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 2007

HIGHLIGHTS

- Turnover increased 6.63% to HK$1,495.29 million;
- Profit attributable to equity shareholders grew by 10.62% to HK$50.14 million;
- Basic earnings per share rose by 7.12% to HK5.87 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 2007, 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 2007 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 2007 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

		Year ended 31 July	
		2007	2006
	Note	***HK$'000***	*HK$'000*
Turnover	*3*	**1,495,291**	1,402,260
Cost of sales		**(1,277,747)**	(1,195,200)
Gross profit		**217,544**	207,060
Other net income	*4*	**16,508**	9,939
Distribution costs		**(32,338)**	(28,276)
Administrative expenses		**(83,545)**	(77,770)
Other operating expenses		**(120)**	(323)
Profit from operations		**118,049**	110,630
Finance costs	*5(a)*	**(54,961)**	(53,453)
Share of losses of associates		**(4,782)**	(5,446)
Profit before taxation	*5*	**58,306**	51,731
Income tax	*6*	**(8,615)**	(6,291)
Profit for the year		**49,691**	45,440
Attributable to:			
Equity shareholders of the Company		**50,137**	45,323
Minority interests		**(446)**	117
Profit for the year		**49,691**	45,440
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	*7*	**8,670**	6,714
Earnings per share	*8*		
Basic (HK cents)		**5.87**	5.48
Diluted (HK cents)		**5.83**	5.45

CONSOLIDATED BALANCE SHEET

	Note	As at 31 July **2007** *HK$'000*	**2006** *HK$'000*
Non-current assets			
Fixed assets			
– Property, plant and equipment		**776,516**	722,818
– Interests in leasehold land held for own use under operating leases		**23,663**	22,816
		800,179	745,634
Goodwill		**2,172**	2,172
Interests in associates		**20,040**	12,007
		822,391	759,813
Current assets			
Inventories		**190,032**	162,593
Trade and other receivables	*9*	**301,265**	283,908
Deposits with banks		**65,527**	79,871
Cash and cash equivalents		**121,248**	161,485
		678,072	687,857
Current liabilities			
Trade and other payables	*10*	**294,561**	274,362
Interest-bearing borrowings		**523,651**	508,422
Obligations under finance leases		**3,676**	11,415
Loan from a substantial shareholder		**4,914**	4,879
Current taxation		**–**	917
		826,802	799,995
Net current liabilities		**(148,730)**	(112,138)
Total assets less current liabilities		**673,661**	647,675
Non-current liabilities			
Interest-bearing borrowings		**190,275**	236,782
Obligations under finance leases		**3,297**	6,974
Loan from a substantial shareholder		**19,658**	24,395
		213,230	268,151
NET ASSETS		**460,431**	379,524
CAPITAL AND RESERVES			
Share capital		**43,349**	41,961
Reserves		**412,997**	332,453
Total equity attributable to equity shareholders of the Company		**456,346**	374,414
Minority interests		**4,085**	5,110
TOTAL EQUITY		**460,431**	379,524

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, 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**").

As at 31 July 2007, the Group's current liabilities exceeded its current assets by approximately HK$149 million. 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 their financial obligations as they fall due for the foreseeable future. Accordingly, these financial statements have been prepared on a going concern basis.

2. **Changes in accounting policies**

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

Financial guarantees issued (Amendments to HKAS 39, Financial instruments: Recognition and measurement: Financial guarantee contracts)

In prior years, financial guarantees issued by the Company were disclosed as contingent liabilities in accordance with HKFRS 4, *Insurance contracts* and HKAS 37, *Provisions, contingent liabilities and contingent assets*. No provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon.

With effect from 1 August 2006, in order to comply with the amendments to HKAS 39 in respect of financial guarantee contracts, the Group has changed its accounting policy for financial guarantees issued. Under the new policy, financial guarantees issued are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where the fair value can be reliably measured. Subsequently, they are measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that should be recognised in accordance with HKAS 37.

