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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 ANNUAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 JULY 2014

**HIGHLIGHTS**

- Turnover increased by 12.29% to HK$1,370.67 million;
- Loss for the year attributable to equity holders of the Company was HK$25.73 million;
- Basic loss per share was 1.85 Hong Kong 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 2014, prepared in accordance with 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 2014 have been compared by the Company's auditor, PricewaterhouseCoopers, Certified Public Accountants, with the amounts set out in the Group's draft consolidated financial statements for the year ended 31 July 2014 and the amounts were found to be in agreement. The work performed by PricewaterhouseCoopers 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 auditor 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 2014*

| | Note | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Revenue** | *2* | **1,370,671** | 1,220,632 |
| Cost of sales | | **(1,201,844)** | (1,113,584) |
| **Gross profit** | | **168,827** | 107,048 |
| Other income | *3* | **4,746** | 1,312 |
| Other (losses)/gains – net | *3* | **(4,767)** | 21,690 |
| Distribution costs | | **(69,327)** | (52,101) |
| Administrative expenses | | **(92,038)** | (80,966) |
| **Operating profit/(loss)** | *4* | **7,441** | (3,017) |
| Finance income | | **727** | 1,112 |
| Finance costs | | **(22,138)** | (23,083) |
| Finance costs – net | *5* | **(21,411)** | (21,971) |
| Share of loss of an associate | | **(1,646)** | (3,520) |
| **Loss before income tax** | | **(15,616)** | (28,508) |
| Income tax expense | *6* | **(10,113)** | (9,689) |
| **Loss for the year attributable to equity holders of the Company** | | **(25,729)** | (38,197) |
| **Loss per share attributable to equity holders of the Company during the year *(Hong Kong cents)*** | | | |
| Basic and diluted | *8* | **(1.85)** | (3.04) |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 31 July 2014*

| | Note | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **552,700** | 612,689 |
| Land use rights | | **24,579** | 25,395 |
| Goodwill | | **2,172** | 2,172 |
| Interest in an associate | | **20,124** | 21,770 |
| Prepayments | *9* | **1,019** | 577 |
| Deferred income tax assets | | **3,077** | 2,846 |
| | | **603,671** | 665,449 |
| **Current assets** | | | |
| Inventories | | **175,972** | 124,144 |
| Trade and other receivables | *9* | **328,764** | 302,029 |
| Amounts due from related parties | | **14,779** | 5,382 |
| Derivative financial instruments | | – | 5,826 |
| Bank deposits | | **33,254** | 22,564 |
| Cash and cash equivalents | | **81,309** | 81,285 |
| | | **634,078** | 541,230 |
| **Total assets** | | **1,237,749** | 1,206,679 |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | | **73,900** | 67,112 |
| Share premium | | **126,282** | 116,778 |
| Reserves | | **208,809** | 233,006 |
| **Total equity attributable to equity holders of the Company** | | **408,991** | 416,896 |

| | Note | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | **195,015** | 226,170 |
| Deferred income tax liabilities | | **2,298** | 2,393 |
| | | **197,313** | 228,563 |
| **Current liabilities** | | | |
| Trade and other payables | *10* | **364,231** | 334,467 |
| Amounts due to related parties | | **1,443** | 4,450 |
| Derivative financial instruments | | **295** | – |
| Borrowings | | **254,939** | 213,879 |
| Tax payables | | **10,537** | 8,424 |
| | | **631,445** | 561,220 |
| **Total liabilities** | | **828,758** | 789,783 |
| **Total equity and liabilities** | | **1,237,749** | 1,206,679 |
| **Net current assets/(liabilities)** | | **2,633** | (19,990) |
| **Total assets less current liabilities** | | **606,304** | 645,459 |

*Notes:*

## 1. Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

### (a) Effect of adopting new standards, amendments and interpretation to existing standards

The following new standards, amendments and interpretation to existing standards are mandatory for the Group's accounting periods beginning on or after 1 August 2013. The adoption of these new standards, amendments and interpretation does not have any significant impact on the results and financial position of the Group.

