



V.S. International Group Limited

威 鉞 國 際 集 團 有 限 公 司

(incorporated in the Cayman Islands with limited liability)
(stock code: 1002)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 JULY 2006

HIGHLIGHTS

- Turnover increased 14.29% to HK\$1,402.26 million;
- Profit attributable to equity shareholders grew by 84.34% to HK\$45.32 million;
- Basic earnings per share rose by 82.67% to HK5.48 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 2006, prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”), together with the 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 2006 have been compared by the Company’s auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group’s draft financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect 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 has been reviewed by the audit committee of the Company (“**Audit Committee**”).

CONSOLIDATED INCOME STATEMENT

		2006	2005 (restated)
	<i>Note</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Turnover	3	1,402,260	1,226,909
Cost of sales		(1,195,200)	(1,037,942)
Gross profit		207,060	188,967
Other net income/(losses)	4	9,939	(8,995)
Distribution costs		(28,276)	(26,147)
Administrative expenses		(77,770)	(74,582)
Other operating expenses		(323)	(318)
Profit from operations		110,630	78,925
Finance costs	5(a)	(53,453)	(45,611)
Share of losses of associates		(5,446)	(3,296)
Profit before taxation	5	51,731	30,018
Income tax	6	(6,291)	(4,082)
Profit for the year		45,440	25,936
Attributable to:			
Equity shareholders of the Company		45,323	24,587
Minority interests		117	1,349
Profit for the year		45,440	25,936
Dividend payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	7	6,714	6,560
Earnings per share	8		
Basic (HK cents)		5.48	3.00
Diluted (HK cents)		5.45	3.00

CONSOLIDATED BALANCE SHEET

	2006	2005
	(restated)	(restated)
Note	HK\$'000	HK\$'000
Non-current assets		
Fixed assets		
– Property, plant and equipment	722,818	727,945
– Interests in leasehold land held for own use under operating leases	22,816	19,420
	<u>745,634</u>	<u>747,365</u>
Goodwill	2,172	2,172
Interests in associates	12,007	9,528
	<u>759,813</u>	<u>759,065</u>
Current assets		
Inventories	162,593	180,812
Trade and other receivables	283,908	260,176
Deposits with banks	79,871	156,703
Cash and cash equivalents	161,485	109,631
	<u>687,857</u>	<u>707,322</u>
Current liabilities		
Trade and other payables	274,362	302,683
Interest-bearing borrowings	508,422	501,881
Obligations under finance leases	11,415	12,063
Loan from a substantial shareholder	4,879	4,892
Current taxation	917	82
	<u>799,995</u>	<u>821,601</u>
Net current liabilities	<u>(112,138)</u>	<u>(114,279)</u>
Total assets less current liabilities	<u>647,675</u>	<u>644,786</u>
Non-current liabilities		
Interest-bearing borrowings	236,782	277,005
Obligations under finance leases	6,974	8,629
Loan from a substantial shareholder	24,395	29,348
	<u>268,151</u>	<u>314,982</u>
NET ASSETS	<u>379,524</u>	<u>329,804</u>
CAPITAL AND RESERVES		
Share capital	41,961	41,000
Reserves	332,453	283,291
Total equity attributable to equity shareholders of the Company	<u>374,414</u>	<u>324,291</u>
Minority interests	5,110	5,513
TOTAL EQUITY	<u>379,524</u>	<u>329,804</u>

Notes:

1. Basis of preparation

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 on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

As at 31 July 2006, the Group’s current liabilities exceeded its current assets by approximately HK\$112,138,000. 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 it fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005. The Board has determined the accounting policies to be adopted in the Group’s annual financial statements for the year ended 31 July 2006 on the basis of HKFRSs currently in effective. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

2. Changes in accounting policies

(a) Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated income statement and balance sheet and other significant related disclosure items as previously reported for the year ended 31 July 2005.

Effect on the consolidated income statement for the year ended 31 July 2005:

	2005 (as previously reported)	Effect of new policy (increase/(decrease) in profit for the year)				2005 (as restated)
		HKFRS 2 (note 2(e)) HK\$'000	HKAS 1 (note 2(g)) HK\$'000	HKAS 17 (note 2(c)) HK\$'000	Sub-total HK\$'000	
Turnover	1,226,909	–	–	–	–	1,226,909
Cost of sales	(1,040,196)	–	–	2,254	2,254	(1,037,942)
Gross profit	186,713	–	–	2,254	2,254	188,967
Other net losses	(8,995)	–	–	–	–	(8,995)
Distribution costs	(26,147)	–	–	–	–	(26,147)
Administrative expenses	(73,893)	(689)	–	–	(689)	(74,582)
Other operating expenses	(318)	–	–	–	–	(318)
Profit from operations	77,360	(689)	–	2,254	1,565	78,925
Finance costs	(45,611)	–	–	–	–	(45,611)
Share of losses of associates	(3,296)	–	–	–	–	(3,296)
Profit before taxation	28,453	(689)	–	2,254	1,565	30,018
Income tax	(3,342)	–	–	(740)	(740)	(4,082)
	25,111	(689)	–	1,514	825	25,936
Minority interests	(1,349)	–	1,349	–	1,349	–
Profit for the year	23,762	(689)	1,349	1,514	2,174	25,936
Attributable to:						
Equity shareholders of the Company	23,762	(689)	–	1,514	825	24,587
Minority interests	–	–	1,349	–	1,349	1,349
Profit for the year	23,762	(689)	1,349	1,514	2,174	25,936
Earnings per share						
Basic (HK cents)	2.90	(0.08)	–	0.18	0.10	3.00
Diluted (HK cents)	2.90	(0.08)	–	0.18	0.10	3.00
Other significant disclosure items:						
Staff costs	128,566	689	–	–	689	129,255
Depreciation	80,712	–	–	(2,665)	(2,665)	78,047
Amortisation of interests in leasehold land held for own use under operating leases	–	–	–	411	411	411
Effect on the consolidated balance sheet at 31 July 2005:						
	2005 (as previously reported)	Effect of new policy (increase/(decrease) in net assets)				2005 (as restated)
		HKFRS 2 (note 2(e)) HK\$'000	HKAS 1 (note 2(g)) HK\$'000	HKAS 17 (note 2(c)) HK\$'000	Sub-total HK\$'000	
Non-current assets						
Fixed assets						
– Property, plant and equipment	877,870	–	–	(149,925)	(149,925)	727,945
– Interests in leasehold land held for own use under operating leases	–	–	–	19,420	19,420	19,420
	877,870	–	–	(130,505)	(130,505)	747,365
Goodwill	2,172	–	–	–	–	2,172
Interests in associates	9,528	–	–	–	–	9,528
	889,570	–	–	(130,505)	(130,505)	759,065
Current assets						
Inventories	180,812	–	–	–	–	180,812
Trade and other receivables	260,176	–	–	–	–	260,176
Deposits with banks	156,703	–	–	–	–	156,703
Cash and cash equivalents	109,631	–	–	–	–	109,631
	707,322	–	–	–	–	707,322
Current liabilities						
Trade and other payables	302,683	–	–	–	–	302,683
Interest-bearing borrowings	501,881	–	–	–	–	501,881
Obligations under finance leases	12,063	–	–	–	–	12,063
Loan from a substantial shareholder	4,892	–	–	–	–	4,892
Current taxation	82	–	–	–	–	82
	821,601	–	–	–	–	821,601
Net current liabilities	(114,279)	–	–	–	–	(114,279)
Total assets less current liabilities	775,291	–	–	(130,505)	(130,505)	644,786
Non-current liabilities						
Interest-bearing borrowings	277,005	–	–	–	–	277,005
Obligations under finance leases	8,629	–	–	–	–	8,629
Loan from a substantial shareholder	29,348	–	–	–	–	29,348
Deferred tax liabilities	19,244	–	–	(19,244)	(19,244)	–
	334,226	–	–	(19,244)	(19,244)	314,982
Minority interests	5,513	–	(5,513)	–	(5,513)	–
NET ASSETS	435,552	–	5,513	(111,261)	(105,748)	329,804

CAPITAL AND RESERVES

Share capital	41,000	–	–	–	–	41,000
Employee share-based capital reserve	–	689	–	–	689	689
Land and buildings revaluation reserve	108,666	–	–	(108,666)	(108,666)	–
Retained profits	161,187	(689)	–	(1,082)	(1,771)	159,416
Foreign exchange translation reserve	11,089	–	–	(1,513)	(1,513)	9,576
Other reserves	113,610	–	–	–	–	113,610
	<u>435,552</u>	<u>–</u>	<u>–</u>	<u>(111,261)</u>	<u>(111,261)</u>	<u>324,291</u>
Attributable to minority interests	–	–	5,513	–	5,513	5,513
	<u>435,552</u>	<u>–</u>	<u>5,513</u>	<u>(111,261)</u>	<u>(105,748)</u>	<u>329,804</u>

(b) Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and balance sheet and other significant related disclosure items for the year ended 31 July 2006 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

Estimated effect on the consolidated income statement for the year ended 31 July 2006:

	Estimated effect of new policy (increase/(decrease) in profit for the year)			Total HK\$ '000
	HKFRS 2 (note 2(e)) HK\$ '000	HKFRS 3 (note 2(f)) HK\$ '000	HKAS 17 (note 2(c)) HK\$ '000	
Cost of sales	–	–	2,254	2,254
Gross profit	–	–	2,254	2,254
Administrative expenses	(1,516)	274	–	(1,242)
Profit before taxation	(1,516)	274	2,254	1,012
Income tax	–	–	(740)	(740)
Profit for the year	<u>(1,516)</u>	<u>274</u>	<u>1,514</u>	<u>272</u>
Attributable to:				
Equity shareholders of the Company	(1,516)	274	1,514	272
Minority interests	–	–	–	–
Profit for the year	<u>(1,516)</u>	<u>274</u>	<u>1,514</u>	<u>272</u>
Earnings per share				
Basic (HK cents)	<u>(0.18)</u>	<u>0.03</u>	<u>0.18</u>	<u>0.03</u>
Diluted (HK cents)	<u>(0.18)</u>	<u>0.03</u>	<u>0.18</u>	<u>0.03</u>
Other significant disclosure items:				
Staff costs	1,516	–	–	1,516
Depreciation	–	–	(2,624)	(2,624)
Amortisation of goodwill	–	(274)	–	(274)
Amortisation of interests in leasehold land held for own use under operating leases	–	–	370	370

Estimated effect on the consolidated balance sheet at 31 July 2006:

	Estimated effect of new policy (increase/(decrease) in net assets for the year)				Total HK\$ '000
	HKFRS 2 (note 2(e)) HK\$ '000	HKFRS 3 (note 2(f)) HK\$ '000	HKAS 17 (note 2(c)) HK\$ '000	HKAS 39 (note 2(d)) HK\$ '000	
Non-current assets					
Fixed assets					
– Property, plant and equipment	–	–	(147,301)	–	(147,301)
– Interests in leasehold land held for own use under operating leases	–	–	19,050	–	19,050
Goodwill	–	274	–	–	274
	<u>–</u>	<u>274</u>	<u>(128,251)</u>	<u>–</u>	<u>(127,977)</u>
Current assets					
Bills receivable	–	–	–	22,676	22,676
Current liabilities					
Interest-bearing borrowings	–	–	–	(22,676)	(22,676)
Net current liabilities	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total assets less current liabilities	<u>–</u>	<u>274</u>	<u>(128,251)</u>	<u>–</u>	<u>(127,977)</u>
Non-current liabilities					
Deferred tax liabilities	–	–	(18,504)	–	(18,504)
NET ASSETS	<u>–</u>	<u>274</u>	<u>(109,747)</u>	<u>–</u>	<u>(109,473)</u>
CAPITAL AND RESERVES					
Share premium	859	–	–	–	859
Employee share-based capital reserve	565	–	–	–	565
Land and buildings revaluation reserve	–	–	(106,840)	–	(106,840)
Retained profits	(1,424)	274	(1,394)	–	(2,544)
Foreign exchange translation reserve	–	–	(1,513)	–	(1,513)
	<u>–</u>	<u>274</u>	<u>(109,747)</u>	<u>–</u>	<u>(109,473)</u>

Estimated effect on amounts recognised as capital transactions with owners of the Group for the year ended 31 July 2006:

	Effect of new policy (increase/(decrease)) HKFRS 2 (note 2(e)) HK\$ '000
Attributable to equity shareholders of the Company	1,516
Minority interests	–
Total equity	<u>1,516</u>

(c) *Leasehold land and buildings held for own use (HKAS 17, Leases)*

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Movement of revaluation surpluses or deficits were normally taken to the land and buildings revaluation reserve.

With effect from 1 August 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment. However, as from 1 August 2005 the buildings are also stated at cost less accumulated depreciation and accumulated impairment losses, rather than at fair value, to be consistent with the new policy required to be adopted for the land element.

The above new accounting policy has been adopted retrospectively. The adjustments, including reversal of related deferred tax liabilities, for each financial statement line items affected for 31 July 2005 and 2006 are set out in notes 2(a) and 2(b).

(d) *Financial instruments (HKAS 39, Recognition and measurement of financial instruments)*

In prior years, bills receivable with recourse were derecognised in the financial statements upon settlement or when discounted with financial institutions.

Upon the adoption of HKAS 39 with effect from 1 August 2005, discounted bills receivable should not be derecognised where the Group retains substantially all risks and rewards relating thereto and the corresponding proceeds should be recognised as a liability.

The new accounting policy has been applied prospectively in accordance with the transitional arrangement under HKAS 39. As a result, comparative amounts have not been restated.

(e) *Employee share option scheme (HKFRS 2, Share-based payment)*

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the share options, the nominal amount of share capital and share premium were credited only to the extent of the share option's exercise price receivable.

With effect from 1 August 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity.

The new accounting policy has been applied retrospectively with comparatives restated.

