS developments have had no material impact on the Group's financial statements as they were either consistent with accounting policies already adopted by the Group or they were not relevant to the Group's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. 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.

(a) Business segments

The Group comprises the following main business segments:

Plastic injection and moulding	:	manufacturing and sale of plastic moulded products and parts
Assembling of electronic products	:	assembling and sale of electronic products, including processing fees generated from assembling of electronic products
Mould design and fabrication	:	manufacturing and sale of plastic injection moulds

	Plastic injection and moulding		Assembling of electronic products		Mould design and fabrication		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover from external customers	**801,290**	981,289	**254,947**	211,949	**142,592**	180,985	**1,198,829**	1,374,223
Segment result	**29,981**	69,487	**11,994**	4,026	**23,454**	34,263	**65,429**	107,776
Unallocated operating income and expenses							**(83,286)**	(49,548)
(Loss)/profit from operations							**(17,857)**	58,228
Finance costs							**(47,296)**	(47,650)
Share of profits less losses of associates							**844**	1,903
Gain on disposal of associates							**–**	5,286
Income tax							**(4,558)**	(6,625)
(Loss)/profit for the year							**(68,867)**	11,142
Depreciation and amortisation for the year	**59,920**	58,660	**23,965**	20,298	**11,835**	8,051	**95,720**	87,009
Unallocated depreciation and amortisation							**3,393**	6,343
							99,113	93,352
Significant non-cash items (other than depreciation and amortisation)	**(1,587)**	(2,039)	**(602)**	(1,420)	**(455)**	(1,209)	**(2,644)**	(4,668)
Segment assets	**754,330**	833,770	**263,431**	193,330	**157,387**	166,409	**1,175,148**	1,193,509
Interest in associates							**22,692**	21,848
Unallocated assets							**318,191**	337,743
Total assets							**1,516,031**	1,553,100
Segment liabilities	**216,546**	210,137	**99,795**	38,463	**24,642**	36,658	**340,983**	285,258
Unallocated liabilities							**710,727**	732,997
Total liabilities							**1,051,710**	1,018,255
Capital expenditure incurred during the year	**88,511**	29,845	**48,158**	3,961	**12,917**	25,985	**149,586**	59,791
Unallocated capital expenditure							**7,551**	3,907
							157,137	63,698

(b) Geographical segments

The Group's business participates in six (2008: six) major economic environments.
In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets. All segment assets and capital expenditure are in the People's Republic of China (the "**PRC**").

Turnover from external customers is analysed as follows:

	2009	2008
	HK$'000	*HK$'000*
The PRC (other than Taiwan and Hong Kong)	**690,909**	771,338
Hong Kong	**204,324**	222,282
Northern Asia	**130,309**	195,294
Europe	**18,445**	78,909
The United States of America	**127,876**	74,560
South East Asia	**26,816**	31,766
Others	**150**	74
	1,198,829	1,374,223

4. Other net (loss)/income

	2009	2008
	HK$'000	*HK$'000*
Interest income	**2,389**	4,091
Rentals receivable from operating leases	**6,527**	8,414
Net foreign exchange (losses)/gains	**(515)**	1,202
Change in fair value of forward foreign exchange contracts	**–**	(593)
Net (loss)/gain on forward exchange contracts	**(7,239)**	10,381
Net loss on disposal of fixed assets	**(6,129)**	(592)
Tax refund on reinvested profit	**–**	5,355
Others	**951**	2,679
	(4,016)	30,937

5. (Loss)/profit before taxation

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

	2009	2008
	HK$'000	*HK$'000*
(a) Finance costs:		
Interest on bank advances repayable within five years	**36,516**	42,483
Interest on loan from a substantial shareholder	**850**	1,053
Finance charges on obligations under finance leases	**4,290**	316
Total borrowing costs	**41,656**	43,852
Less: borrowing costs capitalised as construction in progress *	**(112)**	(97)
	41,544	43,755
Other charges	**5,752**	3,895
	47,296	47,650

* The borrowing costs have been capitalised at a rate of 5.6% (2008: 6.3%) per annum for construction in progress.