The new accounting policy has been applied retrospectively by restating opening balances at 1 August 2005 and 2006 to the extent that guarantees were unexpired at those dates, with consequential adjustments to comparatives for the year ended 31 July 2006. It is not practicable to estimate the fair values and consequential effect on reported net assets of the change in accounting policies in respect of any other guarantees issued prior to 1 August 2005. Financial guarantees were issued by the Company to its subsidiaries and the Group did not provide any external financial guarantee for the year ended 31 July 2006 and 2007.

3. **Segment information**

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	:	manufacture and sales of plastic moulded products and parts
Assembling of electronic products	:	assembling and sales of electronic products, including processing fees generated from assembling of electronic products
Mould design and fabrication	:	manufacture and sales of plastic injection moulds

Turnover from external customers represents the aggregate invoiced value of goods sold. Turnover excludes value added or other sales taxes and is after deduction of any trade discounts.

	Plastic injection and moulding		**Assembling of electronic products**		**Mould design and fabrication**		**Consolidated**	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover from external customers	**1,131,878**	1,114,554	**225,506**	177,191	**137,907**	110,515	**1,495,291**	1,402,260
Segment result	**130,433**	129,298	**2,300**	1,571	**39,155**	31,588	**171,888**	162,457
Unallocated operating income and expenses							**(53,839)**	(51,827)
Profit from operations							**118,049**	110,630
Finance costs							**(54,961)**	(53,453)
Share of losses of associates							**(4,782)**	(5,446)
Income tax							**(8,615)**	(6,291)
Profit for the year							**49,691**	45,440
Depreciation and amortisation for the year	**55,508**	54,554	**18,681**	18,187	**7,160**	9,532	**81,349**	82,273
Unallocated depreciation and amortisation							**7,046**	5,855
							88,395	88,128
Significant non-cash items (other than depreciation and amortisation)	**(3,025)**	2,891	**(589)**	(182)	**(338)**	90	**(3,952)**	2,799
Unallocated expenses							**–**	–
							(3,952)	2,799
Segment assets	**884,150**	722,525	**192,261**	208,817	**140,414**	116,579	**1,216,825**	1,047,921
Interests in associates							**20,040**	12,007
Unallocated assets							**263,598**	387,742
Total assets							**1,500,463**	1,447,670
Segment liabilities	**199,134**	204,109	**27,577**	29,314	**42,451**	29,947	**269,162**	263,370
Unallocated liabilities							**770,870**	804,776
Total liabilities							**1,040,032**	1,068,146
Capital expenditure incurred during the year	**82,258**	45,098	**1,281**	20,773	**7,901**	2,102	**91,440**	67,973
Unallocated capital expenditure							**9,189**	18,868
							100,629	86,841

(b) Geographical segments

The Group's business participates in six (2006: 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 Peoples' Republic of China ("**PRC**").

Turnover from external customers is analysed as follows:

	2007	2006
	HK$'000	*HK$'000*
PRC (other than Taiwan and Hong Kong)	**878,641**	857,286
Hong Kong	**318,844**	327,985
Northern Asia	**102,986**	75,980
Europe	**73,522**	49,596
South East Asia	**67,832**	46,948
United States of America	**53,039**	44,320
Others	**427**	145
	1,495,291	1,402,260

4. Other net income

	2007	2006
	HK$'000	*HK$'000*
Net loss on disposal of fixed assets	**(98)**	(4,468)
Interest income	**6,943**	6,105
Rentals receivable from operating leases	**9,257**	9,004
Others	**406**	(702)
	16,508	9,939

5. Profit before taxation

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

	2007 *HK$'000*	2006 *HK$'000*
(a) Finance costs:		
Interest on bank advances repayable within five years	**52,472**	47,786
Interest on loan from a substantial shareholder	**1,300**	1,605
Finance charges on obligations under finance leases	**962**	1,168
Total borrowing costs	**54,734**	50,559
Less: Borrowing costs capitalised as construction in progress*	**(2,478)**	(1,145)
	52,256	49,414
Other charges	**2,705**	4,039
	54,961	53,453

* The borrowing costs have been capitalised at an average cost of borrowings to the Group of 7.1% (2006: 6.0%) per annum for construction in progress.

