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V.S. INTERNATIONAL GROUP LIMITED

威 鉞 國 際 集 團 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(stock code: 1002)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 JULY 2012

HIGHLIGHTS

- Turnover decreased by 7.15% to HK\$1,513.10 million;
- Loss attributable to equity shareholders of the Company was HK\$73.79 million;
- Basic loss per share was HK\$6.38 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 2012, 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 2012 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 2012 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 2012

		2012	2011
	Note	HK\$'000	HK\$'000
Turnover	3	1,513,099	1,629,534
Cost of sales		<u>(1,364,572)</u>	<u>(1,489,201)</u>
Gross profit		148,527	140,333
Other net (loss)/income	4	(18,342)	28,301
Distribution costs		(68,394)	(68,399)
Administrative expenses		<u>(84,705)</u>	<u>(103,237)</u>
Loss from operations		(22,914)	(3,002)
Finance costs	5(a)	(35,903)	(39,806)
Share of profits less losses of associates		<u>(590)</u>	<u>3,778</u>
Loss before taxation	5	(59,407)	(39,030)
Income tax	6	<u>(14,289)</u>	<u>(22,128)</u>
Loss for the year		<u>(73,696)</u>	<u>(61,158)</u>
Attributable to:			
Equity shareholders of the Company		(73,785)	(61,047)
Non-controlling interests		<u>89</u>	<u>(111)</u>
Loss for the year		<u>(73,696)</u>	<u>(61,158)</u>
Loss per share	8		
Basic		<u>(6.38) cents</u>	<u>(6.22) cents</u>
Diluted		<u>(6.38) cents</u>	<u>(6.22) cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 July 2012

	<i>Note</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Non-current assets			
Fixed assets			
– Property, plant and equipment		672,430	782,464
– Interests in leasehold land held for own use under operating leases		25,107	25,555
		697,537	808,019
Goodwill		2,172	2,172
Interest in associates		25,290	27,047
Deferred assets		–	6,602
		724,999	843,840
Current assets			
Inventories		143,825	245,006
Trade and other receivables	9	366,554	463,454
Deposits with banks		39,218	60,733
Cash and cash equivalents		90,848	115,332
		640,445	884,525
Current liabilities			
Trade and other payables	10	367,386	525,036
Interest-bearing borrowings		316,180	454,886
Obligations under finance leases		–	7,962
Loan from a substantial shareholder		–	4,894
Current taxation		10,374	7,519
		693,940	1,000,297
Net current liabilities		(53,495)	(115,772)
Total assets less current liabilities		671,504	728,068
Non-current liabilities			
Other payables		11,081	6,303
Interest-bearing borrowings		257,125	248,814
Deferred tax liabilities		2,231	1,745
		270,437	256,862
NET ASSETS		401,067	471,206

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*As at 31 July 2012*

	2012 <i>HK\$ '000</i>	2011 <i>HK\$ '000</i>
CAPITAL AND RESERVES		
Share capital	57,801	57,798
Reserves	343,266	410,778
	<hr/>	<hr/>
Total equity attributable to equity shareholders of the Company	401,067	468,576
Non-controlling interests	–	2,630
	<hr/>	<hr/>
TOTAL EQUITY	401,067	471,206
	<hr/> <hr/>	<hr/> <hr/>

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 2012, the Group’s current liabilities exceeded its current assets by HK\$53,495,000 and the Group incurred a loss of HK\$73,696,000 for the year ended 31 July 2012. 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 2012, the Group had undrawn banking facilities totalling HK\$210,998,000 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 and 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 a number of amendments to HKFRSs and HKAS that are first effective for the current accounting period of the Group and the Company. Of these, the following development is relevant to the Group's financial statements:

- Amendments to HKFRS 7, Financial instruments: Disclosures – Transfers of financial assets

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

The amendments to HKFRS7 have not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction.

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 sales), 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 2012 and 2011 is set out below.