	2009	2008
	HK$'000	*HK$'000*
(b) Other items:		
Cost of inventories	**1,093,067**	1,231,561
Auditors' remuneration		
–audit services	**2,159**	1,979
–other services	**643**	832
Impairment of doubtful debts charged	**1,076**	271
Reversal of impairment losses for interest in associates	**–**	(120)
Processing fees	**–**	10,283
Amortisation of interests in leasehold land held for own use under operating leases	**575**	439
Depreciation		
–other assets	**96,859**	90,834
–assets held under finance leases	**1,679**	2,079
Operating lease charges in respect of properties		
–factory and hostel rentals	**9,302**	10,476
Tax penalties (note)	**451**	–

Note:

Pursuant to a notice issued by Zhuhai State Administration of Taxation Inspection Department (珠海市國家稅務局稽查局) ("Zhuhai SATID") on 28 November 2008, a subsidiary of the Company, V.S. Technology Industry Park (Zhuhai) Co., Ltd. ("VS Zhuhai") was charged with the evasion of value added tax ("VAT") in the amount of HK$549,000 (RMB483,600). During years 2006 and 2007, VS Zhuhai used certain VAT invoices issued by certain companies to claim for a reduction in VAT. During the year, such VAT invoices were challenged by Zhuhai SATID. As a result, VS Zhuhai was charged with evasion of VAT. The VAT underpaid of HK$549,000 (RMB483,600) and the related penalties of HK$451,000 were paid to the PRC tax authorities on 11 December 2008.

Further to a notice issued by People's Procuratorate of Zhuhai Municipal (珠海市人民檢察院) on 9 June 2009, VS Zhuhai, the chairman and the former qualified accountant of the Company (in their respective capacity as chairman and financial controller of VS Zhuhai) are alleged to have committed criminal offences in respect of the evasion of such VAT and statements of defence have been submitted to court. In the opinion of the Directors, based on the advice of the PRC legal counsel of the Group, it is not appropriate to estimate the outcome of the verdict at this stage as the case has not yet been concluded up to the date of this announcement but the financial impact on the consolidated financial statements is considered to be inconsequential were the Group found to be guilty (note 10).

6. Income tax

(a) Taxation:

	2009	2008
	HK$'000	*HK$'000*
Current tax – PRC		
Provision for income tax for the year	**4,918**	4,579
Over-provision in respect of prior years	**(713)**	–
Provision for income tax arising on restructuring of equity interests in the PRC subsidiaries	**7,500**	–
	11,705	4,579
Deferred tax		
Origination and reversal of temporary differences	**(7,147)**	2,046
	4,558	6,625

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 years ended 31 July 2009 and 2008.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which was effective from 1 January 2008. As a result of the new tax law, taxable income for the subsidiaries of the Company in the PRC is subject to PRC income tax rate of 25%, except for certain subsidiaries of the Company in the PRC which had enjoyed preferential tax rates before 1 January 2008.

Pursuant to the notice on the Implementation Rules of the Grandfather Relief under the new tax law, Guofa (2007) No. 39, issued on 26 December 2007 by the State Council, the income tax rate applicable to the subsidiaries of the Company in the PRC which had enjoyed preferential tax rates before 1 January 2008 will be gradually increased from the ex-preferential income tax rates to 25% over a five-year transition period commencing from 1 January 2008. The applicable income tax rate is 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively.

Subsidiaries which were granted certain tax relief before 1 January 2008 can continually enjoy such 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.

Subsidiaries of the Company in the PRC were either entitled to income tax exemption or sustained losses for taxation purposes for the year ended 31 July 2009 except for the following six subsidiaries of the Company in the PRC which are subject to standard or preferential income tax rates as follows:

Name of subsidiary	**Period**	**Income tax rate**
VS Zhuhai	1 August 2007 to 31 December 2007	10.0%
	1 January 2008 to 31 December 2008	18.0%
	1 January 2009 to 31 July 2009	20.0%
Haivs Industry (Qingdao) Co., Ltd.	1 August 2007 to 31 December 2007	7.5%
	1 January 2008 to 31 December 2008	18.0%
	1 January 2009 to 31 July 2009	20.0%
V.S. Industry (Zhuhai) Co., Ltd.	1 August 2007 to 31 December 2007	7.5%
	1 January 2008 to 31 December 2008	9.0%
	1 January 2009 to 31 July 2009	20.0%
Qingdao GS Electronics Plastic Co., Ltd.	1 August 2007 to 31 December 2007	7.5%
	1 January 2008 to 31 December 2008	9.0%
	1 January 2009 to 31 July 2009	10.0%
VSA Electronics Technology (Zhuhai) Co., Ltd.	1 January 2008 to 31 December 2008	9.0%
	1 January 2009 to 31 July 2009	10.0%
Qingdao GP Precision Mold Plastics Co., Ltd.	1 February 2008 to 31 July 2009	25.0%

The export sales made by VS Zhuhai exceeded 70% of its total turnover for the twelve months ended 31 December 2007. Pursuant to relevant PRC tax regulations, VS Zhuhai is entitled to a 5% reduction in income tax rate for the relevant fiscal year. Approval from the relevant tax authorities was obtained in January 2008 and a tax credit amounting to HK$2,003,000 was recognised as a reduction of the income tax expenses incurred in the fiscal year 2008. Part of the income tax credit, which amounted to HK$1,686,000, was already recognised as a reduction of income tax expenses during the financial year ended 31 July 2008. The remaining tax credit of HK$317,000 was recognised as a reduction of the income tax expenses for the year ended 31 July 2009.

Pursuant to the new tax law in the PRC, from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by tax treaty) on various types of passive income such as dividends derived from sources within the PRC. A withholding tax rate of 5% is applicable to entities held by a Hong Kong incorporated subsidiary.

According to the notice Caishui [2008] No.1 released by the Ministry of Finance and the State Administration of Taxation, distributions of the pre-2008 retained profits of a foreign-invested enterprise to a foreign investor in 2008 or after are exempted from the PRC withholding tax. The Group is liable to withholding tax on dividends distributed from the subsidiaries incorporated in the PRC relating to profits generated on or after 1 January 2008. At 31 July 2009, the undistributed profits generated before 1 January 2008 by the subsidiaries incorporated in the PRC, which amounted to HK$129.79 million, are not subject to the withholding tax on future distribution. Deferred tax liabilities of HK$1.40 million (2008: HK$2.05 million) have been recognised in respect of the temporary differences of HK$27.96 million (2008: HK$25.38 million) which are related to the undistributed profits generated on or after 1 January 2008 by the subsidiaries incorporated in the PRC.

On 28 November 2008, the Group undertook certain group restructuring transactions, whereby the equity interests in certain PRC subsidiaries held by a subsidiary incorporated in British Virgin Islands ("BVI") were transferred to a subsidiary incorporated in Hong Kong at nil consideration. Pursuant to the Implementation Rules of the new Corporate Income Tax Law and Caishui (2009) No. 59 issued by the Ministry of Finance and State Administration of Taxation of the PRC on 30 April 2009, any gain recognised by the subsidiary incorporated in BVI in connection with the transfer of equity interests is subject to withholding tax in the PRC at the rate of 10%, and such gain shall be determined as if such transfer was made on terms equivalent to those that prevail in arm's length transactions. In the opinion of the Directors, based on valuation of the transferred equity interests performed by an independent valuer, a gain of approximately HK$75,000,000 would have been recognised by the subsidiary incorporated in BVI if such transfer were made on terms equivalent to those that prevail in arm's length transactions. As a result, the Group has recognised a provision for income tax of HK$7,500,000 for the year ended 31 July 2009 in respect of these group restructuring transactions.

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

7. (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholders of HK$68,685,000 (2008: Profit of HK$11,464,000) and the 866,976,000 shares in issue during the current and the prior year.

(b) Diluted (loss)/earnings per share

There were no potential dilutive ordinary shares in existence during the years ended 31 July 2009 and 2008.

