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 2011

HIGHLIGHTS

- Turnover increased by 8.86% to HK$1,629.53 million;
- Loss attributable to equity shareholders of the Company was HK$61.05 million;
- Basic loss per share was HK6.22 cents.

The Board ("**Board**") of directors ("**Directors**") of V.S. International Group Limited ("**Company**") would like to announce the consolidated results of the Company and its subsidiaries (together, the "**Group**") for the financial year ended 31 July 2011, 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 2011 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 2011 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 additional, 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 2011

	Note	2011 HK$'000	2010 HK$'000
Turnover	3	**1,629,534**	1,496,888
Cost of sales		**(1,489,201)**	(1,329,233)
Gross profit		**140,333**	167,655
Other net income/(loss)	4	**28,301**	(2,366)
Distribution costs		**(68,399)**	(60,338)
Administrative expenses		**(103,237)**	(85,830)
(Loss)/profit from operations		**(3,002)**	19,121
Finance costs	5(a)	**(39,806)**	(34,158)
Share of profits less losses of associates		**3,778**	4,735
Loss before taxation	5	**(39,030)**	(10,302)
Income tax expense	6	**(22,128)**	(3,619)
Loss for the year		**(61,158)**	(13,921)
Attributable to:			
Equity shareholders of the Company		**(61,047)**	(14,315)
Non-controlling interests		**(111)**	394
Loss for the year		**(61,158)**	(13,921)
Loss per share	8		
Basic		**(6.22) cents**	(1.65) cents
Diluted		**(6.22) cents**	(1.65) cents

CONSOLIDATED BALANCE SHEET

As at 31 July 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Fixed assets			
– Property, plant and equipment		**782,464**	830,182
– Interests in leasehold land held for own use under operating leases		**25,555**	24,793
		808,019	854,975
Goodwill		**2,172**	2,172
Deferred tax assets		–	14,674
Interest in associates		**27,047**	27,004
Deferred assets		**6,602**	–
		843,840	898,825
Current assets			
Inventories		**245,006**	227,151
Trade and other receivables	*9*	**463,454**	452,080
Deposits with banks		**60,733**	74,531
Cash and cash equivalents		**115,332**	96,940
		884,525	850,702
Current liabilities			
Trade and other payables	*10*	**525,036**	488,744
Interest-bearing borrowings		**454,886**	411,433
Obligations under finance leases		**7,962**	10,051
Loan from a substantial shareholder		**4,894**	6,539
Current taxation		**7,519**	9,387
		1,000,297	926,154
Net current liabilities		**(115,772)**	(75,452)
Total assets less current liabilities		**728,068**	823,373
Non-current liabilities			
Other payables		**6,303**	29,794
Interest-bearing borrowings		**248,814**	322,621
Obligations under finance leases		–	6,700
Loan from a substantial shareholder		–	4,877
Deferred tax liabilities		**1,745**	1,762
		256,862	365,754
NET ASSETS		**471,206**	457,619

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 July 2011

	Note	2011 HK$'000	2010 HK$'000
CAPITAL AND RESERVES			
Share capital		**57,798**	43,349
Reserves		**410,778**	411,529
Total equity attributable to equity shareholders of the Company		**468,576**	454,878
Non-controlling interests		**2,630**	2,741
TOTAL EQUITY		**471,206**	457,619

Notes:

1.(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable 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 2011, the Group's current liabilities exceeded its current assets by HK$115,772,000 and the Group incurred a loss of HK$61,158,000 for the year ended 31 July 2011. 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 2011, the Group had undrawn banking facilities totalling HK$243,914,000 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 other 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. The effect of these adjustments has not been reflected in the 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.

2. Changes in accounting policies

The HKICPA has issued the following revised HKFRSs, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company:

- HKFRS 3 (revised 2008), Business combinations
- Amendments to HKAS 27, Consolidated and separate financial statements
- Amendments to HKFRS 5, Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary
- Amendment to HKAS 39, Financial instruments: Recognition and measurement –eligible hedged items
- Improvements to HKFRSs (2009)
- HK(IFRIC) 17, Distributions of non-cash assets to owners
- HK (Int) 5, Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause

These HKFRS developments have 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 and the Company's operations.