	Plastic injection and moulding		Assembling of electronic products		Mould design and fabrication		Consolidated	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Turnover from external customers	924,118	952,473	488,934	578,528	100,047	98,533	1,513,099	1,629,534
Reportable segment revenue	924,118	952,473	488,934	578,528	100,047	98,533	1,513,099	1,629,534
Reportable segment result	30,764	27,585	7,893	28,946	14,593	10,194	53,250	66,725
Depreciation and amortisation for the year	(55,121)	(57,663)	(19,735)	(27,110)	(13,618)	(12,508)	(88,474)	(97,281)
Impairment of doubtful debts charged	(572)	(5,473)	–	(3,077)	(69)	(9)	(641)	(8,559)
Reportable segment assets	819,988	920,955	220,172	329,703	114,406	158,365	1,154,566	1,409,023
Addition to non-current segment assets during the year	19,214	15,175	3,222	1,513	2,103	3,799	24,539	20,487
Reportable segment liabilities	203,458	266,355	109,930	147,531	17,896	33,060	331,284	446,946

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

	2012 HK\$'000	2011 HK\$'000
Revenue		
Reportable segment revenue	1,513,099	1,629,534
Consolidated turnover	1,513,099	1,629,534
Profit		
Reportable segment profit	53,250	66,725
Share of profits less losses of associates	(590)	3,778
Finance costs	(35,903)	(39,806)
Unallocated depreciation and amortisation	(5,860)	(4,382)
Unallocated head office and corporate expenses	(70,304)	(65,345)
Consolidated loss before taxation	(59,407)	(39,030)

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Assets		
Reportable segment assets	1,154,566	1,409,023
Interests in associates	25,290	27,047
Unallocated head office and corporate assets	185,588	292,295
	<hr/>	<hr/>
Consolidated total assets	1,365,444	1,728,365
	<hr/> <hr/>	<hr/> <hr/>

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Liabilities		
Reportable segment liabilities	331,284	446,946
Unallocated head office and corporate liabilities	633,093	810,213
	<hr/>	<hr/>
Consolidated total liabilities	964,377	1,257,159
	<hr/> <hr/>	<hr/> <hr/>

(c) *Geographical segments*

The Group's business participates in seven (2011: 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:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
The People's Republic of China ("PRC") (other than Taiwan and Hong Kong)	812,977	804,896
United States of America	291,214	226,535
Hong Kong	207,681	286,822
Europe	89,006	98,510
Northern Asia	77,033	120,184
South East Asia	34,641	50,149
South Africa	547	42,438
	<hr/>	<hr/>
	1,513,099	1,629,534
	<hr/> <hr/>	<hr/> <hr/>

4. Other net (loss)/income

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Interest income	887	1,872
Rentals receivable from operating leases	–	33
Net foreign exchange gain	189	1,683
Reversal of impairment losses on investment deposits	–	4,752
Fines by local authorities (<i>Note(i)</i>)	(412)	(2,280)
Change in fair value of forward foreign exchange contracts (<i>Note (ii)</i>)	(6,412)	1,391
Net gain on forward exchange contracts	4,382	4,037
Net (loss)/gain on disposal of fixed assets (<i>Note (iii)</i>)	(25,496)	14,208
Gain on disposal of an associate	937	–
Others	7,583	2,605
	<u>(18,342)</u>	<u>28,301</u>

Notes:

- (i) During the year ended 31 July 2012, a fine of HK\$412,000 (31 July 2011: 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 shortage of bonded raw materials kept by certain subsidiaries in Zhuhai, the PRC. This case was finalised and the related penalties were fully paid during the year ended 31 July 2012.
- (ii) In order to minimise the foreign currency risk exposure, the Group entered into certain forward exchange contracts with aggregate notional contract amounts of USD56,400,000 during the year ended 31 July 2012 (31 July 2011: USD44,800,000). The outstanding forward exchange contracts will expire within one year. The change in fair value of the outstanding forward exchange contracts amounted to HK\$6,412,000 at 31 July 2012 (31 July 2011: gain of HK\$1,391,000) has been recognised as derivative financial instruments and was accounted for in profit or loss.
- (iii) During the year ended 31 July 2012, the Group disposed of certain fixed assets with a net book value of HK\$53,313,000 (2011: HK\$17,520,000). A loss on disposal of HK\$25,496,000 (2011: gain of HK\$14,208,000) was recognised in profit or loss. These fixed assets mainly representing plant and machinery were acquired during the years ended 31 July 2001 to 2010 and sold to independent third parties and a subsidiary of a substantial shareholder of the Company during the year ended 31 July 2012. The Company disposed of a commercial property unit in Hong Kong during the year ended 31 July 2011, which contributed to the gain on disposal of fixed assets for the year ended 31 July 2011.

5. Loss before taxation

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
(a) Finance costs:		
Interest on bank advances repayable within five years	30,087	30,858
Interest on loan from a substantial shareholder	62	309
Finance charges on obligations under finance leases	263	1,226
	<hr/>	<hr/>
Total borrowing costs	30,412	32,393
Less: borrowing costs capitalised as construction in progress*	(93)	(72)
	<hr/>	<hr/>
	30,319	32,321
Other charges	5,584	7,485
	<hr/>	<hr/>
	35,903	39,806
	<hr/> <hr/>	<hr/> <hr/>

* The borrowing costs have been capitalised at a rate of 4.7% (2011: 4.1%) per annum for construction in progress.