8. Trade and other receivables

	2009	2008
	HK$'000	*HK$'000*
Trade receivables	**209,293**	235,367
Bills receivable	**39,393**	44,145
Less: allowance for doubtful debts	**(2,563)**	(1,541)
	246,123	277,971
Other receivables, prepayments and deposits	**47,291**	44,040
Acquisition deposits (note)	**13,739**	25,147
	307,153	347,158

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

	2009	2008
	HK$'000	*HK$'000*
Current	**214,056**	251,316
Less than 1 month past due	**16,470**	19,712
1 to 3 months past due	**10,323**	4,741
More than 3 months but less than 12 months past due	**5,274**	2,202
Amounts past due	**32,067**	26,655
	246,123	277,971

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

Note:

During the year ended 31 July 2008, the Group paid a deposit of HK$11,408,000 to an independent third party ("Possible Cooperation Partner"), whose principal businesses include, among others, exploration for natural resources in Heilongjiang Province, the PRC, for an exclusive right of negotiation in relation to the strategic investment in or cooperation between the Possible Cooperation Partner and the Group.

On 19 June 2008, the Group entered into an agreement with the Possible Cooperation Partner to invest HK$24,442,000, as a capital injection, to acquire a 51% equity interest of Heilongjiang Savoy Minerals Co., Limited ("Heilongjiang Savoy"), which is registered in the PRC, the principal activity of which is the exploration for natural resources in Heilongjiang Province in the PRC. The agreement will only be effective when the capital injection and verification process is completed.

The Group subsequently entered into a supplementary agreement with the Possible Cooperation Partner on 2 March 2009. Pursuant to the supplementary agreement, the period for the requirements of the agreement to be fulfilled was extended to 31 July 2009.

During the year ended 31 July 2009, the deposit of HK$11,408,000 was refunded by the Possible Cooperation Partner and the Group has injected the first instalment of approximately HK$8,035,000 into Heilongjiang Savoy.

On 10 August 2009, resolutions were passed by the directors of Heilongjiang Savoy to approve a further extension of the due date for settlement of the remaining balance of HK$16,407,000 (the "Balance") from 31 July 2009 to 31 December 2009. The shareholders of Heilongjiang Savoy also entered into supplemental agreements ("Supplemental Agreement and Articles") to amend the relevant provisions in the joint venture agreement and articles of Heilongjiang Savoy to further extend the due date for settlement of the Balance from 31 July 2009 to 31 December 2009. The Supplemental Agreement and Articles were effective upon approval obtained from the PRC approving authorities on 19 August 2009. Since the capital injection and verification had not been completed as at 31 July 2009, the amount paid of HK$8,035,000 is included within acquisition deposits as at 31 July 2009.

Heilongjiang Savoy has not started operations up to the date of this announcement. The directors are of the view that the Group did not have any financial and operational control over Heilongjiang Savoy at 31 July 2009.

In addition to the above, the Group also paid a refundable deposit of HK$5,704,000 to an independent third party for an exclusive right of negotiation in relation to exploration for natural resources in Inner Mongolia, the PRC. The deposit is refundable if no agreement is reached.

9. Trade and other payables

	2009	2008
	HK$'000	*HK$'000*
Trade payables	**186,492**	206,742
Bills payable	**16,684**	21,985
Payables for the purchase of fixed assets	**74,559**	23,462
Accrued expenses and other payables	**66,166**	66,749
Unrealised loss on derivative financial instruments	**–**	593
	343,901	319,531

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	2009	2008
	HK$'000	*HK$'000*
Due within 1 month or on demand	**77,144**	72,411
Due after 1 month but within 3 months	**90,852**	107,970
Due after 3 months but within 6 months	**35,180**	48,346
	203,176	228,727

10. Contingent liabilities

The Group is contingently liable in respect of the legal case as set out in note 5 to this announcement. In the opinion of the Directors, based on the advice of the PRC legal counsel of the Group, the maximum amount of penalty which may be charged is considered to be inconsequential to the consolidated financial statements were the Group found to be guilty.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

INDUSTRY OVERVIEW

In 2009, electronics manufacturing services ("**EMS**") sector is facing one of the stiffest challenges in history. Global economic crisis and related decline in demand for end products are putting pressure on original equipment manufacturers ("**OEMs**") cost structures and causing them to reduce their inventory level, manufacturing and supply chain outsourcing which has negatively impacted on the EMS sector. As one of the EMS provider, the Group was not spared from the economic downturn, as decline in demand was from the customers across all the geographical location and industries that the Group served.

