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 2008

HIGHLIGHTS

- Turnover decreased 8.10% to Hong Kong dollars ("**HK$**")1,374.22 million;
- Profit attributable to equity shareholders of the Company declined 77.14% to HK$11.46 million; and
- Basic earnings per share dropped by 77.51% to HK1.32 cents.

The board ("**Board**") of directors ("**Directors**") of V.S. International Group Limited ("**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (together, "**Group**") for the financial year ended 31 July 2008 ("**year under review**"), 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 2008 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 2008 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

	Note	Year ended 31 July **2008** *HK$'000*	2007 *HK$'000*
Turnover	*3*	**1,374,223**	1,495,291
Cost of sales		**(1,231,561)**	(1,277,747)
Gross profit		**142,662**	217,544
Other net income	*4*	**30,937**	15,163
Distribution costs		**(33,577)**	(32,338)
Administrative expenses		**(81,914)**	(82,200)
Other operating income/(expenses)		**120**	(120)
Profit from operations		**58,228**	118,049
Finance costs	*5(a)*	**(47,650)**	(54,961)
Share of profits less losses of associates		**1,903**	(4,782)
Gain on disposal of associates		**5,286**	–
Profit before taxation	*5*	**17,767**	58,306
Income tax	*6*	**(6,625)**	(8,615)
Profit for the year		**11,142**	49,691
Attributable to:			
Equity shareholders of the Company		**11,464**	50,137
Minority interests		**(322)**	(446)
Profit for the year		**11,142**	49,691
Dividend payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	*7*	**–**	8,670
Earnings per share	*8*		
Basic (HK cents)		**1.32**	5.87
Diluted (HK cents)		**1.32**	5.83

CONSOLIDATED BALANCE SHEET

		As at 31 July	
		2008	2007
	Note	***HK$'000***	*HK$'000*
Non-current assets			
Fixed assets			
– Property, plant and equipment		**821,111**	776,516
– Interests in leasehold land held for own use under operating leases		**25,533**	23,663
		846,644	800,179
Goodwill		**2,172**	2,172
Interest in associates		**21,848**	20,040
		870,664	822,391
Current assets			
Inventories		**163,493**	190,032
Trade and other receivables	*9*	**347,158**	301,265
Deposits with banks		**56,159**	65,527
Cash and cash equivalents		**115,626**	121,248
		682,436	678,072
Current liabilities			
Trade and other payables	*10*	**319,531**	294,561
Interest-bearing borrowings		**354,316**	523,651
Obligations under finance leases		**3,270**	3,676
Loan from a substantial shareholder		**4,899**	4,914
Current taxation		**883**	–
		682,899	826,802
Net current liabilities		**(463)**	(148,730)
Total assets less current liabilities		**870,201**	673,661
Non-current liabilities			
Interest-bearing borrowings		**318,613**	190,275
Obligations under finance leases		**–**	3,297
Loan from a substantial shareholder		**14,697**	19,658
Deferred tax liabilities		**2,046**	–
		335,356	213,230
NET ASSETS		**534,845**	460,431
CAPITAL AND RESERVES			
Share capital		**43,349**	43,349
Reserves		**487,733**	412,997
Total equity attributable to equity shareholders of the Company		**531,082**	456,346
Minority interests		**3,763**	4,085
TOTAL EQUITY		**534,845**	460,431

Notes:

1. **Basis of presentation**

These financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards ("**HKFRS**"), 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.

As at 31 July 2008, the Group's current liabilities exceeded its current assets by approximately HK$463,000. The Directors have evaluated all the relevant facts available to them and are of the opinion that there does not exist any material adverse conditions which would preclude the Group from renewing the current bank loans upon expiry or securing adequate banking facilities to enable the Group to meet its financial obligations as they fall due for the foreseeable future. Accordingly, these financial statements have been prepared on a going concern basis.

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

2. **Changes in accounting policies**

The HKICPA has issued a number of new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the year under review.