The adjustments for each financial statement line affected for the years ended 31 July 2005 and 2006 are set out in notes 2(a) and (b). No adjustments to the opening balances as at 1 August 2004 are required as no share options existed at that time.

(f) *Amortisation of positive goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)*

In prior years, positive goodwill was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment.

With effect from 1 August 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill but tests it at least annually for impairment.

The new policy in respect of the amortisation of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. The adjustments for each consolidated financial statement line affected for the year ended 31 July 2006 are set out in note 2(b).

(g) *Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)*

In prior years, minority interests at balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to the equity shareholders of the Company.

With effect from 1 August 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company. These changes in presentation have been applied retrospectively with comparatives restated as shown in note 2(a).

(h) *Definition of related parties (HKAS 24, Related party disclosures)*

As a result of the adoption of HKAS 24, the definition of related parties has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, *Related party disclosures*, still been in effect.

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 sale of plastic moulded products and parts
Assembling of electronic products : assembling and sale of electronic products, including processing fee generated from assembling of electronic products
Mould design and fabrication : manufacture and sale 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	
	2006	2005 (restated)	2006	2005 (restated)	2006	2005 (restated)	2006	2005 (restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover from external customers	<u>1,114,554</u>	<u>1,005,676</u>	<u>177,191</u>	<u>161,069</u>	<u>110,515</u>	<u>60,164</u>	<u>1,402,260</u>	<u>1,226,909</u>
Segment result	<u>129,298</u>	119,819	<u>1,571</u>	12,830	<u>31,588</u>	15,880	<u>162,457</u>	148,529
Unallocated operating income and expenses							<u>(51,827)</u>	<u>(69,604)</u>
Profit from operations							<u>110,630</u>	78,925
Finance costs							<u>(53,453)</u>	(45,611)
Share of losses of associates							<u>(5,446)</u>	(3,296)
Income tax							<u>(6,291)</u>	(4,082)
Profit for the year							<u>45,440</u>	25,936
Depreciation and amortisation for the year	<u>54,554</u>	45,292	<u>18,187</u>	13,246	<u>9,532</u>	8,910	<u>82,273</u>	67,448
Unallocated depreciation and amortisation							<u>5,855</u>	11,284
							<u>88,128</u>	78,732
Significant non-cash items (other than depreciation and amortisation)	<u>2,891</u>	3,173	<u>(182)</u>	474	<u>90</u>	105	<u>2,799</u>	3,752
Unallocated expenses							<u>-</u>	616
							<u>2,799</u>	4,368

	Plastic injection and moulding		Assembling of electronic products		Mould design and fabrication		Consolidated	
	2006	2005 (restated)	2006	2005 (restated)	2006	2005 (restated)	2006	2005 (restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	722,525	669,179	208,817	192,455	116,579	122,016	1,047,921	983,650
Interests in associates	6,975	–	–	–	–	–	6,975	–
Unallocated assets	–	–	–	–	–	–	392,774	482,737
Total assets							<u>1,447,670</u>	<u>1,466,387</u>
Segment liabilities	204,109	230,929	29,314	39,563	29,947	28,284	263,370	298,776
Unallocated liabilities	–	–	–	–	–	–	804,776	837,807
Total liabilities							<u>1,068,146</u>	<u>1,136,583</u>
Capital expenditure incurred during the year	45,098	51,051	20,773	6,937	2,102	1,743	67,973	59,731
Unallocated capital expenditure	–	–	–	–	–	–	18,868	23,093
							<u>86,841</u>	<u>82,824</u>

(b) *Geographical segments*

The Group's business participates in six (2005: 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:

	2006 HK\$'000	2005 HK\$'000
PRC (other than Taiwan and Hong Kong)	857,286	766,483
Hong Kong	327,985	297,699
Northern Asia	75,980	46,143
Europe	49,596	32,565
South East Asia	46,948	58,361
United States of America	44,320	24,763
Others	145	895
	<u>1,402,260</u>	<u>1,226,909</u>

4. **Other net income/(losses)**

	2006 HK\$'000	2005 HK\$'000
Net loss on disposal of fixed assets	(4,468)	(14,364)
Interest income	6,105	3,048
Rental receivable from operating leases	9,004	1,854
Others	(702)	467
	<u>9,939</u>	<u>(8,995)</u>

5. **Profit before taxation**

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

	2006 HK\$'000	2005 HK\$'000
(a) <i>Finance costs:</i>		
Interest on bank advances repayable within five years	47,786	35,978
Interest on bank advances repayable over five years	–	830
Interest on loan from a substantial shareholder	1,605	1,905
Bills discount expenses	–	885
Finance charges on obligations under finance leases	1,168	1,731
Total borrowing costs	50,559	41,329
Less: Borrowing costs capitalised as construction in progress *	(1,145)	(998)
	49,414	40,331
Net exchange losses	964	3,132
Bank charges	3,075	2,148
	<u>53,453</u>	<u>45,611</u>

* The borrowing costs have been capitalised at an average cost of borrowings to the Group of 6.0% (2005: 5.1%) per annum for construction in progress.