- HKFRS 10, "Consolidated Financial Statements";
- HKFRS 11, "Joint Arrangements";
- HKFRS 12, "Disclosure of Interests in Other Entities";
- HKFRS 13, "Fair Value Measurements";
- HKAS 19 (2011), "Employee Benefits";
- HKAS 27 (2011), "Separate Financial Statements";
- HKAS 28 (2011), "Investments in Associates and Joint Ventures";
- Amendments to HKFRS 1, "First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans";
- Amendments to HKFRS 7, "Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities";
- Amendments to HKFRSs 10, 11 and 12, "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities – Transition Guidance";
- HK (IFRIC) – Int 20, "Stripping Costs in the Production Phase of a Surface Mine"; and
- Annual Improvements to HKFRSs 2009-2011 Cycle.

**(b) New standards, amendments and interpretation to existing standards that are not yet effective and have not been early adopted by the Group.**

- HKFRS 9, "Financial Instruments"[4];
- HKFRS 14, "Regulatory Deferral Accounts"[2];
- HKFRS 15, "Revenue from Contracts with Customers"[3];
- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011), "Investment Entities"[1];
- Amendments to HKFRS 11, "Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations"[2];
- Amendments to HKAS 16, "Property, Plant and Equipment" and HKAS 38, "Intangible Assets" on Clarification of Acceptable Methods of Depreciation and Amortisation[2];
- Amendments to HKAS 19 (2011), "Employee Benefits – Defined Benefit Plans: Employee Contributions"[1];
- Amendments to HKAS 32, "Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities"[1];
- Amendments to HKAS 36, "Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets"[1];
- Amendments to HKAS 39, "Financial Instruments: Recognition and Measurements – Novation of Derivatives and Continuation of Hedge Accounting"[1];
- HK(IFRIC) – Int 21, "Levies"[1];
- Annual Improvements to HKFRSs 2010-2012 Cycle[1]; and
- Annual Improvements to HKFRSs 2011-2013 Cycle[1].

[1] Effective for the Group for annual periods beginning on 1 August 2014
[2] Effective for the Group for annual periods beginning on 1 August 2016
[3] Effective for the Group for annual periods beginning on 1 August 2017
[4] Effective for the Group for annual periods beginning on 1 August 2018

The Group will apply these new standards, amendments and interpretation in the period of initial application. The Group is currently assessing the impact of the adoption of the above new standards, amendments and interpretation and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

## 2. Segment information

The chief operating decision-maker has been identified as the executive directors of the Company. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The executive directors assess the performance of the single operating segment based on a measure of profit before share of results of an associate, finance income, finance costs and income tax expense. The executive directors assess the performance of the following three reportable segments and regard these being the 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 |

Revenue for the year consists of the following:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Turnover | | |
| Plastic injection and moulding | **782,249** | 729,805 |
| Assembling of electronic products | **502,192** | 430,904 |
| Mould design and fabrication | **86,230** | 59,923 |
| | **1,370,671** | 1,220,632 |

The Group's customer base is diversified but includes three individual customers with whom transactions have exceeded 10% of the Group's aggregate revenue for the year ended 31 July 2014 (2013: Three).

(i) **Segment results, assets and liabilities**

For the purposes of assessing segment performance and allocating resources between segments, the Group's executive directors monitor the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible and current assets other than interest in an associate, deferred income tax assets and other corporate assets. Segment liabilities include trade payables, 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), 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 executive directors for the purposes of resource allocation and assessment of segment performance for the years ended 31 July 2014 and 2013 is set out below.