3. **Segment reporting**

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(a) Business segments

The Group comprises the following main business segments:

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

	Plastic injection and moulding		**Assembling of electronic products**		**Mould design and fabrication**		**Consolidated**	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover from external customers	**981,289**	1,131,878	**211,949**	225,506	**180,985**	137,907	**1,374,223**	1,495,291
Segment result	**69,487**	130,433	**4,026**	2,300	**34,263**	39,155	**107,776**	171,888
Unallocated operating income and expenses							**(49,548)**	(53,839)
Profit from operations							**58,228**	118,049
Finance costs							**(47,650)**	(54,961)
Share of profits less losses of associates							**1,903**	(4,782)
Gain on disposal of associates							**5,286**	–
Income tax							**(6,625)**	(8,615)
Profit for the year							**11,142**	49,691
Depreciation and amortisation for the year	**58,660**	55,508	**20,298**	18,681	**8,051**	7,160	**87,009**	81,349
Unallocated depreciation and amortisation							**6,343**	7,046
							93,352	88,395
Significant non-cash items (other than depreciation and amortisation)	**(2,039)**	(3,025)	**(1,420)**	(589)	**(1,209)**	(338)	**(4,668)**	(3,952)
Segment assets	**833,770**	884,150	**193,330**	192,261	**166,409**	140,414	**1,193,509**	1,216,825
Interest in associates							**21,848**	20,040
Unallocated assets							**337,743**	263,598
Total assets							**1,553,100**	1,500,463
Segment liabilities	**210,137**	199,134	**38,463**	27,577	**36,658**	42,451	**285,258**	269,162
Unallocated liabilities							**732,997**	770,870
Total liabilities							**1,018,255**	1,040,032
Capital expenditure incurred during the year	**29,845**	82,258	**3,961**	1,281	**25,985**	7,901	**59,791**	91,440
Unallocated capital expenditure							**3,907**	9,189
							63,698	100,629

(b) Geographical segments

The Group's business participates in six (2007: six) major economic environments.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets. All segment assets and capital expenditure are in the People's Republic of China ("**PRC**").

Turnover from external customers is analysed as follows:

	2008	2007
	HK$'000	*HK$'000*
PRC (other than Taiwan and Hong Kong)	**771,338**	878,641
Hong Kong	**222,282**	318,844
Northern Asia	**195,294**	102,986
Europe	**78,909**	73,522
United States of America	**74,560**	53,039
South East Asia	**31,766**	67,832
Others	**74**	427
	1,374,223	1,495,291

4. Other net income

	2008	2007
	HK$'000	*HK$'000*
Interest income	**4,091**	6,943
Rentals receivable from operating leases	**8,414**	9,257
Net foreign exchange gains/(losses)	**1,202**	(7,959)
Change in fair value of forward foreign exchange contracts	**(593)**	5,737
Net realised gain on forward exchange contracts	**10,381**	877
Loss on disposal of fixed assets	**(592)**	(98)
Tax refund on reinvested profit *(note)*	**5,355**	–
Others	**2,679**	406
	30,937	15,163

Note: The Group reinvested the dividends from a subsidiary by way of capital injection. Pursuant to approval from respective local tax authorities, the Group is eligible to receive refunds of certain income tax paid by the subsidiary in previous years. The approvals from relevant tax authorities in connection with the refunds were obtained on 16 October 2007 and 29 December 2007.

5. Profit before taxation

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

	2008 *HK$'000*	2007 *HK$'000*
(a) Finance costs:		
Interest on bank advances repayable within five years	**42,483**	52,472
Interest on loan from a substantial shareholder	**1,053**	1,300
Finance charges on obligations under finance leases	**316**	962
Total borrowing costs	**43,852**	54,734
Less: Borrowing costs capitalised as construction in progress *	**(97)**	(2,478)
	43,755	52,256
Other charges	**3,895**	2,705
	47,650	54,961

* The borrowing costs have been capitalised at an average cost of borrowings to the Group of 6.3% (2007: 7.1%) per annum for construction in progress.

	2008 *HK$'000*	2007 *HK$'000*
(b) Other items:		
Cost of inventories	**1,231,561**	1,277,747
Impairment of doubtful debts charged/(reversed)	**271**	(2,193)
Impairment of interests in associates (reversed)/charged	**(120)**	120
Processing fees	**10,283**	17,703
Amortisation of interests in leasehold land held for own use under operating leases	**439**	380
Depreciation		
– other assets	**90,834**	85,185
– assets held under finance leases	**2,079**	2,830
Operating lease charges in respect of properties		
– factory and hostel rentals	**10,476**	10,494
Loss on disposal of fixed assets	**592**	98

6. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2008	2007
	HK$'000	*HK$'000*
Current tax – PRC		
Tax for the year	**4,579**	8,615
Deferred tax		
Origination of temporary differences	**2,046**	–
	6,625	8,615

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 2008 and 2007.