	2006 HK\$'000	2005 (restated) HK\$'000
(b) <i>Other items:</i>		
Amortisation of goodwill	–	274
Amortisation of interests in leasehold land held for own use under operating leases	370	411
Depreciation		
– other assets	81,418	73,633
– assets held under finance leases	6,340	4,414
Operating lease charges in respect of properties		
– factory and hostel rentals	10,262	9,916
	<u>98,030</u>	<u>88,474</u>

6. **Income tax**

Taxation in the consolidated income statement represents:

	2006 HK\$'000	2005 (restated) HK\$'000
Current tax-PRC		
Tax for the year	6,291	4,082
	<u>6,291</u>	<u>4,082</u>

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 2006 and 2005.

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 that 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 2006 except for the following two 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 2006	15.0%
Haivs Industry (Qingdao) Co., Ltd.	1 August 2005 to 31 July 2006	7.5%

Pursuant to relevant PRC tax regulations, VS Zhuhai is entitled to a tax credit relating to purchase of equipment domestically produced in the PRC. The tax credit which amounted to HK\$968,000 is recognised as a reduction of income tax expenses upon approval from the relevant tax authorities.

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.

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. Dividend

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

	2006 HK\$'000	2005 HK\$'000
Final dividend proposed after the balance sheet date of HK0.8 cents (2005: HK0.8 cents) per share	<u>6,714</u>	<u>6,560</u>

The final dividend proposed after the balance sheet date has 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

	2006 HK\$'000	2005 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK0.8 cents (2005: HK0.5 cents) per share	<u>6,606</u>	<u>4,100</u>

During the period from the date of proposal of the final dividend for the year ended 31 July 2005 to the date of approval of such final dividend, 5,774,000 share options were exercised. Accordingly, a final dividend amounting to HK\$6,606,000 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\$45,323,000 (2005 (restated): HK\$24,587,000) and the weighted average number of 827,806,022 shares (2005: 820,000,000 shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2006 Number of shares	2005 Number of shares
Issued ordinary shares at 1 August	820,000,000	820,000,000
Effect of share options exercised	<u>7,806,022</u>	<u>–</u>
Weighted average number of ordinary shares at 31 July	<u>827,806,022</u>	<u>820,000,000</u>

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of HK\$45,323,000 (2005 (restated): HK\$24,587,000) and the weighted average number of ordinary shares of 831,323,321 shares (2005: 820,107,903 shares), calculated as follows:

(i) Weighted average number of ordinary shares (diluted)

	2006 Number of shares	2005 Number of shares
Weighted average number of ordinary shares at 31 July	827,806,022	820,000,000
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	<u>3,517,299</u>	<u>107,903</u>
Weighted average number of ordinary shares (diluted) at 31 July	<u>831,323,321</u>	<u>820,107,903</u>

9. Trade and other receivables

	2006 HK\$'000	2005 HK\$'000
Trade receivables	210,809	212,973
Bills receivable	30,841	10,422
Other receivables, prepayments and deposits	<u>42,258</u>	<u>36,781</u>
	<u>283,908</u>	<u>260,176</u>

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:

	2006 HK\$'000	2005 HK\$'000
Within 30 days	126,614	121,433
Over 30 days but within 90 days	85,411	81,271
Over 90 days but within one year	<u>29,625</u>	<u>20,691</u>
	<u>241,650</u>	<u>223,395</u>

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

	2006 HK\$'000	2005 HK\$'000
Trade payables	191,033	187,344
Bills payable	4,873	20,883
Accrued expenses and other payables	<u>78,456</u>	<u>94,456</u>
	<u>274,362</u>	<u>302,683</u>

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

	2006 HK\$'000	2005 HK\$'000
Due within 30 days or on demand	84,561	150,342
Due after 30 days but within 90 days	87,968	38,339
Due after 90 days but within 180 days	18,504	19,546
Due after 180 days but within one year	<u>4,873</u>	<u>–</u>
	<u>195,906</u>	<u>208,227</u>

11. Comparative figures

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 2 above.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Overview

Capitalising on the solid foundation established in the previous years, the Group recorded a satisfactory performance in the financial year ended 31 July 2006 despite the challenging operating environment. Under the leadership of our solid management team, the Group was able to offset most of the negative effects from rising material costs and overall increase in labour costs through productivity improvement and tighter overhead control.