In response to the rapid decline in the number of our customers' order, the Group has undertaken some restructuring activities, which intended to re-align our capacity with demand by our customers and thereby improve our efficiency level. These activities include the cessation of production facilities in Shenzhen, the PRC in December 2008. During the year, we recognised restructuring costs of approximately HK$9.64 million which include payment for termination benefits to staff and employees and net loss on disposal and fixed assets written off.

FINANCIAL REVIEW

Turnover, Gross Profit and Segments Results

During the year under review, the Group recorded a turnover of HK$1,198.83 million, representing a decrease HK$175.39 million or 12.76% from HK$1,374.22 million in the previous year, primarily due to reduced customer demand as a result of weakened global economic environment. The major contributor of the Group's turnover is still plastic injection and moulding division which accounted for 66.84% (2008: 71.41%) of the turnover, with the remaining from assembling of electronics products and mould design and fabrication divisions which accounted for 21.27% (2008: 15.42%) and 11.89% (2008: 13.17%) respectively.

Gross profit was severely affected and recorded at HK$105.76 million, representing a decrease of HK$36.90 million or 25.87% as compared to previous year of HK$142.66 million. The decline in gross profit was mainly attributable to lower capacity utilisation as a result of current global economic conditions and related decline in customer demand.

Plastic Injection and Moulding

During the financial year under review, the Group's business of plastic injection and moulding recorded a decrease in turnover to HK$801.29 million, from HK$981.29 million in the previous year, representing a fall in sales of 18.34%.

By geographical location, Zhuhai's operation was still the main contributor and contributed a turnover of HK$559.40 million as compared to HK$583.54 million in the previous year. Meanwhile Qingdao operation and Shenzhen operation recorded a turnover of HK$214.93 million and HK$26.96 million, a significant drop of 30.43% and 69.65% as compared to HK$308.92 million and HK$88.83 million respectively in the previous year.

Assembling of Electronic Products

Despite the unfavorable global economic conditions, turnover for assembling of electronic products business increased by 20.29% to HK$254.95 million from HK$211.95 million in the previous year. This increase was mainly attributable to the intensified marketing effort and broadening up of its customer base by providing more value-added assembly services to customers.

During the year, the Group shifted its assembly operations from merely processing of printed circuit boards to manufacturing and, assembling of box-built electronic products and this also contributed to the higher turnover of assembly business during the year.

Mould Design and Fabrication

The mould design and fabrication business was the most seriously effected by economic downturn as customers have reduced the development of new models which have direct impact to the turnover of the mould design and fabrication segment. As a result, this segment recorded a turnover of HK$142.59 million as compared to HK$180.98 million in the previous year, representing a decrease of HK$38.39 million or 21.21%.

Despite the intense competition of this segment, the Group continued to equip this segment with new technology and highly trained engineers as a competitive edge in delivery of quality injection moulds in shorter production time. The capturing of more orders from existing and new customers of this segment will be beneficial to other segments of the Group.

Other Net (Loss)/Income

During the financial year under review, the Group incurred other net loss of HK$4.02 million (2008: other net income of HK$30.94 million), which comprised mainly net loss on foreign exchange and forward exchange contracts of HK$7.75 million, net loss on disposal of fixed assets and fixed assets written off of HK$6.13 million which was offset by interest and rental income of HK$8.92 million.

Distribution Costs and Administrative Expenses

Distribution costs and administration expenses amounted to HK$119.60 million, representing an increase of HK$4.11 million or 3.56% as compared to HK$115.49 million in the previous year. The increase was primarily due to payment of termination benefits in relation to the closure of production facilities in Shenzhen and provision for impairment losses for doubtful debts during the year.

Finance Costs

The finance costs were marginally lowered by 0.74% to HK$47.30 million (2008: HK$47.65 million) mainly due to lower interest rate for the year under review.