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

3. Segment information

The Group manages its business by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented 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*

For the purposes of assessing segment performance and allocating resources between segments, 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 years ended 31 July 2011 and 2010 is set out below.

	Plastic injection and moulding		**Assembling of electronic products**		**Mould design and fabrication**		**Consolidated**	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover from external customers	**952,473**	876,036	**578,528**	531,373	**98,533**	89,479	**1,629,534**	1,496,888
Reportable segment revenue	**952,473**	876,036	**578,528**	531,373	**98,533**	89,479	**1,629,534**	1,496,888
Reportable segment result	**27,585**	42,006	**28,946**	36,989	**10,194**	18,017	**66,725**	97,012
Depreciation and amortisation for the year	**(57,663)**	(61,127)	**(27,110)**	(24,481)	**(12,508)**	(11,765)	**(97,281)**	(97,373)
Impairment of doubtful debts charged/(reversed)	**5,473**	(159)	**3,077**	–	**9**	(394)	**8,559**	(553)
Reportable segment assets	**920,955**	941,608	**329,703**	377,739	**158,365**	143,177	**1,409,023**	1,462,524
Addition to non-current segment assets during the year	**15,175**	64,352	**1,513**	4,639	**3,799**	222	**20,487**	69,213
Reportable segment liabilities	**266,355**	330,826	**147,531**	141,303	**33,060**	28,709	**446,946**	500,838

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

	2011	2010
	HK$'000	*HK$'000*
Revenue		
Reportable segment revenue	**1,629,534**	1,496,888
Consolidated turnover	**1,629,534**	1,496,888

	2011	2010
	HK$'000	*HK$'000*
Profit		
Reportable segment profit	**66,725**	97,012
Share of profits less losses of associates	**3,778**	4,735
Finance costs	**(39,806)**	(34,158)
Unallocated depreciation and amortisation	**(4,382)**	(3,703)
Unallocated head office and corporate expenses	**(65,345)**	(74,188)
Consolidated loss before taxation	**(39,030)**	(10,302)

	2011	2010
	HK$'000	*HK$'000*
Assets		
Reportable segment assets	**1,409,023**	1,462,524
Interests in associates	**27,047**	27,004
Unallocated head office and corporate assets	**292,295**	259,999
Consolidated total assets	**1,728,365**	1,749,527

	2011	2010
	HK$'000	*HK$'000*
Liabilities		
Reportable segment liabilities	**446,946**	500,838
Unallocated head office and corporate liabilities	**810,213**	791,070
Consolidated total liabilities	**1,257,159**	1,291,908

(c) Geographical segments

The Group's business participates in seven (2010: seven) 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:

	2011	2010
	HK$'000	*HK$'000*
The People's Republic of China ("PRC") (other than Taiwan and Hong Kong)	**804,896**	737,738
Hong Kong	**286,822**	258,435
United States of America	**226,535**	177,392
Northern Asia	**120,184**	120,159
Europe	**98,510**	100,115
South East Asia	**50,149**	37,346
South Africa	**42,438**	65,703
	1,629,534	1,496,888

4. Other net income/(loss)

	2011	2010
	HK$'000	*HK$'000*
Interest income	**1,872**	1,346
Rentals receivable from operating leases	**33**	5,942
Net foreign exchange gain/(loss)	**1,683**	(2,513)
Net gain/(loss) on disposal of fixed assets	**14,208**	(1,514)
Reversal/(recognition) of impairment losses on acquisition deposits *(Notes (i) and (ii))*	**4,752**	(8,413)
Fines by local authorities *(Note (iii))*	**(2,280)**	(57)
Change in fair value of forward foreign exchange contracts *(Note (iv))*	**1,391**	–
Net gain on forward exchange contracts	**4,037**	–
Others	**2,605**	2,843
	28,301	(2,366)

Notes:

(i) On 19 June 2008, the Group entered into an agreement with an independent third party 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 would be effective when the capital injection and verification process is completed.

During the year ended 31 July 2009, the Group has injected the first instalment of approximately HK$8,035,000 ("Injected Capital") into Heilongjiang Savoy.

On 10 August 2009, resolutions were passed by the directors of Heilongjiang Savoy to approve an extension of the due date for settlement of the remaining balance of HK$16,407,000 from 31 July 2009 to 31 December 2009. The capital injection had not been completed as at 31 July 2010. Management decided to abort the plan to invest in Heilongjiang Savoy and was doubtful in recovering the deposits paid to Heilongjiang Savoy. Provision of HK$8,035,000 was made during the year ended 31 July 2010.

