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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 JANUARY 2010

INTRODUCTION

The board ("**Board**") of directors ("**Directors**") of V.S. International Group Limited ("**Company**") would like to announce the unaudited consolidated results of the Company and its subsidiaries (together, the "**Group**") for the six months ended 31 January 2010, which have not been audited by the auditors of the Group, KPMG, but have been reviewed by KPMG and the audit committee ("**Audit Committee**") of the Board.

CONSOLIDATED INCOME STATEMENT – UNAUDITED

	Note	For the six months ended 31 January **2010** *HK$'000*	2009 *HK$'000*
Turnover	*3*	**784,456**	706,119
Cost of sales		**(704,477)**	(625,534)
Gross profit		**79,979**	80,585
Other net loss	*4*	**(5,491)**	(6,217)
Distribution costs		**(26,164)**	(18,284)
Administrative expenses		**(40,556)**	(44,606)
Profit from operations		**7,768**	11,478
Finance costs	*5(a)*	**(15,823)**	(23,939)
Share of profits less losses of associates		**1,943**	68
Loss before taxation	*5*	**(6,112)**	(12,393)
Income tax credit/(expense)	*6*	**1,028**	(2,262)
Loss for the period		**(5,084)**	(14,655)
Attributable to:			
Equity shareholders of the Company		**(5,529)**	(14,377)
Minority interests		**445**	(278)
Loss for the period		**(5,084)**	(14,655)
Loss per share	*8*		
Basic		**(0.64) cents**	(1.66) cents
Diluted		**(0.64) cents**	(1.66) cents

CONSOLIDATED BALANCE SHEET – UNAUDITED

As at 31 January 2010

	Note	2010	2009
		HK$'000	*HK$'000*
Non-current assets			
Fixed assets			
– Property, plant and equipment		**847,707**	856,758
– Interests in leasehold land held for own use under operating leases		**24,600**	24,815
		872,307	881,573
Goodwill		**2,172**	2,172
Deferred tax assets		**13,158**	6,499
Interests in associates		**24,211**	22,692
		911,848	912,936
Current assets			
Inventories		**188,564**	144,890
Trade and other receivables	*9*	**361,165**	307,153
Deposits with banks		**51,083**	50,621
Cash and cash equivalents		**125,554**	100,431
		726,366	603,095
Current liabilities			
Trade and other payables	*10*	**427,026**	343,901
Interest-bearing borrowings		**348,384**	334,824
Obligations under finance leases		**9,975**	8,289
Loan from a substantial shareholder		**7,315**	7,300
Current taxation		**10,735**	8,144
		803,435	702,458
Net current liabilities		**(77,069)**	(99,363)
Total assets less current liabilities		**834,779**	813,573

	2010	2009
	HK$'000	*HK$'000*
Non-current liabilities		
Other payables	**14,288**	17,057
Interest-bearing borrowings	**338,626**	306,974
Obligations under finance leases	**11,638**	14,090
Loan from a substantial shareholder	**7,315**	9,733
Deferred tax liabilities	**1,630**	1,398
	373,497	349,252
NET ASSETS	**461,282**	464,321
CAPITAL AND RESERVES		
Share capital	**43,349**	43,349
Reserves	**413,907**	417,391
Total equity attributable to equity shareholders of the Company	**457,256**	460,740
Minority interests	**4,026**	3,581
TOTAL EQUITY	**461,282**	464,321

Notes:

1 Basis of preparation

The interim financial results have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, 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 results have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 July 2009, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of the interim financial results in conformity with HKAS 34 requires management to make judgements, 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 announcement 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 since the annual financial statements for the year ended 31 July 2009. 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 results are unaudited, but have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *"Review of interim financial information performed by the independent auditor of the entity"*, issued by the HKICPA.

The financial information relating to the financial year ended 31 July 2009 that is included in the interim financial results 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 2009 are available from the Company's registered office. The auditors have expressed a modified opinion on those financial statements in their report dated 25 September 2009.

As at 31 January 2010, the Group's current liabilities exceeded its current assets by HK$77.07 million and the Group incurred a loss of HK$5.08 million for the period ended 31 January 2010. 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 January 2010, the Group had undrawn banking facilities totalling HK$93.58 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 would enhance the Group's ability to renew its current bank loans upon expiry or secure adequate banking facilities to enable the Group to continue to operate as a going concern and to meet its financial obligations as and when they fall due for the foreseeable future. Accordingly, the interim financial results 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 affected in the interim financial results.