Share of Profits less losses of Associates

The Group's share of profits less losses of the associates reduced to HK$0.84 million as compared to share of profits of HK$1.90 million in the previous year. The reduction was mainly due to lower share of profit contribution from the associate in Vietnam.

LIQUIDITY AND FINANCIAL RESOURCES

During the financial year under review, the Group financed its operations and investing activities mainly with internally generated cash flow and banking facilities in Hong Kong and the PRC. As at 31 July 2009, the Group had cash and bank deposits as stated at HK$151.05 million (2008: HK$171.79 million), of which HK$47.25 million (2008: HK$46.79 million) was pledged to the banks for the facilities granted to the Group. The cash and bank deposits were denominated in the currencies of United States dollars ("**USD**") 71.95%, Renminbi ("**RMB**") 24.55%, and Hong Kong dollars ("**HKD**") 3.50%.

As at 31 July 2009, the Group had outstanding interest-bearing borrowings of HK$681.21 million (2008: HK$695.80 million), mainly consisting of bank borrowings of HK$641.80 million (2008: HK$672.93 million), obligations under finance lease of HK$22.38 million (2008: HK$3.27 million) and a loan from a substantial shareholder of HK$17.03 million (2008: HK$19.60 million). The total borrowings were denominated in RMB18.21%, USD35.49%, and HKD46.30%, and the maturity profile is as follows:

	As at 31 July 2009		As at 31 July 2008	
Repayable	***HK$ million***	***%***	*HK$ million*	*%*
Within one year	**350.41**	**51.44**	362.49	52.10
After one year but within two years	**38.81**	**5.70**	83.50	12.00
After two years but within five years	**291.99**	**42.86**	249.81	35.90
Total borrowings	**681.21**	**100.00**	695.80	100.00
Cash and bank deposits	**(151.05)**		(171.79)	
Net borrowings	**530.16**		524.01	

The Group's gearing ratios deteriorated during the financial year under review. The total net interest bearing borrowings posted at HK$530.16 million were increased to 34.97% and 114.18% of total assets and total shareholders' funds respectively (2008: 33.74% and 97.97% respectively). The deterioration was mainly due to net loss of HK$68.87 million incurred during the year.

During the year, the Group has taken proactive action to negotiate with its banker to reschedule its term loan facilities and managed to extend the repayment period of certain term loan facilities of HK$316.50 million and the first quarterly installment is payable in November 2010.

As at 31 July 2009, the Group's net current liabilities were HK$99.36 million. As at date of this announcement, the Group has undrawn bank facilities of HK$110.35 million for working capital purposes. The Board is confident that the Group has sufficient operational cash flows to support its working capital requirements.

CAPITAL STRUCTURE

As at 31 July 2009, the Group's shareholders' fund stood at HK$464.32 million (2008: HK$534.85 million), a decrease of 13.19% mainly due to net loss incurred for the year. Total assets of the Group amounted to HK$1,516.03 million (2008: HK$1,553.10 million), 58.15% of which were fixed assets (2008: 54.51%).

COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 July 2009, the Group's capital commitments were HK$32.77 million (2008: HK$120.51 million); while the operating lease commitments totalled HK$0.71 million (2008: HK$1.80 million). The Group does not have material contingent liabilities as at 31 July 2009 except as mentioned in note 10 above.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign currency risk primarily through sales, purchases and borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to the risk were primarily HKD, USD, Japanese Yen and RMB.

During the financial year under review, the Group incurred a net loss on foreign exchange and forward exchange contracts of HK$7.75 million (2008: net exchange gains of HK$11.58 million) as a results of realisation of foreign exchange contracts entered before the previous financial year ended 31 July 2008, which were used to mitigate foreign currency risk in view of continuing appreciation of RMB against USD.

As HKD is pegged to USD and exchange rates of RMB against USD is now stabilising and trade within narrow band during the year, the Group does not expect any significant movements in the USD/HKD or RMB/USD exchange rate.

As at 31 July 2009, the notional amounts of the outstanding forward exchange contracts were nil (2008: USD64,000,000). However, the management will continue to monitor the foreign currency risk exposure and to ensure that it is kept to an acceptable level.