On 6 December 2010, resolutions were passed by the directors of Heilongjiang Savoy to approve the withdrawal of the investment in Heilongjiang Savoy by the Group. The shareholders of Heilongjiang Savoy also entered into supplemental agreements and articles ("Agreement") with the Group. The parties to the Agreement agreed that a compensation fee ("Compensation Fee") of RMB2,700,000 (equivalent to HK$3,283,000) was paid by the Group to another shareholder for the withdrawal by the Group from Heilongjiang Savoy. The Injected Capital, net of the Compensation fee, was refunded to the Group on 28 January 2011. Therefore a reversal of impairment loss on acquisition deposit of HK$4,752,000 was recognised for the year ended 31 July 2011.

(ii) 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. In order to focus on the existing principal activities, management decided to abort the investment plan in Inner Mongolia. During the year ended 31 July 2010, HK$5,326,000 of the deposit was refunded and HK$378,000 has been written off to profit or loss.

(iii) During the year ended 31 July 2011, a fine of HK$2,280,000 was paid to the Custom Bureau in Gongbei District of the PRC (中華人民共和國拱北海關) for underpaid value added tax and custom duties.

(iv) In order to minimise the foreign currency risk exposure, the Group entered into certain forward exchange contracts with aggregate notional contract amounts of USD44,800,000 during the year ended 31 July 2011 (2010: Nil) to hedge against the trade receivables denominated in USD. The outstanding forward exchange contracts will expire within one year. The aggregate fair value of the outstanding forward exchange contracts amounted to HK$1,391,000 at 31 July 2011 (31 July 2010: Nil) has been recognised as derivative financial instruments. The changes in fair value of the forward exchange contracts were recognised in profit or loss.

5. Loss before taxation

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

	2011 *HK$'000*	2010 *HK$'000*
(a) Finance costs:		
Interest on bank advances repayable within five years	**30,858**	26,237
Interest on loan from a substantial shareholder	**309**	555
Finance charges on obligations under finance leases	**1,226**	2,091
Total borrowing costs	**32,393**	28,883
Less: borrowing costs capitalised as construction in progress *	**(72)**	(73)
	32,321	28,810
Other charges	**7,485**	5,348
	39,806	34,158

* The borrowing costs have been capitalised at a rate of 4.1% (2010: 4.0%) per annum for construction in progress.

	2011 *HK$'000*	2010 *HK$'000*
(b) Other items:		
Cost of inventories	**1,489,201**	1,329,233
Auditors' remuneration		
– audit services	**1,882**	2,009
– other services	**954**	1,020
Impairment of doubtful debts charged/(reversed)		
– trade receivables	**5,719**	(553)
– other receivables	**2,840**	–
Amortisation of interests in leasehold land held for own use under operating leases	**598**	577
Reversal/(recognition) of impairment losses on acquisition deposits	**4,752**	(8,413)
Depreciation		
– other assets	**98,736**	98,253
– assets held under finance leases	**2,329**	2,246
Operating lease charges in respect of properties		
– factory and hostel rentals	**10,423**	9,959
Fines by local authorities	**2,280**	57

6. **Income tax expense**

(a) Taxation in the consolidated income statement represents:

	2011	2010
	HK$'000	*HK$'000*
Current tax – PRC		
Provision for income tax for the year	**7,404**	10,159
Under-provision in respect of prior years	**67**	–
	7,471	10,159
Withholding tax for dividends paid by a subsidiary in the PRC	**–**	1,271
Deferred tax		
Written off and origination of temporary differences	**14,657**	(7,811)
	22,128	3,619

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 2011 and 2010.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("Income Tax Law") which was effective from 1 January 2008. As a result of the Income 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 Income 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 20%, 22%, 24% and 25% for 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.