	2007 *HK$'000*	2006 *HK$'000*
(b) Other items:		
Impairment losses for doubtful debts (reversed)/charged	**(2,193)**	3,629
Impairment losses for interests in associates	**120**	–
Processing fees	**17,703**	17,633
Amortisation of interests in leasehold land held for own use under operating leases	**380**	370
Depreciation		
– other assets	**85,185**	81,418
– assets held under finance leases	**2,830**	6,340
Net foreign exchange loss	**7,959**	964
Change in fair value of forward exchange contracts	**(5,737)**	–
Net gain on forward foreign exchange contracts	**(877)**	–
Operating lease charges in respect of properties		
– factory and hostel rentals	**10,494**	10,262

6. Income tax

(a) Taxation in the consolidated income statement represents:

	2007	2006
	HK$'000	*HK$'000*
Current tax – PRC		
Tax for the year	**8,615**	6,291

No provision has been made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax for the years ended 31 July 2007 and 2006.

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%.

Subsidiaries of the Company in the PRC were either entitled to income tax exemption or sustained losses for taxation purpose for the year ended 31 July 2007 except for the following four 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 2005 to 31 December 2005	7.5%
	1 January 2006 to 31 July 2007	10.0%
Haivs Industry (Qingdao) Co., Ltd.	1 August 2005 to 31 December 2006	7.5%
	1 January 2007 to 31 July 2007	15.0%
V.S. Industry (Zhuhai) Co., Ltd.	1 August 2005 to 31 December 2006	Exempted
	1 January 2007 to 31 July 2007	7.5%
Qingdao GS Electronics Plastic Co., Ltd.	1 August 2005 to 31 December 2006	Exempted
	1 January 2007 to 31 July 2007	7.5%

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 is entitled to a 5% reduction in income tax rate for the relevant fiscal year. Approval from the relevant tax authorities was obtained on 15 March 2007, such tax credit amounted to HK$3,389,000 could be recognised as a reduction of the income tax expenses incurred in the fiscal year 2007. 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$176,000 will be utilised against the future income tax expenses.

For the year ended 31 July 2006, VS Zhuhai obtained the PRC tax authorities' approval, whereby VS Zhuhai was entitled to a tax credit in relation to purchase of equipment domestically produced in the PRC. Pursuant to relevant tax regulations, such tax credit amounting to HK$968,000 was recognised as a reduction in income tax expenses for the year ended 31 July 2006.

A subsidiary of the Company has entered into processing arrangements with certain independent third parties (the "**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.

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.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("**new tax law**") which will take effect on 1 January 2008. As a result of the new tax law, it is expected that the income tax rate applicable to the Group's subsidiaries in the PRC will be increased from 15% to 25% from 1 January 2008. The transitional arrangements for those entities enjoying tax at differential rates has yet to be announced by the relevant PRC tax authorities. Accordingly, the Group is unable to estimate the effect of the new tax law on its future tax expenses.

7. Dividends

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

	2007	2006
	HK$'000	*HK$'000*
Final dividend proposed after the balance sheet date of HK1.0 cent (2006: HK0.8 cents) per share	**8,670**	6,714

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

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

	2007	2006
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK0.8 cents (2006: HK0.8 cents) per share	**6,840**	6,606

During the period from the date of proposal of the final dividend for the year ended 31 July 2006 to the date of approval of such final dividend, 15,810,000 share options were exercised. Accordingly, a final dividend amounting to HK$6,840,000 was approved and paid during the year.