| | **Plastic injection and moulding** | | **Assembling of electronic products** | | **Mould design and fabrication** | | **Consolidated** | |
|---|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Revenue from external customers | **782,249** | 729,805 | **502,192** | 430,904 | **86,230** | 59,923 | **1,370,671** | 1,220,632 |
| Reportable segment result | **41,439** | 16,494 | **33,414** | 20,950 | **9,627** | 5,336 | **84,480** | 42,780 |
| *Other segment information* | | | | | | | | |
| **Year ended 31 July** | | | | | | | | |
| Depreciation and amortisation for the year | **42,542** | 49,079 | **11,453** | 15,659 | **9,623** | 11,011 | **63,618** | 75,749 |
| (Write-back of provision)/provision for impairment of receivables | **(943)** | 930 | **–** | – | **–** | – | **(943)** | 930 |
| Provision/(write-back of provision) for impairment of inventories | **977** | (441) | **–** | – | **–** | – | **977** | (441) |
| Addition to non-current segment assets during the year | **14,003** | 8,928 | **5,691** | 2,303 | **143** | 172 | **19,837** | 11,403 |
| **As at 31 July** | | | | | | | | |
| Reportable segment assets | **738,981** | 757,230 | **224,739** | 163,856 | **95,403** | 105,931 | **1,059,123** | 1,027,017 |
| Reportable segment liabilities | **178,884** | 189,794 | **106,708** | 77,076 | **13,584** | 17,819 | **299,176** | 284,689 |

**(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities**

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue** | | |
| Reportable segment revenue | **1,370,671** | 1,220,632 |
| Consolidated turnover | **1,370,671** | 1,220,632 |

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Profit or loss** | | |
| Reportable segment profit | **84,480** | 42,780 |
| Changes in fair value of forward foreign exchange contracts | **(295)** | 5,826 |
| Net gain on forward foreign exchange contracts | **669** | 14,424 |
| Finance income | **727** | 1,112 |
| Finance costs | **(22,138)** | (23,083) |
| Unallocated depreciation and amortisation | **(5,131)** | (7,723) |
| Unallocated head office and corporate expenses | **(72,282)** | (58,324) |
| Share of loss of an associate | **(1,646)** | (3,520) |
| Consolidated loss before income tax | **(15,616)** | (28,508) |
| **Assets** | | |
| Reportable segment assets | **1,059,123** | 1,027,017 |
| Interest in an associate | **20,124** | 21,770 |
| Deferred income tax assets | **3,077** | 2,846 |
| Unallocated head office and corporate assets | **155,425** | 155,046 |
| Consolidated total assets | **1,237,749** | 1,206,679 |
| **Liabilities** | | |
| Reportable segment liabilities | **299,176** | 284,689 |
| Deferred income tax liabilities | **2,298** | 2,393 |
| Unallocated head office and corporate liabilities | **527,284** | 502,701 |
| Consolidated total liabilities | **828,758** | 789,783 |

The Group's business is operated in six (2013: six) major economic environments.

Revenue from external customers is analysed as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Mainland China | **747,712** | 634,655 |
| United States of America | **258,238** | 254,733 |
| Europe | **241,014** | 214,210 |
| Hong Kong | **44,725** | 62,401 |
| South East Asia | **41,029** | 9,220 |
| Northern Asia | **37,953** | 45,413 |
| | **1,370,671** | 1,220,632 |

## 3. Other income and other (losses)/gains – net

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Other income** | | |
| Rental income | **263** | 898 |
| Sales of scrap materials | **2,902** | 414 |
| Sundry income | **1,581** | – |
| | **4,746** | 1,312 |
| **Other (losses)/gains – net** | | |
| Net foreign exchange (loss)/gain | **(1,376)** | 1,635 |
| Changes in fair value of forward foreign exchange contracts | **(295)** | 5,826 |
| Net gain on forward foreign exchange contracts | **669** | 14,424 |
| Net loss on disposal of property, plant and equipment | **(3,765)** | (195) |
| | **(4,767)** | 21,690 |

## 4. Operating profit/(loss)

The Group's operating profit/(loss) is arrived at after charging/(crediting) the following:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Amortisation of land use rights | **638** | 632 |
| Auditors' remuneration | **1,827** | 1,710 |
| Cost of inventories | **1,201,844** | 1,113,584 |
| Depreciation | **68,111** | 82,840 |
| Operating lease charges in respect of land and buildings | | |
| – factory and hostel rentals | **10,989** | 11,082 |
| Provision/(write-back of provision) for impairment of | | |
| – trade receivables | **47** | (94) |
| – other receivables | **(990)** | 1,024 |
| – inventories | **977** | (441) |
| Staff costs | **257,085** | 224,195 |