For the year ended 31 July 2011, the following subsidiaries of the Company in the PRC were either subject to standard or preferential income tax rates, except that V.S. Industry (Shenzhen) Co., Ltd., V.S. Technology Industry Park (Zhuhai) Co., Ltd., Haivs Industry (Qingdao) Co., Ltd., VSA Electronics Technology (Zhuahi) Co., Ltd. and Qingdao GP Precision Mold Plastics Co., Ltd. sustained losses for taxation purposes for the year ended 31 July 2011:

Name of subsidiary	*Period*	*Income tax rate*
V.S. Industry (Zhuhai) Co., Ltd.	1 August 2009 to 31 December 2009	20.0%
	1 January 2010 to 31 December 2010	22.0%
	1 January 2011 to 31 July 2011	24.0%
Qingdao GS Electronics Plastic Co., Ltd.	1 August 2009 to 31 December 2009	10.0%
	1 January 2010 to 31 December 2010	22.0%
	1 January 2011 to 31 July 2011	24.0%
V.S. Electronics (Zhuhai) Co., Ltd.	1 August 2009 to 31 July 2011	25.0%
Qingdao GP Electronic Plastics Co., Ltd.	1 August 2009 to 31 December 2009	0%
	1 January 2010 to 31 December 2010	11.0%
	1 January 2011 to 31 July 2011	12.5%

Pursuant to the Income 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.

Pursuant to the Sino-Hong Kong Double Tax Arrangement and Sino-Macau Double Tax Arrangement and the related regulations, a qualified Hong Kong or Macau tax resident will be liable for a reduced withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong or Macau tax resident is the "beneficial owner" and holds 25% or more of the equity interest of the PRC enterprise. 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 2011, the undistributed profits generated before 1 January 2008 by the subsidiaries incorporated in the PRC, which amounted to HK$129,791,000 (2010: HK$129,791,000), are not subject to the withholding tax on future distribution. As at 31 July 2011, deferred tax liabilities of HK$1,745,000 (2010: HK$1,762,000) have been recognised in respect of the temporary differences of HK$34,892,000 (2010: HK$35,234,000) 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

No final dividend has been proposed by the Company after the end of the reporting period attributable to the years ended 31 July 2011 and 2010.

8. Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of HK $61,047,000 (2010: loss of HK $14,315,000) and the weighted average of 981,086,000 ordinary shares (2010: 866,976,000 shares) in issue during the year.

(b) Diluted loss per share

During the year ended 31 July 2011, the effects of share options and bonus warrants are anti-dilutive. There were no potential dilutive ordinary shares in existence during the year ended 31 July 2010.

9. Trade and other receivables

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**309,278**	346,488
Bills receivable	**67,096**	50,096
Less: allowance for doubtful debts	**(7,729)**	(2,010)
	368,645	394,574
Other receivables, prepayments and deposits	**82,639**	50,424
Derivative financial instruments	**1,391**	–
Deferred assets	**10,779**	7,082
	463,454	452,080

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	2011	2010
	HK$'000	*HK$'000*
Current	**307,212**	318,713
Less than 1 month past due	**37,266**	45,923
1 to 3 months past due	**13,953**	17,983
More than 3 months but less than 12 months past due	**10,214**	11,955
Amounts past due	**61,433**	75,861
	368,645	394,574

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

10. Trade and other payables

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**320,057**	286,011
Bills payable	**3,605**	36,650
Payables for the purchase of fixed assets	**57,255**	61,528
Accrued expenses and other payables	**144,119**	104,555
	525,036	488,744

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the end of the reporting period:

	2011	2010
	HK$'000	*HK$'000*
Due within 1 month or on demand	**202,736**	248,843
Due after 1 month but within 3 months	**106,509**	64,791
Due after 3 months but within 6 months	**14,417**	9,027
	323,662	322,661

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATIONS

INDUSTRY OVERVIEW

Despite improvement in the Group's turnover for the financial year under review, rising raw material prices and employment cost affected the performance of the Group for the year ended 31 July 2011.

FINANCIAL REVIEW

Turnover, Gross Profit and Segments Results

During the year under review, the Group recorded a turnover of HK$1,629.53 million, representing an increase of HK$132.64 million or 8.86% from HK$1,496.89 million in the previous year, primarily due to increase in turnover of plastic injection and moulding business segment and assembling of electronic products business segment. The major contributor of the Group's turnover was still its plastic injection and moulding division which accounted for 58.45% (2010: 58.52%) of the turnover, with the remaining from assembling of electronics products and mould design and fabrication divisions which accounted for 35.50% (2010: 35.50%) and 6.05% (2010: 5.98%) of the turnover respectively.