EMPLOYEES AND REMUNERATION POLICY

As at 31 July 2009, the Group had a total of 6,553 employees (2008: 7,786). During the year under review, the Group did not make significant changes to the Group's remuneration policies for its employees.

Employees' cost to the Group (excluding Directors' remuneration and equity settled share-based payment expenses) for the financial year under review amounted to HK$205.24 million (2008: HK$219.44 million). The reduction in employees' cost was mainly due to cessation of the production facilities in Shenzhen, the PRC. The Group's remuneration package is updated on an annual basis and appropriate adjustments are made with reference to prevailing conditions of the human resource market and the general outlook of the economy. Furthermore, the Group's employees are rewarded in tandem with their performance and experience. The Group has recognised the need for the improvement of employees' technical knowledge, welfare and wellbeing, so as to attract and retain quality staff dedicated towards the future growth of the Group.

The Group has adopted a provident fund scheme for its employees in Hong Kong in accordance with the Mandatory Provident Fund Schemes Ordinance; in addition, it contributes to the government pension scheme for its employees in the PRC, which is also required by the relevant authorities.

As a public listed entity, the Group implements a share option scheme to provide incentives to eligible employees to participate in the Company's success.

DIVIDENDS

The Board does not recommend any dividend payment for the financial year ended 31 July 2009 (2008: nil) at the forthcoming annual general meeting.

EXTRACT OF THE DRAFT INDEPENDENT AUDITOR'S REPORT ON THE GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2009

"Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 July 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1(b) to these financial statements which describes that the Group incurred a loss of HK$68,867,000 for the year ended 31 July 2009 and as at that date the Group's current liabilities exceeded its current assets by HK$99,363,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. As explained in note 1(b) to these financial statements, these financial statements have been prepared on a going concern basis, the validity of which depends upon the Group's ability to renew its current bank loans upon expiry or secure adequate banking facilities to enable the Group to meet its financial obligations as and when they fall due for the foreseeable future. These financial statements do not include any adjustments that would result from the failure to renew or obtain such banking facilities."

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

During the year ended 31 July 2009, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions ("**Code Provisions**") of the Code on Corporate Governance Practices ("**Code**") as set out in Appendix 14 of the Listing Rules throughout the year under review except for the deviation from A.2.1 of the Code in respect of segregation of the roles of chairman and chief executive officer.

According to Code Provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Beh Kim Ling and Mr. Gan Sem Yam are the Chairman and Managing Director of the Company respectively. Mr. Beh Kim Ling, in addition to his duties as the Chairman of the Company, is also responsible for the strategic planning and overseeing all aspects of the Group's operations. This constitutes a deviation from Code Provision A.2.1 as part of his duties overlap with those of the Managing Director, who is in practice the chief executive officer. Mr. Beh Kim Ling, as the founder of the Group, has extensive experience and knowledge in the core business of the Group and his duties for overseeing the Group's operations is clearly beneficial to the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's financial statements for the year ended 31 July 2009 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 has been made.

COMPLIANCE WITH APPENDIX 10 TO THE LISTING RULES

The Company has adopted a securities dealing code ("**SD 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 as 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 Director during the period under review with the SD Code and Appendix 10 to the Listing Rules throughout the financial year ended 31 July 2009.

APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation and gratitude to the shareholders, bankers, customers, suppliers, business associates and regulatory authorities for their confidence and continuous support to the Group. I also wish to take this opportunity to thank my fellow directors, the management team, staff and employees for their full commitment, loyalty and dedication to the Group, which enabled us to overcome the challenges encountered during the year.

List of all Directors as at the date of this announcement:

Executive Directors:
Mr. Beh Kim Ling
Mr. Gan Sem Yam
Madam Gan Chu Cheng
Mr. Zhang Pei Yu

Independent non-executive Directors:
Mr. Diong Tai Pew
Mr. Cheung Kwan Hung, Anthony
Mr. Tang Sim Cheow

Non-executive Director:
Mr. Gan Tiong Sia

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

Macau, the PRC
25 September 2009