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$50,137,000 (2006: HK$45,323,000) and the weighted average number of 854,349,619 shares (2006: 827,806,022 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2007 Number of shares	2006 Number of shares
Issued ordinary shares at 1 August	**839,215,000**	820,000,000
Effect of share options exercised	**15,134,619**	7,806,022
Weighted average number of ordinary shares at 31 July	**854,349,619**	827,806,022

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of HK$50,137,000 (2006: HK$45,323,000) and the weighted average number of ordinary shares of 859,502,362 shares (2006: 831,323,321 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2007 Number of shares	2006 Number of shares
Weighted average number of ordinary shares at 31 July	**854,349,619**	827,806,022
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**5,152,743**	3,517,299
Weighted average number of ordinary shares (diluted) at 31 July	**859,502,362**	831,323,321

9. Trade and other receivables

	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**218,376**	210,809
Bills receivable	**34,952**	30,841
Other receivables, prepayments and deposits	**42,200**	42,258
Derivative financial instruments	**5,737**	–
	301,265	283,908

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

	As at 31 July	
	2007	2006
	HK$'000	*HK$'000*
Within 30 days	**166,100**	126,614
Over 30 days but within 90 days	**61,925**	85,411
Over 90 days but within one year	**25,303**	29,625
	253,328	241,650

Credit terms granted by the Group to customers generally range from 30 to 120 days. Debtors with balances that are more than 12 months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

10. Trade and other payables

	2007	2006
	HK$'000	*HK$'000*
Trade payables	**208,364**	191,033
Bills payable	**–**	4,873
Accrued expenses and other payables	**86,197**	78,456
	294,561	274,362

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

	As at 31 July	
	2007	2006
	HK$'000	*HK$'000*
Due within 30 days or on demand	**84,343**	84,561
Due after 30 days but within 90 days	**106,707**	87,968
Due after 90 days but within 180 days	**17,314**	18,504
Due after 180 days but within one year	**–**	4,873
	208,364	195,906

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS

INDUSTRY OVERVIEW

As a general rule, the growth rate recorded by the Electronic Manufacturing Solutions ("**EMS**") sector is usually in tandem with that of the consumer electronics market across the globe. According to market intelligence firm, iSuppli, the consumer electronics market in the United States of America ("**USA**") slowed in 2006, where frenzied demand for new consumer electronics products over the past four years slowed by about one-third to record merely 9% growth in 2006.

The general slowdown in this segment was attributed, among others, to higher interest rates and longer product replacement cycles amongst consumers. The weakened demand had a direct impact on EMS players worldwide, with manufacturers adopting a cautious and/or staggered approach in undertaking further production of consumer electronics.

Moreover, during 2007, the industry had to contend with rising costs of raw materials such as plastic resin, which was the consequential effect of escalating prices of crude oil globally. In addition, the level of competition in the PRC became keener, with the emergence of new players in the industry. Coupled with slower demand and rising costs, the EMS sector was indeed a challenging one in the year under review.

FINANCIAL REVIEW

Turnover

Despite the less-than-sanguine business environment, the Group managed to achieve a record turnover of HK$1,495.29 million (2006: HK$1,402.26 million) for the financial year ended 31 July 2007, representing an increase of 6.63% over the previous year's.

– *Plastic Injection and Moulding*

  During the financial year under review, this business segment managed a marginal growth rate of 1.55% to record a turnover of HK$1,131.88 million (2006: HK$1,114.55 million), contributing 75.70% of the Group's turnover (2006: 79.48%).

  The slower growth of this segment was due to the increased competition in the EMS industry in the PRC. The Group experienced some reduction in orders from a few existing customers. However, the Group continued to receive support from our core customers because of our commitment and track records.

  In terms of revenue contribution from the Group's three manufacturing locations of Zhuhai, Qingdao and Shenzhen, the Zhuhai operations remained as the top contributor in this business segment, posted HK$769.46 million for the year under review (2006: HK$722.36 million), representing an increase of 6.52% over the previous year's.

– *Assembling of Electronic Products*

  This business segment continued to improve for the financial year under review, grew by 27.27% to HK$225.51 million (2006: HK$177.19 million). In terms of percentage contribution to the Group's total turnover, the segment improved as well to 15.08% (2006: 12.64%).