Gross profit reduced and recorded at HK$140.33 million, representing a decrease of HK$27.33 million as compared to previous year of HK$167.66 million. The decrease in gross profit was mainly attributable to increase in raw materials consumed which accounted for 60.39% of turnover as compared to 57.30% in previous year.

Plastic Injection and Moulding

During the financial year under review, the Group's plastic injection and moulding division recorded an increase of 8.72% in turnover from HK$876.04 million in previous year to HK$952.47 million. Gross profit margin of this segment deteriorated from 4.80% to 2.90% in the financial year under review.

By geographical location, Zhuhai's operation was still the main contributor and contributed a turnover of HK$575.77 million as compared to HK$559.89 million in previous year. Meanwhile Qingdao's operation recorded a turnover of HK$376.71 million, an increase of 19.08% as compared to HK$316.34 million in previous year.

Assembling of Electronic Products

Since the last financial year, the assembling of electronic products business has shown a continued growth and recorded a turnover of HK$578.53 million, representing an increase of HK$47.16 million or 8.88% from HK$531.37 million in previous year. However, gross profit margin of this segment deteriorated from 6.96% to 5.00% in the financial year under review, mainly due to higher raw material consumption.

Mould Design and Fabrication

Despite increase in sales of other business segments, mould design and fabrication business recorded a turnover of HK$98.53 million as compared to HK$89.48 million in previous year, representing an increase of HK$9.05 million or 10.11%.

Other Net Income/(Loss)

During the financial year under review, the Group incurred other net income of HK$28.30 million (2010: other net loss of HK$2.37 million), which comprised mainly net gain on foreign exchange of HK$7.11 million, net gain on disposal of fixed assets of HK$14.21 million and reversal of provision of impairment losses in acquisition deposits of HK$4.75 million and interest and rental income of HK$1.90 million.

Distribution Costs and Administrative Expenses

Distribution costs and administration expenses amounted to HK$171.64 million, representing an increase of HK$25.47 million or 17.42% as compared to HK$146.17 million in the previous year. The increase was primarily due to increase in employees cost of HK$16.65 million and provision of doubtful debts of HK$8.56 million during the year under review.

Finance Costs

Despite lower total interest bearing borrowings of HK$716.55 million as compared to HK$762.22 million in the previous year, the finance costs were higher by 16.54% to HK$39.81 million (2010: HK$34.16 million) mainly due to higher financing cost for the year under review.

Share of Profits less losses of Associates

The Group's share of profits less losses of associates decreased to HK$3.78 million as compared to HK$4.74 million in previous year. The decrease 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 by internally generated cash flow and banking facilities in Hong Kong and the PRC. As at 31 July 2011, the Group had cash and bank deposits as stated at HK$176.07 million (2010: HK$171.47 million), of which HK$60.61 million (2010: HK$74.42 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 dollar ("USD") 37.28%, Renminbi ("RMB") 62.43%, and Hong Kong dollars ("HKD") 0.29%.

As at 31 July 2011, the Group had outstanding interest-bearing borrowings of HK$716.55 million (2010: HK$762.22 million), mainly consisting of bank borrowings of HK$703.70 million (2010: HK$734.05 million), obligations under finance lease of HK$7.96 million (2010: HK$16.75 million) and a loan from a substantial shareholder of HK$4.89 million (2010: HK$11.42 million). The total borrowings were denominated in RMB 24.09%, USD 37.56%, and HKD 38.35%, and the maturity profile is as follows:

	As at 31 July 2011		As at 31 July 2010	
Repayable	***HK$ million***	*%*	*HK$ million*	*%*
Within one year	**467.74**	65.28	428.02	56.15
After one year but within two years	**248.81**	34.72	83.58	10.97
After two years but within five years	**–**	0.00	250.62	32.88
Total borrowings	**716.55**	100.00	762.22	100.00
Cash and bank deposits	**(176.07)**		(171.47)	
Net borrowings	**540.48**		590.75	

The total net interest bearing borrowings of the Group posted at HK$540.48 million representing 31.27% (2010: 33.77%) of total assets and 114.70% (2010: 129.09%) of total shareholders' funds respectively.