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
(b) Other items:		
Cost of inventories	1,364,572	1,489,201
Auditors' remuneration		
– audit services	2,018	1,882
– other services	1,031	954
Impairment of doubtful debts charged		
– trade receivables	42	5,719
– other receivables	599	2,840
Amortisation of interests in leasehold land held for own use under operating leases	621	598
Reversal of impairment losses on investment deposits	–	4,752
Depreciation		
– other assets	93,713	98,736
– assets held under finance leases	–	2,329
Operating lease charges in respect of properties – factory and hostel rentals	11,023	10,423
Fines by local authorities (<i>note 4(i)</i>)	412	2,280
	<hr/> <hr/>	<hr/> <hr/>

6. Income tax

(a) Taxation in the consolidated income statement represents:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Current tax – PRC		
Provision for the year	11,987	7,404
Under-provision in respect of prior years	1,816	67
	<u>13,803</u>	<u>7,471</u>
Deferred tax		
Origination and written off of temporary differences	486	14,657
	<u>14,289</u>	<u>22,128</u>

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 2012 and 2011.

Prior to 1 January 2008, some of the Group's PRC entities, being manufacturing foreign invested enterprises, were each entitled to a tax holiday of two-year full exemption followed by three-year 50% reduction in the income tax rate, commencing from their respective first profit-making years from a PRC tax perspective.

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

For the year ended 31 July 2012, 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 (Zhuhai) Co., Ltd. and Qingdao GP Precision Mold Plastics Co., Ltd. sustained losses for taxation purposes for the year ended 31 July 2012:

Name of subsidiary	Period	Income tax rate
V.S. Industry (Zhuhai) Co., Ltd.	1 August 2010 to 31 December 2010	22.0%
	1 January 2011 to 31 December 2011	24.0%
	1 January 2012 to 31 July 2012	25.0%
Qingdao GS Electronics Plastic Co., Ltd.	1 August 2010 to 31 December 2010	22.0%
	1 January 2011 to 31 December 2011	24.0%
	1 January 2012 to 31 July 2012	25.0%
V.S. Electronics (Zhuhai) Co., Ltd.	1 August 2010 to 31 July 2012	25.0%

Qingdao GP	1 August 2010 to 31 December 2010	11.0%
Electronic Plastics	1 January 2011 to 31 December 2011	12.5%
Co., Ltd.	1 January 2012 to 31 July 2012	12.5%

According to the CIT Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding income tax at 10% for profits earned since 1 January 2008, unless reduced by tax treaties or arrangements. Pursuant to the Sino-Hong Kong Double Tax Arrangement and the related regulations, a qualified Hong Kong tax resident is eligible for a reduced withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong tax resident is the “beneficial owner” and holds 25% or more of the equity interest of the PRC enterprise. The Group has adopted the 5% withholding tax rate for PRC withholding tax purposes.

7. Dividends

No dividend has been proposed by the Company after the end of the reporting period attributable to the years ended 31 July 2012 and 2011.

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\$73,785,000 (2011: loss of HK\$61,047,000) and the weighted average of 1,155,972,000 ordinary shares (2011: 981,086,000 shares) in issue during the year.

(b) Diluted loss per share

During the year ended 31 July 2012 and 2011, the effects of share options and bonus warrants are anti-dilutive.

9. Trade and other receivables

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Trade receivables	241,817	309,278
Bills receivable	73,063	67,096
Less: allowance for doubtful debts	(7,771)	(7,729)
	307,109	368,645
Other receivables, prepayments and deposits	53,811	82,639
Derivative financial instruments (<i>note 4(ii)</i>)	–	1,391
Deferred assets	5,634	10,779
	366,554	463,454

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:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Current	269,840	307,212
Less than 1 month past due	26,185	37,266
1 to 3 months past due	9,682	13,953
More than 3 months but less than 12 months past due	863	10,214
More than 1 year but less than 2 years past due	539	–
Total amounts past due	37,269	61,433
	307,109	368,645

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

10. Trade and other payables

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Trade payables	225,680	320,057
Bills payable	15,261	3,605
Payables for the purchase of fixed assets	11,470	57,255
Derivative financial instruments (<i>note 4(ii)</i>)	6,412	–
Accrued expenses and other payables	108,563	144,119
	367,386	525,036

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:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Due within 1 month or on demand	160,937	202,736
Due after 1 month but within 3 months	59,940	106,509
Due after 3 months but within 6 months	20,064	14,417
	240,941	323,662

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATIONS

INDUSTRY OVERVIEW

Despite recording a commendable turnover of HK\$862.33 million in the first half of the year under review, global economic downturn and decline in the demand for customers' end products has caused a sluggish business performance in the second half of the year in which the Group recorded a turnover of HK\$650.77 million.