Taxable income for the subsidiaries of the Company in the PRC is subject to PRC income tax. Subsidiaries of the Company in the PRC which are foreign investment enterprises are granted certain 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. After the expiry of the tax relief period, the subsidiaries' profits are subject to PRC income tax at the rate of 15% in 2007 and 18% in 2008.

Subsidiaries of the Company in the PRC were either entitled to income tax exemption or sustained losses for taxation purposes for the year ended 31 July 2008 except for the following five subsidiaries of the Company in the PRC which are subject to standard or preferential income tax rates as follows:

Name of subsidiary	Period	Income tax rate
V.S. Technology Industry Park (Zhuhai) Co., Ltd. ("**VS Zhuhai**")	1 August 2006 to 31 December 2006	10.0%
	1 January 2007 to 31 December 2007	10.0%
	1 January 2008 to 31 July 2008	18.0%
Haivs Industry (Qingdao) Co., Ltd.	1 August 2006 to 31 December 2006	7.5%
	1 January 2007 to 31 December 2007	7.5%
	1 January 2008 to 31 July 2008	18.0%
V.S. Industry (Zhuhai) Co., Ltd. ("**VSI (Zhuhai)**")	1 August 2006 to 31 December 2006	7.5%
	1 January 2007 to 31 December 2007	7.5%
	1 January 2008 to 31 July 2008	9.0%
Qingdao GS Electronics Plastic Co., Ltd.	1 August 2006 to 31 December 2006	Exempted
	1 January 2007 to 31 December 2007	7.5%
	1 January 2008 to 31 July 2008	9.0%
Qingdao GP Precision Mold Plastics Co., Ltd.	1 February 2008 to 31 July 2008	25.0%

The export sales made by VS Zhuhai exceeded 70% of its total turnover for the twelve months ended 31 December 2006. Pursuant to relevant PRC tax regulations, VS Zhuhai can obtain approval from the relevant tax authorities for a 5% reduction in the income tax rate. On 15 March 2007, approvals from the relevant tax authorities were obtained. Part of the income tax credit, which amounted to HK$3,213,000, was recognised as a reduction of income tax expenses during the financial year ended 31 July 2007. The remaining tax credit of HK$886,000 was utilised against the income tax expenses for the year ended 31 July 2008.

The export sales made by VS Zhuhai during the twelve months ended 31 December 2007 also exceeded 70% and approvals from the relevant tax authorities were obtained on 30 April 2008. Part of the income tax credit approved for the twelve months ended 31 December 2007, which amounted to HK$1,686,000, was recognised as a reduction of income tax expenses during the financial year ended 31 July 2008. The remaining tax credit of HK$317,000 will be utilised against the future income tax expenses. As a result of income tax credit approved for the twelve months ended 31 December 2006 and 2007, the Group has recognised HK$2,572,000 (2007: HK$3,213,000) in total as a reduction of income tax expense for the year ended 31 July 2008.

A subsidiary of the Company has entered into processing arrangements with certain independent third parties ("**Providers**") in respect of certain production facilities in Shenzhen, the PRC. Pursuant to the processing agreements, the Providers bear any PRC tax in respect of the Group's relevant production facilities in Shenzhen, the PRC.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("**new tax law**") which is effective from 1 January 2008. As a result of the new tax law, the income tax rate applicable to the above subsidiaries in the PRC will be gradually increased from the current preferential income tax rates to 25% over a five-year transition period commencing from 1 January 2008. Pursuant to the notice on the Implementation Rules of the Grandfather Relief under the new tax law, Guofa (2007) No. 39, issued on 26 December 2007 by the State Council, the applicable income tax rate will be 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively.