As at 31 July 2011, the Group's net current liabilities deteriorated by HK$40.32 million to HK$115.77 million (2010: HK$75.45 million). As at 31 July 2011, the Group has undrawn bank facilities of HK$243.91 million for working capital purposes. The Board is confident that the Group has sufficient operational cash flow to support its working capital requirements.

CAPITAL STRUCTURE

As at 31 July 2011, the Group's shareholders' fund stood at HK$471.21 million (2010: HK$457.62 million), an increase of 2.97% mainly due to the cash of HK$32.65 million raised from the Group's rights issue during the financial year under review and the increase in exchange fluctuation reserve of HK$39.50 million which was offset against net loss of HK$61.05 million incurred for the year. Total assets of the Group amounted to HK$1,728.37 million (2010: HK$1,749.53 million), 46.75% of which were fixed assets (2010: 48.87%).

COMMITMENTS AND CONTINGENT LIABILITY

As at 31 July 2011, the Group's capital commitments were HK$ 0.61 million (2010: HK$ nil); while the operating lease commitment was HK$0.46 million (2010: HK$0.52 million). The Group did not have material contingent liabilities as at 31 July 2011.

FOREIGN EXCHANGE EXPOSURE

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

During the financial year under review, the Group incurred net exchange gain of HK$7.11 million (2010: net exchange losses of HK$2.51 million) mainly due to realised gain on forward exchange contracts of HK$4.04 million, unrealised foreign exchange gain of HK$1.68 million and unrealised forward exchange contract of HK$1.39 million. The management will continue to monitor the foreign currency risk exposure to ensure that it kept at an acceptable level.

As HKD is pegged to the USD, the Group does not expect any significant currency risk of HKD position. Some of the Group's sales transactions are denominated in USD. In view of the appreciation of RMB against USD during the year ended 31 July 2011, the Group was exposed to foreign currency risk in respect of certain trade receivables denominated in USD.

As at 31 July 2011, the notional amounts of the outstanding forward exchange contracts were USD44.80 million (2010: USD nil). The management will continue to monitor the foreign currency risk exposure and to ensure that it is kept at an acceptable level.

EMPLOYEES AND REMUNERATION POLICY

As at 31 July 2011, the Group had a total of 7,932 employees (2010: 8,211). During the year under review, the Group did not make any significant changes to the Group's remuneration policies.

Employees' cost to the Group (excluding Directors' remuneration and equity settled share-based payment expenses) for the financial year under review amounted to HK$311.01 million (2010: HK$261.27 million). The increase in employees' cost was mainly due to the rise in remuneration as a result of increase in minimum wages imposed by the local authorities of the PRC. The Group's remuneration package is updated on 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 that it is essential to improve employees' technical knowledge, welfare and wellbeing, so as to attract and retain quality staff dedicated towards supporting 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 payment of dividend for the financial year ended 31 July 2011 (2010: HK$ nil) at the forthcoming annual general meeting of the Company.

FUTURE PROSPECTS AND CHALLENGES

Uncertainty in global economy recovery, appreciation of RMB against USD, pricing pressure and continued rising labour cost put some pressure on the profit margin of the Group. Despite of all the challenges, the Group anticipates sales of plastic injection and assembly of electronics products will continue to sustain through new products development from existing and new customers.

In the light of these challenges, the Group will continue with its effort to improve production efficiency and increase productivity to mitigate the impacts of rising cost and wages. The management is confident that through stringent cost control and head count management, the impacts of high running cost can be minimised.

EXTRACT OF THE DRAFT INDEPENDENT AUDITOR'S REPORT ON THE GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2011

"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 2011 and of the Group's loss 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 the consolidated financial statements which describes that the Group incurred a loss of HK$61,158,000 for the year ended 31 July 2011 and as at that date the Group's current liabilities exceeded its current assets by HK$115,772,000. 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 the consolidated financial statements, these consolidated 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 other banking facilities to enable the Group to meet its financial obligations as and when they fall due for the foreseeable future. These consolidated 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 2011, 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 to 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. As the founder of the Group, Mr. Beh Kim Ling 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 2011 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 ("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 Code and Appendix 10 to the Listing Rules throughout the financial year ended 31 July 2011.

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.

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

Macau, the PRC
24 September 2011

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. Lee Soo Gee
Mr. Tang Sim Cheow

Non-executive Director:
Mr. Gan Tiong Sia