FINANCIAL REVIEW

Turnover, Gross Profit and Segments Results

During the year under review, the Group recorded a turnover of HK\$1,513.10 million, representing a decrease of HK\$116.43 million or 7.15% from HK\$1,629.53 million in the previous year, primarily due to decline in the demand as a result of weakened global economic environment. The major contributor to the Group's turnover was still its plastic injection and moulding division which accounted for 61.08% (2011: 58.45%) of its total turnover, with the remaining from assembling of electronics products and mould design and fabrication divisions which accounted for 32.31% (2011: 35.50%) and 6.61% (2011: 6.05%) of the turnover respectively.

Despite the decrease in turnover, gross profit increased and recorded at HK\$148.53 million, representing an increase of HK\$8.20 million as compared to HK\$140.33 million of the previous year. The higher gross profit was mainly due to improved labour efficiency and lower manufacturing overhead during the year under review.

Plastic Injection and Moulding

During the financial year under review, the Group's plastic injection and moulding segment remained stable and recorded a slight decrease in turnover to HK\$924.12 million, from HK\$952.47 million in the previous year, represented a decrease in sales of 2.98%.

By geographical location, Zhuhai's operation was still the main contributor and has contributed a turnover of HK\$553.33 million as compared to HK\$575.77 million in the previous year. Meanwhile Qingdao's operation recorded a turnover of HK\$370.79 million, representing a slight decrease of 1.57% as compared to HK\$376.70 million in the previous year.

Assembling of Electronic Products

Downturn in global economy and decline in the demand of customers' end products has a direct impact in the business of assembling electronic products. This segment recorded a turnover of HK\$488.93 million, representing a decrease of HK\$89.60 million or 15.49% from HK\$578.53 million in the previous year. Gross margin of this segment deteriorated from 5.00% to 1.61% in the financial year under review mainly due to the higher raw material consumption.

Mould Design and Fabrication

Despite lower sales in other business segments, mould design and fabrication business performed slightly above expectation and recorded a turnover of HK\$100.05 million as compared to HK\$98.53 million in previous year, representing an increase of HK\$1.52 million or 1.54%.

Other Net (Loss)/Income

During the financial year under review, the Group incurred an other net loss of HK\$18.34 million (2011: other net income of HK\$28.30 million), which comprised mainly net loss on disposal of fixed assets of HK\$25.50 million, net loss on foreign exchange of HK\$1.84 million which were offset by interest income of HK\$0.89 million and other income of HK\$8.11 million.

Distribution Costs and Administrative Expenses

Distribution costs and administration expenses amounted to HK\$153.10 million during the financial year under review, representing a decrease of HK\$18.54 million or 10.80% as compared to HK\$171.64 million in the previous year. The decrease was primarily due to the reduction in staff cost of HK\$13.06 million and lower provision of doubtful debts for the year under review.

Finance Costs

The finance costs were reduced by 9.82% to HK\$35.90 million (2011: HK\$39.81 million) mainly due to lower borrowings during the year under review.

Share of Profits Less Losses of Associates

The Group incurred losses of HK\$0.59 million (2011: profit of HK\$3.78 million) in share of profits less losses of the associates mainly due to losses incurred by its 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 2012, the Group had cash and bank deposits stated at HK\$130.07 million (2011: HK\$176.07 million), of which HK\$32.73 million (2011: HK\$60.61 million) was pledged to the banks for the facilities granted to the Group. The cash and bank deposits were denominated in the United States dollars (“USD”) 41.04%, Renminbi (“RMB”) 57.42%, and Hong Kong dollars (“HKD”) 1.54%.