## 5. Finance costs – net

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Finance income** | | |
| Bank interest income | **(727)** | (1,112) |
| **Finance costs** | | |
| Interest on bank borrowings | **18,778** | 19,750 |
| Less: borrowing costs capitalised as construction in progress *(Note)* | **–** | (39) |
| | **18,778** | 19,711 |
| Other finance charges | **3,360** | 3,372 |
| | **22,138** | 23,083 |
| **Finance costs – net** | **21,411** | 21,971 |

*Note:* No borrowing costs have been capitalised during the year ended 31 July 2014. During the year ended 31 July 2013, the borrowing costs had been capitalised at a rate of 4.2% per annum for construction in progress.

## 6. Income tax expense

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Current income tax** | | |
| Provision for the year | **10,439** | 10,506 |
| Under-provision in respect of prior years | **–** | 1,867 |
| | **10,439** | 12,373 |
| **Deferred income tax** | | |
| Origination and reversal of temporary differences | **(326)** | (2,684) |
| | **10,113** | 9,689 |

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 2014 and 2013.

Pursuant to the Corporate Income Tax ("CIT") Law of the People's Republic of China effective from 1 January 2008 onwards, the Group's subsidiaries in the People's Republic of China ("PRC") are subject to a standard PRC income tax rate of 25%, except for those granted with preferential tax rates prior to 1 January 2008 whose applicable tax rates would gradually increase to 25% towards the end of 2012, and a subsidiary which has been granted with a preferential rate of 15% from 1 January 2012 to 31 December 2014 whose applicable tax rates will resume as 25% thereafter.

The preferential tax rates applicable to the Group's PRC subsidiaries for the years ended 31 July 2014 and 2013 are as follows:

| **Name of subsidiary** | **Period** | **Income tax rate** |
|---|---|---|
| Qingdao GS Electronics Plastic Co., Ltd. | From 1 January 2012 to 31 December 2014 | 15.0% |
| | From 1 January 2015 onwards | 25.0% |
| Qingdao GP Electronic Plastics Co., Ltd. | From 1 January 2012 to 31 December 2012 | 12.5% |
| | From 1 January 2013 onwards | 25.0% |

Pursuant to the relevant corporate income tax rules and regulations, withholding tax is imposed on dividends declared in respect of profits earned by the Company's PRC subsidiaries from 1 January 2008 onwards.

The Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

## 7. Dividends

No dividend has been paid or declared by the Company for the years ended 31 July 2014 and 2013.

## 8. Loss per share

### (a) Basic loss

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of HK$25,729,000 (2013: HK$38,197,000) and the weighted average number of ordinary shares in issue during the year as follows:

| | **2014** | 2013 |
|---|---|---|
| Loss attributable to equity holders of the Company *(HK$'000)* | **(25,729)** | (38,197) |
| Weighted average number of ordinary shares in issue *('000)* | **1,389,082** | 1,256,781 |
| Basic loss per share *(Hong Kong cents)* | **(1.85)** | (3.04) |

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all the Company's outstanding share options and bonus warrants. For the years ended 31 July 2014 and 2013, dilutive earnings per share equal basic earnings per share as the exercise of the outstanding share options and bonus warrants (if any) would be anti-dilutive.