Pursuant to the new PRC tax law passed on 16 March 2007, a 10% withholding tax will be levied on dividends declared to foreign investors effective from 1 January 2008. However, a 5% withholding tax rate will apply to dividend payments by VS Zhuhai, VS Industry (Shenzhen) Co., Ltd. and VSI (Zhuhai), as their holding companies are incorporated in Hong Kong and there is a tax treaty arrangement between the PRC and Hong Kong. Further to the issuance of Guofa (2007) No. 39, the Ministry of Finance and the State Administration of Taxation released notice Caishui (2008) No. 1 on 22 February 2008, stating that the distributions of the pre-2008 earnings of a foreign invested enterprise to a foreign investor in 2008 or later will be exempted from any withholding taxes.

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

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2008	2007
	HK$'000	*HK$'000*
Final dividend proposed after the balance sheet date of Nil (2007: HK1.0 cent) per share	–	8,670

The final dividend proposed after the balance sheet date had not been recognised as a liability at the balance sheet date.

(b) *Dividend payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year*

	2008	2007
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.0 cent (2007: HK0.8 cents) per share	**8,670**	6,840

8. Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$11,464,000 (2007: HK$50,137,000) and the weighted average number of 866,976,000 shares (2007: 854,349,619 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2008	2007
	Number of shares	Number of shares
Issued ordinary shares at 1 August	**866,976,000**	839,215,000
Effect of share options exercised	**–**	15,134,619
Weighted average number of ordinary shares at 31 July	**866,976,000**	854,349,619

(b) *Diluted earnings per share*

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$11,464,000 (2007: HK$50,137,000) and the weighted average number of ordinary shares of 866,976,000 shares (2007: 859,502,362 shares), after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2008	2007
	Number of shares	Number of shares
Weighted average number of ordinary shares at 31 July	**866,976,000**	854,349,619
Effect of deemed issue of shares under the Company's share option scheme of nil consideration	**–**	5,152,743
Weighted average number of ordinary shares (diluted) at 31 July	**866,976,000**	859,502,362

9. Trade and other receivables

	2008	2007
	HK$'000	*HK$'000*
Trade receivables	**235,367**	220,394
Bills receivable	**44,145**	34,952
Less: allowance for doubtful debts	**(1,541)**	(2,018)
	277,971	253,328
Other receivables, prepayments and deposits	**44,040**	42,200
Acquisition deposits	**25,147**	–
Unrealised gain on derivative financial instruments	**–**	5,737
	347,158	301,265

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

	2008	2007
	HK$'000	*HK$'000*
Current	**251,316**	223,660
Less than 1 month past due	**19,712**	23,502
1 to 3 months past due	**4,741**	5,711
More than 3 months but less than 12 months past due	**2,202**	455
	26,655	29,668
	277,971	253,328

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

10. Trade and other payables

	2008	2007
	HK$'000	*HK$'000*
Trade payables	**206,742**	208,364
Bills payable	**21,985**	–
Accrued expenses and other payables	**90,211**	86,197
Unrealised loss on derivative financial instruments	**593**	–
	319,531	294,561

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

	2008	2007
	HK$'000	*HK$'000*
Due within 30 days or on demand	**72,411**	84,343
Due after 30 days but within 90 days	**107,970**	106,707
Due after 90 days but within 180 days	**48,346**	17,314
	228,727	208,364

11. Comparative figures

The net foreign exchange gains/losses, change in fair value of forward exchange contracts and net realised gain on forward foreign exchange contracts among "administrative expenses" as shown on the face of the consolidated income statement for the year ended 31 July 2007 have been reclassified to "other net income" to conform with the current year's presentation. The directors of the Company consider that the revised presentation reflects more appropriately the nature of these balances.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

INDUSTRY OVERVIEW

Global economies are experiencing a downturn in overall performance. Overseas markets, particularly European countries and the United States, have curtailed their usual orders as a hedge against an economic downturn. In view of this economic pattern, consumers are spending much more conservatively. This trend has affected the Group's turnover in terms of reduced order quantities, and intense competition for market share has made it more challenging to maintain optimum capacity. Furthermore, the continuous appreciation of the Renminbi ("**RMB**") has reduced the projected turnover value from orders that are priced in foreign currencies.

The general decline in the global economic situation has also been aggravated by rising costs in raw materials, minimum wages and crude oil. These increased production costs and other operating costs have been at record highs in the industry during the year under review. In view of this, many companies in the industry are adjusting to the changes and maintaining growth through reinvestment in automation and reduced labour cost. Despite the rising costs, the PRC still has advantages over other Asian countries in its supply of semi-skilled labour and infrastructure.