2 Changes in accounting policies

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 8, *Operating segments*
- HKAS 1 (revised 2007), *Presentation of financial statements*
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, *Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*
- HKAS 23 (revised 2007), *Borrowing costs*

The amendments to HKAS 23 have no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. The impact of the remainder of these developments on the interim financial results are as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on business and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management (see note 3). Corresponding amounts have been provided on a basis consistent with the revised segment information.

- As a result of the adoption of HKAS 1 (as amended in 2008), all items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The consolidated statement of changes in equity has also been reformatted to include details of changes for each component of equity during the period. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- The "improvements to HKFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued an omnibus batch of amendments. Of these, the following amendment has resulted in a change to the Group's accounting policies:

  – As a result of amendments to HKAS 28, *Investments in associates*, impairment losses recognised in respect of the associates and jointly controlled entities carried under the equity method are no longer allocated to the goodwill inherent in that carrying value. As a result, when there has been a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.

- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre-or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, the new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

3 Segment reporting

The Group manages its business by divisions, which are organised by a mixture of both business lines and geography. On first-time adoption of HKFRS 8, *Operating segments* and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has identified the following three reportable segments. No operating segments have been aggregated to form the following reportable 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

(a) Segment results, assets and liabilities

In accordance with HKFRS 8, segment information disclosed in this announcement has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible and current assets with the exception of interests in associates and other corporate assets. Segment liabilities include trade creditors, accruals and bills payable attributable to the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "segment result". To arrive at "segment result", the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as head office or corporate administration costs.

In addition to receiving segment information concerning "segment result", management is provided with segment information concerning revenue (including inter-segment), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Plastic injection and moulding		Assembling of electronic products		Mould design and fabrication		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Six months ended 31 January:								
Turnover from external customers	**462,904**	523,721	**282,153**	110,212	**39,399**	72,186	**784,456**	706,119
Reportable segment revenue	**462,904**	523,721	**282,153**	110,212	**39,399**	72,186	**784,456**	706,119
Reportable segment result	**15,212**	43,152	**22,752**	2,821	**8,989**	12,378	**46,953**	58,351
At 31 January/31 July:								
Reportable segment assets	**875,716**	754,330	**318,747**	263,431	**146,108**	157,387	**1,340,571**	1,175,148
Addition to non-current segment assets during the period	**36,156**	79,150	**2,540**	47,069	**102**	4,442	**38,798**	130,661
Reportable segment liabilities	**289,929**	216,546	**119,095**	99,795	**16,830**	24,642	**425,854**	340,983

(b) *Reconciliations of reportable segment revenues, profit or loss, assets and liabilities*

	Six months ended 31 January	
	2010	2009
	HK$'000	*HK$'000*
Revenue		
Reportable segment revenue	**784,456**	706,119
Consolidated turnover	**784,456**	706,119

	Six months ended 31 January	
	2010	2009
	HK$'000	*HK$'000*
Profit		
Reportable segment profit	**46,953**	58,351
Share of profits less losses of associates	**1,943**	68
Finance costs	**(15,823)**	(23,939)
Unallocated depreciation and amortisation	**(2,690)**	(1,491)
Unallocated operating income and expenses	**(36,495)**	(45,382)
Consolidated loss before taxation	**(6,112)**	(12,393)

	At 31 January 2010 HK$'000	At 31 July 2009 HK$'000
Assets		
Reportable segment assets	**1,340,571**	1,175,148
Interests in associates	**24,211**	22,692
Unallocated head office and corporate assets	**273,432**	318,191
Consolidated total assets	**1,638,214**	1,516,031

	At 31 January 2010 HK$'000	At 31 July 2009 HK$'000
Liabilities		
Reportable segment liabilities	**425,854**	340,983
Unallocated head office and corporate liabilities	**751,078**	710,727
Consolidated total liabilities	**1,176,932**	1,051,710

(c) *Geographical segments*

The Group's business participates in seven (2009: 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:

	Six months ended 31 January	
	2010	2009
	HK$'000	*HK$'000*
The People's Republic of China ("PRC") (other than Taiwan and Hong Kong)	**373,089**	434,252
Hong Kong	**177,606**	108,730
United States of America	**84,038**	59,212
Northern Asia	**64,252**	77,129
Europe	**51,018**	14,372
South East Asia	**17,876**	12,424
South Africa	**16,577**	–
	784,456	706,119