## 9. Trade and other receivables

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **253,272** | 198,192 |
| Bills receivable | **58,676** | 66,534 |
| Trade and bills receivables – gross | **311,948** | 264,726 |
| Less: Provision for impairment | **(7,838)** | (7,843) |
| Trade and bills receivables – net | **304,110** | 256,883 |
| Other receivables, prepayments and deposits | **25,673** | 45,723 |
| | **329,783** | 302,606 |
| Less: Prepayments (non-current) | **(1,019)** | (577) |
| Total trade and other receivables (current) | **328,764** | 302,029 |

The ageing analysis of the Group's trade and bills receivables is as follows:

| | 2014<br>*HK$'000* | 2013<br>*HK$'000* |
|---|---|---|
| Neither past due nor impaired | **238,715** | 228,119 |
| Past due for: | | |
| Less than 1 month | **35,325** | 17,617 |
| 1 to 3 months | **25,586** | 7,309 |
| More than 3 months | **12,322** | 11,681 |
| | **73,233** | 36,607 |
| | **311,948** | 264,726 |

## 10. Trade and other payables

| | 2014<br>*HK$'000* | 2013<br>*HK$'000* |
|---|---|---|
| Trade payables | **240,276** | 220,939 |
| Bills payable | **9,478** | 9,419 |
| Trade and bills payables | **249,754** | 230,358 |
| Payables for the purchase of property, plant and equipment | **2,151** | 9,861 |
| Accrued expenses and other payables | **112,326** | 94,248 |
| Trade and other payables | **364,231** | 334,467 |

The ageing analysis of trade and bills payables is as follows:

| | 2014<br>*HK$'000* | 2013<br>*HK$'000* |
|---|---|---|
| Due within 1 month or on demand | **163,371** | 142,568 |
| Due after 1 month but within 3 months | **65,028** | 67,716 |
| Due after 3 months but within 6 months | **21,355** | 20,074 |
| | **249,754** | 230,358 |

## MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATIONS

## INDUSTRY OVERVIEW

After several years of global economy uncertainty, there have been signs of general improvement in the global economic outlook in year 2014 especially in the United States of America and Asia. Due to the expansion of the middle income group in Asia in particular, the demand for the digital, energy saving and eco-friendly products has been growing.

During the year under review, the Group has successfully launched its own original design manufacturer ("ODM") product which contributed to the positive growth of the Group's turnover for the financial year ended 31 July 2014.

## FINANCIAL REVIEW

### Turnover, Gross Profit and Segment Results

During the year under review, the Group recorded a turnover of HK$1,370.67 million, representing an increase of HK$150.04 million or 12.29% from HK$1,220.63 million in the previous year, primarily due to sales contribution from our own ODM product which was successfully launched during the financial year under review. The major contributor of the Group's turnover was still its plastic injection and moulding division which accounted for 57.07% (2013: 59.79%) of the Group's turnover, and the remaining from assembling of electronics products and mould design and fabrication divisions which accounted for 36.64% (2013: 35.30%) and 6.29% (2013: 4.91%) of the Group's turnover respectively.

In line with the Group's two-pronged strategy of focusing on higher value added products and developing its own ODM products, gross profit increased by HK$61.78 million and recorded at HK$168.83 million representing 12.32% of its turnover during the financial year under review as compared to the gross profit of HK$107.05 million representing 8.77% of its turnover in the previous year.

*Plastic Injection and Moulding*

The increase in sales orders from certain major customers during the financial year under review has directly impacted the business of plastic injection and moulding, which recorded a turnover of HK$782.25 million, representing an increase of HK$52.44 million or 7.19% from HK$729.81 million in the previous year.

The Group's operation in Zhuhai was still the main contributor and has contributed a turnover of HK$459.61 million as compared to HK$382.66 million in the previous year. However, the Group's operation in Qingdao recorded a turnover of HK$322.64 million during the financial year under review, which represented a decrease of 7.06% from HK$347.15 million in the previous financial year.

*Assembling of Electronic Products*

During the financial year under review, the Group's assembling of electronics products business recorded a turnover of HK$502.19 million, representing an increase of HK$71.29 million or 16.54% from HK$430.90 million in the previous year. The reporting segment results has improved from HK$20.95 million or 4.86% of turnover in the previous financial year to HK$33.41 million or 6.65% of turnover in the financial year under review.