FINANCIAL REVIEW

Turnover, Gross Profit and Segment Results

Despite this challenging year, the Group achieved a turnover of HK$1,374.22 million as compared with HK$1,495.29 million in the previous year, indicating a decline in sales of 8.10%. On the other hand, the gross profit and net profit registered was HK$142.66 million and HK$11.14 million respectively. This represented a decrease of HK$74.88 million and HK$38.55 million respectively as compared to the previous year of HK$217.54 million and HK$49.69 million. The decline in gross profit margin was mainly attributable to higher production costs, particularly direct labour and raw material increases during the year under review. The Group's profit attributable to equity shareholders of the Company was HK$11.46 million (2007: HK$50.14 million), representing a decrease of 77.14%.

– *Plastic Injection and Moulding*

During the financial year under review, the Group's core business of plastic injection and moulding experienced a decrease in turnover to HK$981.29 million, from HK$1,131.88 million in the previous year, represented by a fall in sales of 13.30%. This segment contributed 71.41% of the Group's sales as compared to 75.70% in the previous year.

The decrease in sales was mainly due to unfavourable market conditions. Moreover, certain customers shifted their plants to Asian countries with cheaper productions costs. Other factors include the increased pricing competition in the Electronic Manufacturing Solutions ("**EMS**") industry in the PRC. However, the Group's operations in Vietnam have provided a mitigating factor to this condition. Nevertheless, the primary contribution by geographic location was largely derived from the Zhuhai operation, which posted HK$583.54 million as compared to HK$769.46 million in the previous year.

As per the industry trend, this segment was under downward pressure and was only able to achieve a segment margin of 7.08% as compared with 11.52% in the previous year. The lower segment margin was mostly caused by increase in raw material prices, higher labour cost and increased machinery running expenses. The Group's stringent cost control measures did, however, moderate the overall cost effect.

– *Assembling of Electronic Products*

The turnover for assembling of electronic products business decreased to HK$211.95 million from HK$225.51 million in the previous year, representing a drop of 6.01%. This decrease in turnover was also due to the unfavourable market conditions.

On the other hand, income generated from processing of printed circuit boards for electronic products and its related electronic product surface mounting technologies ("**SMT**") were encouraging mainly due to higher numbers of orders from existing and new customers, which amounted to HK$54.90 million as compared to HK$41.95 million in the previous year.

This segment result achieved was HK$4.03 million as compared to HK$2.30 million in the previous year. Also, the segment margin improved from 1.02% to 1.90% during the year under review.

– *Mould Design and Fabrication*

The mould design and fabrication business has once again achieved record sales for the year under review. During the year, this segment achieved a turnover of HK$180.99 million as compared to HK$137.91 million in the previous year. This represented an encouraging growth of 31.24%.

The Group continued to expand this segment, relying on its competitive edge in quality and timely delivery. The Group had not only managed to capture more orders from existing and new customers but the segment also proved beneficial to other segments within the Group. This segment accounted for 13.17% of the Group's turnover as compared to 9.22% in the previous year. However, this segment result was reduced from HK$39.16 million to HK$34.26 million during the year under review. This decrease in segment margin was mainly attributable to competitive pricing, higher raw material and labour costs.

Other Net Income

During the year under review, the Group generated other net income of HK$30.94 million (2007: HK$15.16 million), comprised mainly of net realised gain on forward exchange contracts and rental income of HK$10.38 million and HK$8.41 million respectively. The Group also received an income tax refund in respect of reinvestment of profit of HK$5.36 million because the Group reinvested the dividends from a subsidiary by way of capital injection. Approvals from relevant tax authorities have been obtained during the year.

Distribution Costs and Administrative Expenses

The distribution costs for the year under review were HK$33.58 million, a slight increase over HK$32.34 million in the previous year. The increase was mainly due to an increase in staff cost together with the reversal of impairment losses for doubtful debts in the previous year.

The administrative expenses were HK$81.91 million, a decrease over last year's HK$82.20 million. That was largely due to a tighter operating expenses control and lower directors' bonuses during the year under review.

Other Operating Income

During the year under review, the other operating income represented the reversal of the impairment losses for interest in associates as compared to the provision of impairment losses for interest in associates in the previous year.