During the financial year under review, the turnover of the Group was recorded at HK\$1,402.26 million, representing a growth of 14.29% as compared to the previous financial year of HK\$1,226.91 million. The Group's gross profit margin reduced marginally from 15.40% to 14.77%. The Group reported a higher profit attributable to equity shareholders of HK\$45.32 million as compared to that of the previous financial year of HK\$24.59 million.

Business and Financial review

Turnover and gross profit by business activities of the Group

– Plastic injection and moulding business

During the financial year ended 31 July 2006, the Group's core business, plastic injection and moulding, posted a steady growth of 10.83% to record sales of HK\$1,114.55 million, representing 79.48% of the Group's turnover. The increase in turnover was mainly attributable to encouraging orders from core customers, coupled with some new customers being built-up during the financial year under review.

The foremost contribution by geographical location was largely derived from the business operations in Zhuhai which had achieved remarkable sales of HK\$722.36 million (2005: HK\$659.68 million). The other manufacturing sites in Qingdao and Shenzhen had also increased their sales turnover and contributed positively to the Group during the financial year ended 31 July 2006.

In term of result, this segment's contribution margin had declined marginally from 11.91% to 11.60%. This was mainly due to the increased resin price and labour costs which had outstripped the positive growth in sales. However, the continual negotiation with customers and suppliers on price adjustments during the financial year under review had softened the adverse impacts to minimal.

– Assembling of electronic products business

The turnover for the assembling of electronic products business had soared to HK\$177.19 million and represented a rise of 10.01% as compared to the previous financial year. The rebound in sales was encouraging as this segment had not performed well for the past three consecutive financial years. During the financial year under review, the Group had managed to secure more stable orders from the existing customers and developed new potential customers which are expected to contribute significantly in the coming year.

On the other hand, fees generated from processing of printed circuit boards for electronic products and its related electronic products using surface mounting technologies ("SMT") which formed part of this segment, had declined from HK\$40.31 million for the previous financial year to HK\$34.46 million for the financial year under review. As a result, the turnover contribution from processing fee to this segment had dropped from 25.03% to 19.45%. The decrease in the processing fee was mainly due to a sudden drop in sales order from a major customer in the second half of the financial year.

Despite that the sales of this segment improved in this financial year, this segment result had reduced by 87.76% to record at HK\$1.57 million. This was mainly attributable to the increase in material and labour costs, coupled with the idle costs arising from lower sales orders for the SMT lines.

– Mould design and fabrication business

The mould design and fabrication business had recorded a remarkable growth of 83.69% with a turnover of HK\$110.52 million for the financial year under review. During the financial year ended 31 July 2006, the Group had secured substantial tooling orders from the plastic injection customers and had optimised the utilization of the production facilities. The improvement was notable and had further strengthened the ability of the Group in offering integrated manufacturing solution to its customers.

Despite that the operating costs had increased as a result of the rising labour costs, this segment's contribution margin had registered an improvement from 26.39% to 28.58% to achieve a record result of HK\$31.59 million.

Other net income

During the financial year under review, the Group had generated other net income of HK\$9.94 million which comprised mainly interest income from banks and collection of rental income, as compared to other net losses of HK\$9.00 million in previous financial year. Net loss on disposal of fixed assets was reduced from HK\$14.36 million to HK\$4.47 million in the financial year ended 31 July 2006.

Distribution and administrative expenses

During the financial year ended 31 July 2006, distribution and administrative expenses amounted to HK\$28.28 million and HK\$77.77 million respectively. The distribution costs increased by 8.14% as compared to previous financial year but as a percentage over turnover, it had recorded a marginal drop from 2.13% to 2.02%.

The administrative expenses went up by HK\$3.19 million as compared to previous financial year of HK\$74.58 million. The increase was resulted from the adoption of new accounting standard HKFRS 2, which required the recognition of fair value of HK\$1.52 million of share options granted to the employees as expenses and general increase in other administrative expenses.

Finance costs

The finance costs for the financial year ended 31 July 2006 amounted to HK\$53.45 million (2005: HK\$45.61 million), represented an increase of HK\$7.84 million and 17.19% as compared to previous financial year. This was principally attributable to the soaring interest rates during the financial year. The interest rates were ranging from 4.84% to 9.75% per annum as compared to that of 2.71% to 5.93% per annum in the previous financial year.

Share of losses of associates

During the financial year under review, the Group's share of associates' losses amounted to HK\$5.45 million as compared to that of HK\$3.30 million in the previous financial year.

The losses were mainly resulted from 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 component using spray painting technology. During the financial year ended 31 July 2006, Wako VS Zhuhai had yet to establish stable customer base and consequently, its production capacity was left idle recurrently. In addition, Wako VS Zhuhai was unable to align its manpower efficiently with volatile customers' orders.