4 Other net loss

	Six months ended 31 January	
	2010	2009
	HK$'000	*HK$'000*
Interest income	**(523)**	(2,721)
Rentals receivable from operating leases	**(3,121)**	(3,350)
Net foreign exchange losses	**2,917**	2,802
Change in fair value of forward foreign exchange contracts	**–**	5,237
Net loss on forward foreign exchange contracts	**–**	3,469
Net loss on disposal of fixed assets	**1,974**	532
Impairment losses on acquisition deposits	**5,209**	-
Others	**(965)**	248
	5,491	6,217

5 Loss before taxation

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

	Six months ended 31 January	
	2010	2009
	HK$'000	*HK$'000*
(a) Finance costs:		
Interest on bank advances repayable within five years	**12,835**	21,164
Interest on loan from a substantial shareholder	**310**	485
Finance charges on obligations under finance leases	**680**	59
Total borrowing costs	**13,825**	21,708
Less: borrowing costs capitalised as construction in progress *	**(49)**	(63)
	13,776	21,645
Other changes	**2,047**	2,294
	15,823	23,939

* The borrowing costs have been capitalised at an average cost of borrowings to the Group of 4.36% (2009: 5.83%) per annum for construction in progress.

	Six months ended 31 January	
	2010	2009
	HK$'000	*HK$'000*
(b) Other items:		
Amortisation of interests in leasehold land held for own use under operating leases	**288**	208
Depreciation		
– other assets	**48,028**	45,979
– assets held under finance leases	**1,274**	2,377
Operating lease charges in respect of properties		
– factory and hostel rentals	**4,839**	4,697
Impairment losses		
– trade receivables	**660**	244
– acquisition deposits	**5,209**	–

6 Income tax

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

	Six months ended 31 January	
	2010	2009
	HK$'000	*HK$'000*
Current tax – PRC		
Provision for the period	**5,399**	4,268
Over-provision in respect of prior years	**–**	(1,598)
	5,399	2,670
Deferred tax		
Origination and reversal of temporary differences	**(6,427)**	(408)
	(1,028)	2,262

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 2010 and 2009.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("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 a standard 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 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 2010 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**
V.S. Technology Industry Park (Zhuhai) Co., Ltd.	1 August 2008 to 31 December 2008	18%
	1 January 2009 to 31 December 2009	20%
	1 January 2010 to 31 January 2010	22%
Haivs Industry (Qingdao) Co., Ltd.	1 August 2008 to 31 December 2008	18%
	1 January 2009 to 31 December 2009	20%
	1 January 2010 to 31 January 2010	22%
V.S. Industry (Zhuhai) Co., Ltd.	1 August 2008 to 31 December 2008	9%
	1 January 2009 to 31 December 2009	20%
	1 January 2010 to 31 January 2010	22%
Qingdao GS Electronics Plastic Co., Ltd.	1 August 2008 to 31 December 2008	9%
	1 January 2009 to 31 December 2009	10%
	1 January 2010 to 31 January 2010	22%
Qingdao GP Precision Mold Co., Ltd.	1 August 2008 to 31 January 2010	25%
V.S. Electronics (Zhuhai) Co., Ltd.	1 August 2008 to 31 January 2010	25%
VSA Electronics Technology (Zhuhai) Co., Ltd.	1 August 2008 to 31 December 2008	9%
	1 January 2009 to 31 December 2009	10%
	1 January 2010 to 31 January 2010	22%

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 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$129,791,000, are not subject to the withholding tax on future distribution. Deferred tax liabilities of HK$1,630,000 (2009: HK$1,398,000) have been recognised in respect of the temporary differences of HK$32,600,000 (2009: HK$27,960,000) which are related to the undistributed profits generated on or after 1 January 2008 by the subsidiaries incorporated in 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.

7 Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the interim period

No dividend has been proposed by the Company after the balance sheet date attributable to the periods ended 31 January 2010 and 2009.

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

No dividends has been approved or paid by the Company after the balance sheet date attributable to the previous financial year.

8 Loss per share

(a) Basic loss per share

The calculation of basic losses per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$5,529,000 (2009: loss of HK$14,377,000) and the 866,976,000 shares in issue during the current and the prior period.

(b) Diluted losses per share

There were no potential dilutive ordinary shares in existence during the six months ended 31 January 2010 and 2009.