Finance Costs

Finance costs for the year under review amounted to HK$47.65 million (2007: HK$54.96 million), representing a decrease of 13.30% over the previous year. The main reason for this reduction was due to a reduction in total borrowing by HK$49.67 million, of which during the financial year ended stated as HK$695.80 million as compared to HK$745.47 million in the previous year.

Share of Profits less Losses of Associates

During the year under review, the Group's share of profits less losses of associates amounted to HK$1.90 million as compared to losses of HK$4.78 million in the previous year. The turn around from losses to profits contribution was mainly due to the share of profits from the associate in Vietnam while the loss making associates were disposed of during the year under review.

Income Tax

Due to the expiry of certain tax incentives for the subsidiary companies, non-recognition of deferred tax benefit on losses of subsidiaries and the recognition of deferred tax liabilities in respect of withholding tax on future dividend income from the PRC subsidiaries, the Group's effective tax rate has increased from 14.78% to 37.29% during the year.

LIQUIDITY AND FINANCIAL RESOURCES

During the 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 2008, the Group had cash and bank deposits totalling HK$171.79 million (2007: HK$186.78 million), of which HK$46.79 million (2007: HK$65.53 million) was pledged to the banks for the facilities granted to the Group. The cash and bank deposits were denominated in United States ("**US**") dollars 55.03%, RMB 42.85%, and Hong Kong dollars 2.12%.

As at 31 July 2008, the Group had outstanding interest-bearing borrowings of HK$695.80 million (2007: HK$745.47 million), mainly consisting of bank borrowings of HK$672.93 million (2007: HK$713.93 million) and a loan from a substantial shareholder of HK$19.60 million (2007: HK$24.57 million). The total borrowings were denominated in RMB 20.03%, US dollars 41.68%, and Hong Kong dollars 38.29%, and the maturity profile is as follows:

	As at 31 July 2008		As at 31 July 2007	
Repayable	***HK$ million***	***%***	*HK$ million*	*%*
Within one year	**362.49**	**52.10**	532.24	71.40
After one year but within two years	**83.50**	**12.00**	36.07	4.84
After two years but within five years	**249.81**	**35.90**	177.16	23.76
Total borrowing	**695.80**	**100.00**	745.47	100.00
Cash and bank deposits	**(171.79)**		(186.78)	
Net borrowings	**524.01**		558.69	

The total borrowing of the Group has been reduced by HK$49.67 million to HK$695.80 million. This was the result of the Group's net surplus cash flow generated from the operations and the reduction in capital expenditure spending during the year under review.

The Group's gearing ratios improved during the financial year under review. The total net interest-bearing borrowings posted at HK$524.01 million were reduced to 33.74% and 97.97% of total assets and total shareholders' funds respectively (2007: 37.23% and 121.34% respectively). The improvement was in line with the Group's objectives of improving its gearing ratio and minimising its financing costs.

As at 31 July 2008, the Group's net current liabilities has declined to HK$0.46 million (2007: HK$148.73 million). This was mainly due to the repayment of bank borrowings and the conversion of certain short-term bank borrowings to long term bank borrowings during the year under review. As at the date of this announcement, the Group has undrawn total bank borrowings of up to HK$187.41 million for working capital purposes. The Board is confident that the Group has sufficient operational cash flow to support its working capital requirements and future capital commitments.

CAPITAL STRUCTURE

As at 31 July 2008, the Group's shareholders' fund stood at HK$534.85 million (2007: HK$460.43 million), an increase of 16.16% mainly due to the retained profits and the foreign exchange translation account. Total assets of the Group amounted to HK$1,553.10 million (2007: HK$1,500.46 million), 54.51% of which were fixed assets (2007: 53.33%).

COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 July 2008, the Group's capital commitments were HK$120.51 million (2007: HK$11.37 million) substantially for a new customer and to enhance automation in mould making; while the operating lease commitment totalled HK$1.80 million (2007: HK$2.31 million). The Group does not have material contingent liabilities as at 31 July 2008.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign currency risk primarily through sales, purchases and borrowings that are denominated in RMB or US dollars. The Group's policy is to match the currency mix of its loan portfolio and foreign currency payments with that of its revenue. During the year under review, the Group registered net foreign exchange gains of HK$1.20 million (2007: exchange loss of HK$7.96 million), mainly attributable to the increase in bank borrowings denominated in US dollars and Hong Kong dollars. The management will continue to monitor the foreign currency risk exposure to ensure that it is kept at an acceptable level. In view of the foreign currency risk exposure, the Group has entered into certain forward exchange contracts with aggregate notional contract amounts of US$83,350,000 during the year under review to hedge against the trade receivables denominated in US dollars.