  The growth during the year under review was spurred mainly by the increased orders from existing customers. In addition, sales from processing of printed circuit boards of electronic products using surface mounting technologies ("**SMT**") improved to HK$41.95 million for the year under review, representing a 21.74% increase as compared to the previous year's HK$34.46 million.

– *Mould Design and Fabrication*

The mould design and fabrication business segment again achieved another record level of sales for the financial year under review; attaining a year-on-year growth of 24.78% to HK$137.91 million (2006: HK$110.52 million).

The Group continued to develop this business segment over the years by building its competitive edge in delivering quality injection moulds within shorter production time. The competency not only attracted more orders from existing and new customers, but was also conducive to the increase in business volume for the Group's plastic injection and moulding segment.

As a result of the faster growth in this segment, it accounted for 9.22% of the turnover as compared to 7.88% in the previous year.

Gross Profit and Segment Results

During the financial year under review, the Group's gross profit grew 5.06% to HK$217.54 million (2006: HK$207.06 million) while the gross profit margin dropped marginally to 14.55% (2006: 14.77%).

For the year under review, the percentage gross profit contributions from the three business segments were 77.50% (Plastic Injection and Moulding), 3.20% (Assembling of Electronic Products) and 19.30% (Mould Design and Fabrication), as compared with 81.51%, 2.76%, and 15.73% respectively in the previous year.

– *Plastic Injection and Moulding*

In line with the trend of the industry, the Group's segmental gross profit margin for plastic injection and moulding was under downward pressure, achieving 14.89% margin as compared with the previous year's 15.14%. The lower margin was mainly due to the increase in raw material and labour costs. However, the benefits of economies of scale from the higher utilization rate of the Group's production facilities and the stringent cost control measures had moderated the pressure of the overall increase in production cost for the financial year under review.

The segment contributed HK$130.43 million for the financial year under review (2006: HK$129.30 million).

– *Assembling of Electronic Products*

Despite the competitive market condition and the upward cost pressure in the components and labour cost, this business segment had achieved a growth rate for turnover and gross profit of 27.27% and 21.77% respectively. The increases in turnover and gross profit were attributable to the additional number of orders received during the year under review.

The segment contributed HK$2.30 million for the financial year under review (2006: HK$1.57 million).

– *Mould Design and Fabrication*

This business segment recorded a gross profit of HK$42.00 million (2006: HK$32.57 million) and had improved its gross margin to 30.45% (2006: 29.47%), despite the rising labour costs.

The Group's competitive edge of being able to design quality moulds with prompt delivery had not only allowed the Group to maintain its selling price but also to solicit new customers from the region.

Other Net Income

During the financial year under review, the Group had generated other net income of HK$16.51 million (2006: HK$9.94 million), comprising mainly interest income from deposits with banks and rental income of HK$6.94 million and HK$9.26 million respectively.

Distribution and Administrative Expenses

The distribution expenses for the financial year under review were HK$32.34 million, an increase of 14.36% or HK$4.06 million, over HK$28.28 million in the previous year. The increase of distribution expenses was principally due to the increase in transportation costs as specifically requested by certain overseas customers and the extent of the increase was mitigated by a reversal of impairment losses for doubtful debts.

The administrative expenses were HK$83.55 million, an increase of HK$5.78 million which was mainly due to net foreign currency exchange losses.

Other Operating Expenses

Other operating expenses for the year stood at HK$120,000 (2006: HK$323,000), which represented the impairment losses for interests in associates.

Finance Costs

Finance costs for the financial year under review amounted to HK$54.96 million (2006: HK$53.45 million), representing an increase of 2.82% over the previous year's, despite a reduction of total borrowings of 5.98% during the financial year. The increase in costs was due to the rising borrowing costs of the Group which averaged at 7.1% as compared to 6.0% in the previous year.

Share of Losses of Associates

During the financial year under review, the Group's share of the losses of the associates reduced to HK$4.78 million as compared to the previous year's HK$5.45 million.