During the financial year ended 31 July 2006, the Group had established two other associates namely VS-USotor (Zhuhai) Co., Ltd. ("VS-USotor") and VS Industry Vietnam Co Ltd. ("VS Vietnam"). The Group invested HK\$0.95 million to participate in 19.00% of the total shareholding interest in VS-USotor which is principally engaged in the metal stamping business with the strategic objective of further enhancing the Group's integrated manufacturing solutions capability.

The Group had also made its first investment foothold in Vietnam through the acquisition of shareholding interest in VS Vietnam, a company involved in the manufacture and sales of plastic moulded products and parts. Total investment in VS Vietnam by the Group was HK\$6.98 million. This investment is consistent with the Group's direction in strengthening the business in plastic injection.

Though the Groups' effective interests in VS-USotor and VS Vietnam were below 20.00%, they were considered as associates by virtue of the Group's significant influence over their management, including participating in their financial and operating policy decisions. These associates had not operated in full-scale and hence, their contributions to the Group's results were rather insignificant for the financial year under review.

FUTURE PROSPECTS

The Directors are confident that the key customers with whom the Group has maintained a long relationship will continue contributing considerable amount of sales to the Group and at the same time, the Group will continue to explore and develop new customers in order to expand its customer base. In this connection, the Group will take more initiatives to branch into new product range so that the Group can capture customers of various industries. The Group will also continue its efforts in expanding the assembly and mould design and fabrication businesses to further balance the Group's sales mix.

The mould design and fabrication business has seen much improvement and contributed positively to the Group during the financial year under review. The Group will drive further to optimise the capacity utilisation and solidify the performance of this segment. Further, the Directors expect the assembly business will expand remarkably in future as the Group has successfully developed a photo printer's sub-assembly business from a Japanese branded manufacturer. This product is newly launched in the market and the orders are expected to increase progressively over a certain period of time. As this product requires the supply from both plastic injection and assembly divisions, the Directors believe that the success of this product will certainly boost the overall performance of the Group in the years to come.

The Group has decided to set up a new factory in Qingdao under a wholly owned subsidiary, Qingdao GP Electronic Plastic Co., Ltd. in view of the significant growth in the demand of plastic moulded products in Qingdao. The new facilities which are expected to commence operations in November 2006, will enable the Group to ride on more business opportunities in the Northern China region and continue to move ahead with greater momentum in the future.

The Group has anticipated the labour cost will continue rising in China. Fluctuation in raw material prices will also increase the cost of manufacturing and squeeze the profit margin during the transition period in the event that the burden of price increase is not shifted to the customers on time. The Group will strive to improve production efficiency and produce more value added products to soften these adverse impacts and will take advantage of its stable customer base to create better synergies between our various facilities to benefit future growth.

Considering the increasing overhead in China and given the rather low cost infrastructure in Vietnam, the investment in Vietnam is envisaged to enhance the Group's competitiveness in the long run. Looking forward, our early presence in Vietnam will enable us to grasp the golden opportunity to emerge as one of the major plastic moulded products suppliers in Vietnam.

Overall, we are optimistic about the outlook of the Group and trust the Group will continue its profitability momentum in the years to come.

LIQUIDITY AND FINANCIAL RESOURCES

During the financial year under review, the Group has financed its operations principally through a combination of internally generated cash flow and facilities from the banks in Hong Kong and PRC.

As at 31 July 2006, the Group had cash and bank deposits of HK\$241.36 million (2005: HK\$266.33 million) of which HK\$61.33 million (2005: HK\$154.78 million) were pledged to banks for the banking facilities granted to the Group. There were 73.85% and 23.29% of the total cash and bank deposits which were denominated in United States ("US") dollars and Renminbi ("RMB") respectively with the remainder in Hong Kong dollars.

The Group's total borrowings were stated at HK\$792.87 million (2005: HK\$833.82 million), inclusive of a loan from a substantial shareholder of HK\$29.27 million (2005: HK\$34.24 million) as at 31 July 2006. Among these borrowings, 35.83%, 61.52% and 2.65% were denominated in US dollars, RMB and Hong Kong dollars respectively. The total borrowings maturity profile is set out as follows:

Repayable	As at 31 July 2006		As at 31 July 2005	
	HK\$ million	%	HK\$ million	%
Within 1 year	524.72	66.18	518.84	62.22
After 1 year but within 2 years	121.01	15.26	132.07	15.84
After 2 years but within 5 years	142.26	17.94	173.13	20.76
After 5 years	4.88	0.62	9.78	1.18
Total borrowings	<u>792.87</u>	<u>100.00</u>	<u>833.82</u>	<u>100.00</u>
Cash and bank deposits	<u>(241.36)</u>		<u>(266.33)</u>	
Net borrowings	<u>551.51</u>		<u>567.49</u>	

The net borrowings of the Group had reduced by HK\$15.98 million to stand at HK\$551.51 million and the decrease was principally due to the Group's net surplus cash flows from operations and the cut-down in capital spending during the financial year under review.