As at 31 July 2012, the Group had outstanding interest-bearing borrowings of HK\$573.31 million (2011: HK\$716.55 million), mainly consisting of bank borrowings of HK\$573.31 million (2011: HK\$703.70 million). The total borrowings were denominated in RMB 23.15%, USD 72.79%, and HKD 4.06%, and the maturity profile is as follows:

Repayable	As at 31 July 2012		As at 31 July 2011	
	<i>HK\$ million</i>	<i>%</i>	<i>HK\$ million</i>	<i>%</i>
Within one year	316.18	55.15	467.74	65.28
After one year but within two years	31.02	5.41	248.81	34.72
After two years but within five years	226.11	39.44	–	0.00
	<hr/>	<hr/>	<hr/>	<hr/>
Total borrowings	573.31	100.00	716.55	100.00
		<hr/>		<hr/>
Cash and bank deposits	(130.07)		(176.07)	
	<hr/>		<hr/>	
Net borrowings	443.24		540.48	
	<hr/>		<hr/>	

The total net interest bearing borrowings of the Group as at 31 July 2012 recorded at HK\$443.24 million (2011: HK\$540.48 million) representing 32.46% (2011: 31.27%) of total assets and 110.51% (2011: 114.70%) of total shareholders' funds respectively.

As at 31 July 2012, the Group's net current liabilities improved by HK\$62.27 million from HK\$115.77 million to HK\$53.50 million. As at 31 July 2012, the Group has undrawn bank facilities of HK\$211.00 million for working capital purposes. The Board is confident that the Group is able to generate sufficient operational cash flow to support its working capital requirements.

CAPITAL STRUCTURE

As at 31 July 2012, the Group's shareholders' fund stood at HK\$401.07 million (2011: HK\$471.21 million), representing a decrease of HK\$70.14 million mainly due to net loss incurred for the year. Total assets of the Group amounted to HK\$1,365.44 million (2011: HK\$1,728.37 million), 51.09% of which were fixed assets (2011: 46.75%).

COMMITMENTS AND CONTINGENT LIABILITY

The Group does not have material commitments and contingent liabilities as at 31 July 2012.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign currency risk primarily through sales, purchases and borrowings that are denominated in 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 losses of HK\$1.84 million (2011: net exchange gain of HK\$7.11 million) mainly due to realised gain on forward exchange contracts of HK\$4.38 million, unrealised foreign exchange gain of HK\$0.19 million and unrealised losses on forward exchange contract of HK\$6.41 million.

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 fluctuation of RMB against USD during the year ended 31 July 2012, the Group was exposed to foreign currency risk in respect of certain trade receivables denominated in USD.

As at 31 July 2012, the notional amounts of the outstanding forward exchange contracts were USD56.40 million (2011: USD44.80 million). The management will continue 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 2012, the Group had a total of 4,335 employees (2011: 7,932). 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\$261.41 million (2011: HK\$311.01 million). The decrease in employees' cost was mainly due to the reduction in the number of employees employed during the year. 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 the essential for the improvement of 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 dividend payment for the financial year ended 31 July 2012 (2011: HK\$ nil).

FUTURE PROSPECTS AND CHALLENGES

In view of uncertainty in global economy, the operations environment of the Group will continue to be challenging. The electronic manufacturing services (EMS) industry is extremely competitive and pricing pressures from customers and rising manufacturing costs are expected to put a squeeze on its profit margin.

The trend of rising manufacturing costs in China will only continue and the Group will put more focus to improve production efficiency and increase productivity. Besides, the Group emphasises on increase its profit margin by providing wider range integrated services to its customers which includes products design services, mould design and fabrication services, processing of printed circuit boards, plastic injection manufacturing and assembly of complete products.

Recent political conflict between China and Japan may disrupt the production of certain Japanese factories in China and some of our existing customers may be affected. However, the extent and impact of such potential disruption on the business of the Group is still uncertain.

EXTRACT OF THE DRAFT INDEPENDENT AUDITOR'S REPORT ON THE GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2012

“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 2012 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 as at 31 July 2012, the Group's current liabilities exceeded its current assets by HK\$53,495,000 and the Group incurred a loss of HK\$73,696,000 for the year ended 31 July 2012. 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 2012, 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**”) as set out in the Code on Corporate Governance Practices (“**Former Code**”) which was revised and renamed as the Corporate Governance Code (“**Revised Code**”) on 1 April 2012, contained in Appendix 14 to the Rules (“**Listing Rules**”) Governing the Listing of Securities on the Stock Exchange.

During the financial year under review, the Company had complied with all the Code Provisions of the former Code for the period from 1 August 2011 to 31 March 2012 and of the revised Code for the period from 1 April 2012 to 31 July 2012, except for the deviations from Code Provision A.2.1 which are explained below.

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 2012 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 2012.

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
22 September 2012

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. Lee Soo Gee
Mr. Tang Sim Cheow

Non-executive Director:

Mr. Gan Tiong Sia