9 Trade and other receivables

	At 31 January 2010 *HK$'000*	At 31 July 2009 *HK$'000*
Trade receivables	**266,273**	209,293
Bills receivable	**42,371**	39,393
Less: allowance for doubtful debts	**(2,533)**	(2,563)
	306,111	246,123
Other receivables, prepayments and deposits	**50,497**	47,291
Acquisition deposits (note)	**4,557**	13,739
	361,165	307,153

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:

	At 31 January 2010 *HK$'000*	At 31 July 2009 *HK$'000*
Current	**256,451**	214,056
Less than one month past due	**27,777**	16,470
One to three months past due	**16,401**	10,323
More than three months but less than twelve months past due	**5,482**	5,274
Amounts past due	**49,660**	32,067
	306,111	246,123

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 supplementary agreements 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 January 2010, the amount paid of HK$3,126,000 (net of allowances for doubtful debts of HK$4,909,000) is included within acquisition deposits as at 31 January 2010.

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 January 2010.

In addition to the above, the Group also paid a refundable deposit of HK$1,431,000 (net of allowances for doubtful debts of HK$300,000) 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.

10 Trade and other payables

	At 31 January 2010 *HK$'000*	At 31 July 2009 *HK$'000*
Trade payables	**224,656**	186,492
Bills payable	**49,690**	16,684
Payables for the purchase of fixed assets	**70,779**	74,559
Accrued expenses and other payables	**81,901**	66,166
	427,026	343,901

The trade and other payables are expected to be settled or recognised as income within one year.

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

	At 31 January 2010 *HK$'000*	At 31 July 2009 *HK$'000*
Due within 1 month or on demand	**105,722**	77,144
Due after 1 month but within 3 months	**151,032**	90,852
Due after 3 months but within 6 months	**17,592**	35,180
	274,346	203,176

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

OVERVIEW

The Group continued to operate under very challenging business condition for the six months ended 31 January 2010. With signs of general improvement in global economy outlook in the six months ended 31 January 2010, overall demand from customers have increased as compared to the second half of the previous financial year.

FINANCIAL REVIEW

During the period under review, the Group recorded a turnover HK$784.46 million, representing an increase of HK$78.34 million or 11.09% as compared to HK$706.12 million in the corresponding period. Despite recorded higher turnover, gross profit slid from HK$80.59 million to HK$79.98 million, representing a decrease of 0.75%, mainly due to product mix and higher labour cost for the six months ended 31 January 2010. Loss attributable to equity shareholders improved substantially and recorded at a loss of HK$5.53 million as compared to loss of HK$14.38 million in the corresponding period mainly due to lower administration expenses and finance cost coupled with positive contribution from the investment in our associates in Vietnam.

Plastic Injection and moulding business

During the period under review, plastic injection and moulding segment remained the Group’s core business and contributed to 59.01% of the Group’s turnover. The turnover for this segment reduced to HK$462.90 million as compared to HK$523.72 million in the corresponding period, representing a decrease of HK$60.82 million or 11.61% mainly attributable to significant reduction in the sales to one of Group’s major customers.

Assembling of electronic products business

As a result of the Group’s strategy to focus on assembling of box-built electronics products since second half of 2009, turnover for assembling of electronics products business has increased to HK$282.15 million as compared to HK$110.21 million in the corresponding period, representing an increase of HK$171.94 million or 156.01%.

Moving forward the Group will continue to intensify its marketing efforts and to broaden its customer base by providing more value-added assembly services to the customers.

Mould design and fabrication business

Continued to be affected from the impact of global economy downturn since 2009, customers have reduced and slowed down the development of new models which directly related to the turnover of the mould design and fabrication segment. As a result, this segment recorded a turnover of HK$39.40 million, a significant drop of HK$32.79 million or 45.42% as compared to HK$72.19 million in the corresponding period.

Distribution costs and administrative expenses

During the period under review, distribution cost amounted to HK$26.16 million, representing an increase of HK$7.88 million or 43.11% as compared to HK$18.28 million in the corresponding period. The increase was primarily due to higher packaging and transportation cost incurred on certain products delivered to one of the major overseas customers. The reduction in administrative expenses was primarily due to the inclusion of one-off termination benefits payments with relation to the closure of a production plant in Shenzhen in the corresponding period.

Other net loss/income

During the period under review, the Group incurred other net loss of HK$5.49 million (2009: HK$6.22 million), which comprised mainly net loss on foreign exchange of HK$2.92 million, net loss on disposal of fixed assets of HK$1.97 million and provision of impairment losses in acquisition deposits of HK$5.21 million which was offset by interest and rental income of HK$3.64 million.