The losses were mainly incurred by Wako VS Nano Technologies (Zhuhai) Co., Ltd. ("**Wako VS Zhuhai**"), a company which is principally engaged in the manufacturing and selling of plastic parts and components using spray painting technology. The Group has made full provision for impairment in the investment in Wako VS Zhuhai.

During the year under review, the Group's share of losses in VS Industry Vietnam Joint Stock Company (formerly known as VS Industry Vietnam Co., Ltd.) ("**VS Vietnam**"), an associate company which was in its first year of operation, was HK$0.62 million.

Income Tax

Due to the expiry of certain tax incentives for the subsidiary companies during the year, the Group's effective tax rate had increased from 12.16% to 14.78%.

Profit Attributable to Shareholders

Profit attributable to shareholders for the financial year ended 31 July 2007 was HK$50.14 million (2006: HK$45.32 million), representing an increase of 10.62%.

Based on the weighted average number of 854,349,619 ordinary shares, the basic earnings per share for the year under review was HK5.87 cents (2006: HK5.48 cents). The diluted earnings per share, after adjusting for the potential dilutive effect from the existing share option scheme, was HK5.83 cents (2006: HK5.45 cents).

PROSPECTS

It is expected that the competitive environment of the EMS will continue to prevail in the coming year.

The Group's operations in the PRC will continue to face rising operating and borrowing costs; foreign exchange fluctuations; and gradual reduction in export tax rebates. In addition, some of the subsidiaries will cease to enjoy certain tax incentives in the PRC.

The Directors are aware of these challenges and have taken the following steps to address them:

- To strengthen the competitive edge in mould design and fabrication business by investing further resources to expand the Group's design and fabrication facilities as well as to develop a stronger team of trained engineers;

- To actively develop and market the Group's fully integrated EMS services; and

- To restructure bank loan facilities in Renminbi ("**RMB**") to foreign currencies to hedge against the Group's currency and interest rate risk exposures.

With the Qingdao and Vietnam new facilities in their second year of operations, we anticipate better performance from these investments.

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 2007, the Group had cash and bank deposits of HK$186.78 million (2006: HK$241.36 million), of which HK$65.53 million (2006: HK$61.33 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 65.55%, RMB 17.17%, and Hong Kong Dollar 17.28%.

As at 31 July 2007, the Group had outstanding interest-bearing borrowings of HK$745.47 million (2006: HK$792.87 million), mainly consisting of bank borrowings of HK$713.93 million (2006: HK$745.20 million) and a loan from a substantial shareholder of HK$24.57 million (2006: HK$29.27 million). The total borrowings were denominated in RMB 55.60%, US Dollars 36.65%, and Hong Kong Dollars 7.75%, and the maturity profile is as follows:

	As at 31 July 2007		**As at 31 July 2006**	
Repayable	*HK$ million*	*%*	*HK$ million*	*%*
Within one year	532.24	71.40	524.72	66.18
After one year but within two years	36.07	4.84	121.01	15.26
After two years but within five years	177.16	23.76	142.26	17.94
After five years	–	–	4.88	0.62
Total borrowing	745.47	100.00	792.87	100.00
Cash and bank deposits	(186.78)		(241.36)	
Net borrowings	558.69		551.51	

The Group's gearing ratios improved during the financial year under review; the total net interest-bearing borrowings of HK$558.69 million were 37.23% and 121.34% of total assets and total shareholders' funds respectively (2006: 38.10% and 145.32% respectively). The improvement was in line with the Group's objectives of improving its gearing ratio and minimizing its financing costs.

As at 31 July 2007, the Group's net current liabilities stood at HK$148.73 million (2006: HK$112.14 million). This was mainly due to the increase in short term bank borrowings as a result of the conversion of certain long-term bank borrowings to short term bank borrowings during the year under review. As at the date of this report, the Group has undrawn long-term bank borrowings of up to HK$47.00 million for working capital purposes. The Board is confident that the Group has sufficient operation cash flow to support its working capital requirements and future capital commitments. Also, the Board aims not only to improve the Group's financial position over time, but also put in place a financing strategy that will not hinder the Group's expansion drive and at the same time maintain the financial leverage at a comfortable level.