The gearing ratio, represented by the net interest bearing borrowings over the total assets as at 31 July 2006 was 38.10% (2005: 38.70%). The marginal decline in gearing ratio was in line with the reduction in net borrowings of the Group.

As at 31 July 2006, the Group's net current liabilities had improved marginally from HK\$114.28 million to HK\$112.14 million. The Directors are confident that the Group would generate sufficient cash flow from the operations to support its working capital requirements and future capital commitments. Also, there would have adequate financing being continuously accessible by the Group from time to time. The Group will also endeavour to further improve its financial position over time.

CAPITAL STRUCTURE

As at 31 July 2006, the Group's shareholders' fund was stated at HK\$374.41 million (2005: HK\$324.29 million). Total assets of the Group, which comprised mainly fixed assets, amounted to HK\$1,447.67 million (2005: HK\$1,466.39 million).

CHARGES ON ASSETS

As at 31 July 2006, certain assets of the Group with an aggregate carrying value of HK\$491.32 million (2005: HK\$574.20 million) were pledged to the banks to secure loan and trade financing facilities for the Group.

COMMITMENTS AND CONTINGENT LIABILITY

As at 31 July 2006, the Group's capital and operating lease commitments were HK\$35.70 million and HK\$2.36 million respectively (2005: HK\$28.55 million and HK\$31.27 million respectively)

As at 31 July 2006, the Group had no material contingent liabilities.

EMPLOYEES AND REMUNERATION POLICY

As at 31 July 2006, the Group had total of 7,864 employees (2005: 8,141). On top of that, 1,193 (2005: 1,019) persons were engaged by certain Providers under processing arrangements. During the financial year under review, there was no significant change in 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 arrangements with the Provider) for the financial year under review amounted to HK\$173.27 million (2005: HK\$112.42 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 economy. In addition, the Group's employees are rewarded with reference to their performance and experience of the individual employees. The Group has also allocated more resources to improve the welfare, living standard and quality of the employees to attract and retain quality staff to support the future growth of the Group.

The Group has adopted a provident fund scheme, as required under the Mandatory Provident Fund Schemes Ordinance, for its employees in Hong Kong. It also participates in a government pension scheme for its employees in the PRC pursuant to the relevant rules and regulations of the PRC.

The Company conditionally adopted a share option scheme ("**Scheme**") on 20 January 2002 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. The Board granted options under the Scheme to subscribe for shares of the Company (each a "**Share**") to its employees and Directors.

Date granted	Exercise Period	Percentage of options granted
12 July 2005	12 July 2005 to 24 November 2005	25%
	25 November 2005 to 9 April 2006	50%
	10 April 2006 to 22 August 2006	75%
	23 August 2006 to 12 July 2007	100%

DIVIDEND POLICY

The Directors recommend the payment of a final dividend of HK\$0.8 cents per ordinary Share for the financial year ended 31 July 2006 (2005: HK\$0.8 cents).

CLOSURE OF THE REGISTER OF MEMBERS

In order to ascertain the entitlements to the final dividends, the register of members of the Company will be closed from 13 December 2006 to 15 December 2006 (both dates 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 12 December 2006.

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

During the financial year ended 31 July 2006, 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 of Best Practice as set out in the then Appendix 14 to the Listing Rules. The Audit Committee was re-constituted on 30 September 2004. 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 financial year ended 31 July 2006 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 have been made.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the financial year end 31 July 2006, the Company had complied with the Code Provisions ("**Code Provisions**") of the "Code on Corporate Governance Practices" ("**Code**") as set out in Appendix 14 to the Listing Rules, save for the deviations from Code Provisions A.2.1 and A.4.1 of the Code.

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. 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. Going forward, the Board will periodically review the effectiveness of this arrangement.

According to Code Provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election. The non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Company's articles of association. To further improve the corporate governance practices of the Company, starting from 1 August 2006, each of the independent non-executive Directors is appointed for a fixed term of one year and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

COMPLIANCE WITH APPENDIX 10 TO THE LISTING RULES

The Company adopted on 30 September 2004 its new securities dealing code ("**New Code**") regarding the dealings of the Directors and 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 the revised Appendix 10 to the Listing Rules which came into effect on 31 March 2004.

The Company, having made specific enquiry of all Directors and the Directors have confirmed that they have complied with the New Code and Appendix 10 to the Listing Rules throughout the financial year ended 31 July 2006.

APPRECIATION

On behalf of the Board and the management team, I would like to thank our customers, suppliers, business associates and shareholders for their continued support during the year. I also wish to extend my heartfelt gratitude to our employees for their total 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
22 September 2006

Please also refer to the published version of this announcement in The Standard.