Finance cost

The finance cost reduced to HK$15.82 million as compared to HK$23.94 million in the corresponding period mainly due to lower interest rate on bank borrowing for the period under review.

Share of profits less losses of associates

The Group's share of profit less losses of associates increased to HK$1.94 million as compared to HK$0.07 million in the corresponding period mainly due to higher share of profit contribution from its associate in Vietnam.

FUTURE PROSPECTS

Notwithstanding the general improvement in global economic outlook, the Group expects business conditions remain challenging for the second half of the financial year. In addition to uneven pace of economy recovery, pricing pressure as well as rising labour cost will put a squeeze on the profit margin of the Group. In attempt to mitigate some of the adverse impact resulting from these challenges, the Group has undertaken some operation reorganisation in order to increase efficiency and productivity. The management is confident that through stringent cost control and head count management, impacts on high running costs could be minimised.

LIQUIDITY AND FINANCIAL RESOURCES

During the period 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 January 2010, the Group had cash and bank deposits as stated at HK$176.64 million (31 July 2009: HK$151.05 million), of which HK$50.95 million (31 July 2009: HK$47.25 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**") 58.18%, Renminbi ("**RMB**") 39.79%, and Hong Kong dollars ("**HKD**") 2.03%.

As at 31 January 2010, the Group had outstanding interest-bearing borrowings of HK$723.25 million (31 July 2009: HK$681.21 million), mainly consisting of bank borrowings of HK$687.01 million (31 July 2009: HK$641.80 million), obligations under finance lease of HK$21.61 million (31 July 2009: HK$22.38 million) and a loan from a substantial shareholder of HK$14.63 million (31 July 2009: HK$17.03 million). The total borrowings were denominated in RMB 22.91%, USD 33.38%, and HKD 43.71%, and the maturity profile is as follows:

	As at 31 January 2010		As at 31 July 2009	
Repayable	***HK$ million***	***%***	*HK$ million*	*%*
Within one year	**365.67**	**50.56**	350.41	51.44
After one year but within two years	**66.85**	**9.24**	38.81	5.70
After two years but within five years	**290.73**	**40.20**	291.99	42.86
Total bank borrowings	**723.25**	**100.00**	681.21	100.00
Cash and bank deposits	**(176.64)**		(151.05)	
Net borrowings	**546.61**		530.16	

As at 31 January 2010, the Group's net current liabilities were at HK$77.07 million (31 July 2009: HK$99.36 million). As at date of this announcement, the Group has undrawn bank facilities of HK$99.32 million for working capital purposes. The Board is confident that the Group has sufficient operational cash flow to support its working capital requirements.

CHARGES ON ASSETS

As at 31 January 2010, certain assets of the Group with aggregate carrying value of HK$432.41 million (31 July 2009: HK$438.79 million) were pledged to secure loan and trade financing facilities for the Group.

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 relates. The currencies giving rise to the risk were primarily HKD, USD, Japanese Yen ("JPY") and RMB. During the period under review, the Group incurred a net loss on foreign exchange of HK$2.92 million mainly due to appreciation of JPY against HKD.

As at 31 January 2010, the Group did not have any outstanding foreign exchange contract.

EMPLOYEES AND REMUNERATION POLICY

As at 31 January 2010, the Group had a total of 7,411 employees (31 July 2009: 6,553). During the period 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) for the period under review amounted to HK$122.35 million (2009: HK$109.98 million). 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 and dedicated employees 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 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.

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

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

EXTRACT OF THE DRAFT REVIEW REPORT BY KPMG ON THE GROUP'S INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 31 JANUARY 2010

Conclusion

Based on our review, nothing has come to attention that causes us to believe that the interim financial report as at 31 January 2010 is not prepared, in all material aspects, in accordance with Hong Kong Accounting Standard 34, "*Interim financial reporting*".

Emphasis of Matter

Without qualifying our conclusion, we draw attention to note 1 to the interim financial report which describes that as at 31 January 2010, the Group's current liabilities exceeded its current assets by HK$77.07 million and the Group incurred a loss of HK$5.08 million for the period ended 31 January 2010. 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 to the interim financial report, the interim financial report has 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 continue to operate as a going concern and to meet its financial obligations as and when they fall due for the foreseeable future. The interim financial report does not include any adjustments that would result from the failure to renew or obtain such banking facilities.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's interim financial results for the six months ended 31 January 2010 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 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("**Listing Rules**") throughout the six months 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.

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 six months period ended 31 January 2010.

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
Mr. Yeoh Ek Boon

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
27 March 2010