As at 31 July 2008, the notional amounts of the outstanding forward exchange contracts were US$64,000,000. The outstanding forward exchange contracts will expire within one year. The aggregate fair value of the outstanding forward exchange contracts amounted to HK$0.59 million as at 31 July 2008 and has been recognised as derivative financial instruments. The net realised gain on forward foreign exchange contracts and changes in fair value of the forward exchange contracts were recognised in the income statement.

EMPLOYEES AND REMUNERATION POLICY

As at 31 July 2008, the Group had a total of 7,786 employees (2007: 8,166). During the year under review, the Group did not make any significant changes to the Group's remuneration policies for its employees.

Employees' cost to the Group (excluding Directors' emoluments and wages paid to employees employed under the processing arrangement with the Providers) for the year under review amounted to HK$215.71 million (2007: HK$184.25 million). The increase in employees' cost was mainly due to the rise in remuneration as a result of the 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 the need 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.

PROSPECTS

The EMS industry is expected to remain highly competitive, and raw material, operational, transportation and labour costs are likely to increase over the years.

However, the Group has prepared for the challenges and the Directors have identified possible solutions to deal with them by:

- Building up stronger business development and marketing teams to capture new business opportunities;

- Targeting higher volume contracts to achieve better economies of scale; and

- Strengthening the competitive edge of the Group's mould design and fabrication business as a window for the Group's fully integrated EMS services strategy.

The Group has made an investment in a gold mining operation in Heilongjiang province, the PRC. This is part of the Group's continuing strategy of diversifying its business interests into different fields and industries.

DIVIDEND POLICY

The Directors do not recommend the payment of a final dividend for the financial year ended 31 July 2008 (2007: HK1.0 cent per ordinary share).

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 26 November 2008 to 28 November 2008 (both days inclusive) during which period no transfer of Shares of the Company ("Shares") will be registered. All transfers of Shares accompanied by the relevant share certificate and transfer forms must be lodged with the Hong Kong branch share registrars of the Company, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 25 November 2008.

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

During the year ended 31 July 2008, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

AUDIT COMMITTEE

The Board established the Audit Committee on 20 January 2002 with written terms of reference in compliance with the Code on Corporate Governance Practices ("**Code**") as set out in Appendix 14 of the Listing Rules ("Code"). The primary duties of the Audit Committee are to review the Group's financial reporting process, internal controls system and financial statements.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Diong Tai Pew, Mr. Cheung Kwan Hung, Anthony and Mr. Tang Sim Cheow.

The Audit Committee has reviewed the Group's financial statements for the year ended 31 July 2008 and is of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and the requirements of applicable laws, codes and regulations and that adequate disclosure pursuant thereto has been made.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of 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.

A.2.1 of the Code stipulates that 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 strategic planning and overseeing all aspects of the Group's operations. This constitutes a deviation from A.2.1 of the Code as part of his duties overlap with those of the managing Director, who is in practice the chief executive officer. Mr. Beh Kim Ling as the founder of the Group has extensive experience and knowledge in the core business of the Group and his duties for overseeing the Group's operations is clearly beneficial to the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group.

COMPLIANCE WITH APPENDIX 10 TO THE LISTING RULES

The Company adopted on 30 September 2004 a securities dealing code ("**SD Code**") regarding the dealings of the Directors and members of the senior management of the Group in securities of the Company, on terms no less exacting than the required standard under the Model Code for Securities Transactions by Directors of Listed Issuers 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 with the SD Code and Appendix 10 to the Listing Rules throughout the year under review.

APPRECIATION

On behalf of the Board and the management team, I would like to thank our customers, suppliers, business associates and shareholders for their continuous support during the year. I also wish to extend my heartfelt gratitude to our employees for their full commitment and dedication to the Group. We will continue to make our best efforts in developing our businesses to produce better return for our shareholders.

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

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

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

Non-executive Director:
Mr. Gan Tiong Sia

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

Hong Kong
23 September 2008