CAPITAL STRUCTURE

As at 31 July 2007, the Group's shareholders' fund stood at HK$456.35 million (2006: HK$374.41 million), an increase of 21.88% due to the retained profits and the increase in foreign exchange translation account. Total assets of the Group amounted to HK$1,500.46 million (2006: HK$1,447.67 million), 53.33% of which were fixed assets (2006: 51.51%).

COMMITMENTS AND CONTINGENT LIABILITY

As at 31 July 2007, the Group's future capital expenditure, for which it had contracted for and authorised but not yet contracted, amounted to approximately HK$11.37 million (2006: HK$35.70 million); while the operating lease commitment was HK$2.31 million (2006: HK$2.36 million).

The Group does not have material contingent liabilities as at 31 July 2007.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign currency risk primarily through sales, purchases and borrowings that are denominated in RMB or US Dollar. The Group's policy is to match the currency mix of its loan portfolio with that of its revenue. During the year under review, the Group had obtained a long-term banking facility equivalent to HK$260.00 million which was dominated in Hong Kong Dollar and US Dollar.

During the financial year under review, the Group registered net foreign exchange losses of HK$7.96 million (2006: HK$0.96 million), as a result of the weakening of US Dollar. 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$62,000,000 to hedge against the trade receivables denominated in US Dollar.

As at 31 July 2007, the notional amounts of the outstanding forward exchange contracts were US$42,500,000. The outstanding forward exchange contracts will expire within one year. The aggregate fair value of the outstanding forward exchange contracts amounted to HK$5,737,000 as at 31 July 2007 and has been recognised as derivative financial instruments. The net gain on forward foreign exchange contracts and changes in fair value of the forward exchange contracts were recognised in the income statements (see note 5(b)).

MATERIAL ACQUISITIONS AND DISPOSALS

During the financial year under review, the Group increased its equity stake in its Vietnam operations from 15.03% to 25.00%, with a further investment of US$1.66 million by V.S. Holding Vietnam Limited, a wholly owned subsidiary of the Company, in VS Vietnam. As at 31 July 2007, the total investment in VS Vietnam stood at US$2.55 million.

EMPLOYEES AND REMUNERATION POLICY

As at 31 July 2007, the Group's staff strength stood at 8,166 employees (2006: 7,864), while 1,110 people were hired under a special processing arrangement with independent third parties. During the year under review, the Group did not make significant changes to the Group's remuneration policies for its employees.

Employees' cost of the Group (excluding Directors' emoluments and wages paid to employees employed under the processing arrangement with the Providers) for the financial year under review amounted to HK$184.25 million (2006: HK173.27 million). The increase in employees' cost was mainly due to rise in remuneration as a result of increase in minimum wages imposed by the local authorities of the PRC. The Group's remuneration package is reviewed annually and appropriate adjustments are made with reference to prevailing conditions of the human resource market and the general outlook of the economy. In addition, the Group's employees are rewarded in tandem with their performance and experience. The Group has increased its allocations 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.

DIVIDEND POLICY

The Directors recommend the payment of a final dividend of HK1.0 cent per ordinary share for the financial year ended 31 July 2007 (2006: HK0.8 cents).

CLOSURE OF THE REGISTER OF MEMBERS

In order to ascertain the entitlements to the final dividend, the register of members of the Company will be closed from 12 December 2007 to 14 December 2007 (both days inclusive) during which period no transfer of 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 11 December 2007.

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

During the year ended 31 July 2007, 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 as set out in Appendix 14 of the Listing Rules. 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 2007 and is of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and the requirements of applicable laws, codes and regulations and that adequate disclosure pursuant thereto has been made.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code Provisions ("**Code Provisions**") of the Code on Corporate Governance Practices ("**Code**") as set out in Appendix 14 of the 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 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 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 during the period under review with the SD Code and Appendix 10 to the Listing Rules throughout the financial year ended 31 July 2007.

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

Zhuhai, the PRC
21 September 2007