*Mould Design and Fabrication*

During the financial year under review, the mould design and fabrication segment recorded a turnover of HK$86.23 million, representing an improvement of 43.91% from HK$59.92 million in the financial previous year, primarily due to the larger amount of purchase orders from V.S. Industry Berhad and new moulding for ODM products.

**Other (Losses)/Gains – Net**

During the financial year under review, the Group incurred other net losses of HK$4.77 million (2013: other net gains of HK$21.69 million), which comprised mainly net loss on foreign exchange of HK$1.00 million and loss on disposal of property plant and equipment of HK$3.77 million.

**Distribution Costs**

Distribution costs for the financial year under review amounted to HK$69.33 million, representing an increase of HK$17.23 million or 33.07% from HK$52.10 million in the previous financial year. The increase in distribution costs was mainly due to higher selling expenses in relation to our new ODM products and carriage outwards incurred in respects of specific request from certain overseas customers.

**Administrative Expenses**

Administrative expenses for the financial year under review amounted to HK$92.04 million, representing an increase of HK$11.07 million or 13.67% from HK$80.97 million in the previous financial year. The increase was primarily due to equity settled share-based payment expenses of HK$6.33 million and increase in personnel expenses of HK$3.98 million.

**Finance Costs**

The finance costs for the year under review slightly reduced by 4.07% to HK$22.14 million (2013: HK$23.08 million) as the average level of bank borrowings remained constant during the financial year under review.

**Share of Loss of an Associate**

The Group incurred a loss of HK$1.65 million (2013: HK$3.52 million) on the share of loss of an associate mainly due to loss 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 by means of internally generated operating cash flow and bank borrowings. As at 31 July 2014, the Group had cash and bank deposits of HK$114.56 million (2013: HK$103.85 million), of which HK$21.14 million (2013: HK$22.51 million) was pledged to banks for the facilities granted to the Group. 31.42%, 68.07% and 0.49% of cash and bank deposits are denominated in United States dollars ("**USD**"), Renminbi ("**RMB**") and Hong Kong dollars ("**HK$**"), respectively.

As at 31 July 2014, the Group had outstanding interest-bearing bank borrowings of HK$449.95 million (2013: HK$440.05 million). The total borrowings were denominated in USD (69.05%), RMB (22.32%), and HK$ (8.63%), and the maturity profile is as follows:

| **Repayable** | **As at 31 July 2014** | | As at 31 July 2013 | |
|---|---|---|---|---|
| | ***HK$ million*** | ***%*** | *HK$ million* | *%* |
| Within one year | **254.94** | **56.66** | 213.88 | 48.60 |
| After one year but within two years | **195.01** | **43.34** | 31.02 | 7.05 |
| After two years but within five years | – | – | 195.15 | 44.35 |
| Total borrowings | **449.95** | **100.00** | 440.05 | 100.00 |
| Cash and bank deposits | **(114.56)** | | (103.85) | |
| Net borrowings | **335.39** | | 336.20 | |

The total net interest bearing borrowings of the Group recorded at HK$335.39 million (2013: HK$336.20 million) representing 27.10% (2013: 27.86%) of total assets and 82.00% (2013: 80.64%) of total equity.

The Group monitors its capital on the basis of its gearing ratio. The gearing ratio is calculated as the Group's net borrowings at the end of the financial year divided by total capital at the end of the financial year. Net borrowings of the Group is calculated as its total borrowings less cash and cash equivalents. Total capital is calculated as total equity attributable to equity holders of the Company plus net borrowings. The gearing ratio of the Group was 45.06% as at 31 July 2014 (2013: 44.64%).

As at 31 July 2014, the Group's net current assets were HK$2.63 million (2013: net current liabilities of HK$19.99 million). As at 31 July 2014, the Group has undrawn bank facilities of HK$217.51 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 2014, the Group's equity stood at HK$408.99 million (2013: HK$416.90 million). Total assets of the Group amounted to HK$1,237.75 million (2013: HK$1,206.68 million), 46.64% (2013: 52.88%) of which comprised property, plant, equipment and land use rights.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group had no material acquisitions and disposals of subsidiaries and associated companies during the year under review.

## SIGNIFICANT INVESTMENTS HELD

During the year under review, the Group did not hold any significant investment in equity interest in any other company.

## COMMITMENTS AND CONTINGENT LIABILITY

The Group does not have material capital commitments and contingent liabilities as at 31 July 2014.

## FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign currency risk primarily through sales, purchases and borrowings that are denominated in currencies other than the functional currency of individual group entities. The currencies giving rise to the risk were primarily HK$ and USD.

During the financial year under review, the Group has incurred net foreign exchange losses of HK$1.00 million (2013: net foreign exchange gains of HK$21.89 million) mainly due to the realised gain on forward foreign exchange contracts of HK$0.67 million, unrealised foreign exchange loss of HK$1.38 million and unrealised loss on forward foreign exchange contracts of HK$0.29 million.

Most of the Group's sales transactions are denominated in USD and certain payments of the Group were made in RMB and HK$. In view of fluctuation of the RMB against the USD during the financial year under review, the Group was exposed to foreign currency risk in respect of certain trade receivables denominated in USD.

As at 31 July 2014, the notional amounts of the outstanding forward foreign exchange contracts were USD20.50 million (2013: USD36.80 million). Management will continue to monitor the Group's foreign currency risk exposure and to ensure that it is kept at an acceptable level.

**EMPLOYEES AND REMUNERATION POLICY**

As at 31 July 2014, the Group had a total of 3,584 employees (2013: 3,755). During the financial year under review, the Group did not make significant changes to the Group's remuneration policies. Human resource expenses of the Group (excluding the Directors' remuneration and equity settled share-based payment expenses) for the financial year under review amounted to HK$239.99 million (2013: HK$213.40 million). The increase in human resource expenses was mainly due to the rise in remuneration paid as a result of the increase in minimum wages imposed by local authorities of the PRC. The Group's remuneration package is updated on an annual basis and appropriate adjustments are made with reference to prevailing conditions of the human resources market and the general outlook of the economy. The Group's employees are rewarded in tandem with their performance and experience. The Group recognises that the improvement of employees' technical knowledge, welfare and wellbeing is essential to attract and retain quality and dedicated employees in support of 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 (Chapter 485 of the Laws of Hong Kong). The Group is contributing mandatory government pension scheme for its employees in the PRC.

As a public listed entity, the Group has adopted a share option scheme to provide incentives to eligible directors and employees to participate in the Group's success.

**DIVIDENDS**

The Board does not recommend any dividend payment for the financial year ended 31 July 2014 (2013: nil).

## FUTURE PROSPECTS AND CHALLENGES

The future of electronic manufacturing services remains uncertain and the Group will continue to operate under extremely challenging and competitive environment.

In this respect, the Group will continue to focus on improving its production efficiency and productivity. Besides, the Group will emphasise on increasing its profit margin by providing a full range of integrated services to its customers which include products design services, mould design and fabrication services, processing of printed circuit boards, plastic injection manufacturing and assembly of complete products. In addition, the Group has developed its own ODM products which are expected to contribute positively to the performance of the Group.

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

During the year ended 31 July 2014, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

## AUDIT COMMITTEE

The Audit Committee has reviewed the Group's annual financial results for the year ended 31 July 2014 and is of the opinion that such statements comply with the applicable accounting standards, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") and the requirements of applicable laws, codes and regulations and that adequate disclosure pursuant thereto has been made.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with the Code Provisions ("**Code Provisions**") of the Corporate Governance Code ("**Code**") as set out in Appendix 14 to the Listing Rules throughout the financial year under review except for the deviation from Code Provision A.2.1 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 are 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 the securities of the Company, on terms no less exacting than the required standard under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

The Company, having made specific enquiry on all Directors, is not aware of any non-compliance by any Director during the period under review with the SD Code and Appendix 10 to the Listing Rules throughout the financial year ended 31 July 2014.

## APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation and gratitude to the Company's 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*

Johor Bahru, Malaysia
26 September 2014

**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