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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 JANUARY 2006

INTRODUCTION

The board ("**Board**") of directors ("**Directors**") of V.S. International Group Limited ("**Company**") is pleased to announce the consolidated results (unaudited) of the Company and its subsidiaries (together, the "**Group**") for the six months ended 31 January 2006, which have not been audited by the auditors of the Group, KPMG, but have been reviewed by KPMG and the audit committee ("**Audit Committee**") of the Board.

CONSOLIDATED INCOME STATEMENT – UNAUDITED
(Expressed in Hong Kong dollars)

	Note	**For the six months ended 31 January 2006** *$'000*	2005 (restated) *$'000*
Turnover	3	**715,532**	619,721
Cost of sales		**(599,446)**	(520,576)
Gross profit		**116,086**	99,145
Other net losses		**(432)**	(5,582)
Distribution costs		**(11,162)**	(12,264)
Administrative expenses		**(41,179)**	(40,762)
Other operating expenses		**–**	(318)
Profit from operations		**63,313**	40,219
Finance costs	4(a)	**(24,475)**	(24,554)
Share of losses of associates		**(2,973)**	(403)
Profit before taxation	4(b)	**35,865**	15,262
Income tax	5(a)	**(401)**	(2,521)
Profit after taxation		**35,464**	12,741
Attributable to:			
Equity holders of the Company		**35,041**	11,933
Minority interests		**423**	808
Profit after taxation		**35,464**	12,741
Dividends attributable to the period:			
Dividend declared during the period	6	**6,606**	4,100
Earnings per share	7		
Basic		**4.26 cents**	1.46 cents
Diluted		**4.20 cents**	N/A

CONSOLIDATED BALANCE SHEET – UNAUDITED
(Expressed in Hong Kong dollars)

	Note	At 31 January 2006 $'000	At 31 July 2005 (restated) $'000
Non-current assets			
Fixed assets			
– Property, plant and equipment		**714,120**	713,185
– Interests in leasehold land held for own use under operating leases		**19,209**	19,420
– Construction in progress		**12,138**	14,760
		745,467	747,365
Goodwill		**2,172**	2,172
Interest in associates		**6,555**	9,528
		754,194	759,065
Current assets			
Inventories		**166,227**	180,812
Trade and other receivables	8	**256,304**	260,176
Deposits with banks		**149,979**	156,703
Cash and cash equivalents		**106,378**	109,631
		678,888	707,322
Current liabilities			
Trade and other payables	9	**252,358**	302,683
Interest-bearing borrowings		**554,242**	501,881
Obligations under finance leases		**12,379**	12,063
Loan from a substantial shareholder		**4,892**	4,892
Current taxation		**332**	82
		824,203	821,601
Net current liabilities		**(145,315)**	(114,279)
Total assets less current liabilities		**608,879**	644,786
Non-current liabilities			
Interest-bearing borrowings		**219,797**	277,005
Obligations under finance leases		**2,269**	8,629
Loan from a substantial shareholder		**26,902**	29,348
		248,968	314,982
NET ASSETS		**359,911**	329,804
CAPITAL AND RESERVES			
Share capital		**41,347**	41,000
Reserves		**313,148**	283,291
Total equity attributable to equity holders of the Company		**354,495**	324,291
Minority interests		**5,416**	5,513
TOTAL EQUITY		**359,911**	329,804

Notes:
(Expressed in Hong Kong dollars)

1 Basis of preparation

This interim financial report has been prepared in accordance 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**"), including compliance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim financing reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

This interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 July 2005, except for accounting policy changes that are expected to be reflected in the annual financial statements for the year ending 31 July 2006. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, "Engagements to review interim financial reports", issued by the HKICPA.

The financial information relating to the financial year ended 31 July 2005 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 July 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 September 2005.

2 Changes in accounting policies

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("**HKFRS**", which terms collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 August 2005. The Board has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31 July 2006, on the basis of HKFRSs currently in issue.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 August 2005 which have been reflected in this interim financial report.

(a) Summary of the effect of changes in the accounting policies

(i) Effect on opening balance of total equity at 1 August 2005 (as adjusted)

The following table sets out the adjustments that have been made to the opening balances at 1 August 2005. These are the aggregate effect of retrospective adjustments to net assets at 31 July 2005.

Effect of new policy (increase/ (decrease))	*Note*	**Retained profits**	**Capital and other reserves**	**Total**	**Minority interests**	**Total equity**
Prior period adjustments:						
HKFRS 2						
Equity settled share-based transactions	2(d)	(689)	689	–	–	–
HKAS 17						
Leasehold land and buildings held for own use	2(b)	(1,082)	(110,179)	(111,261)	–	(111,261)
Total effect at 1 August 2005		(1,771)	(109,490)	(111,261)	–	(111,261)

(ii) Effect on profit after taxation for the six months ended 31 January 2006 (estimated) and 31 January 2005 (as adjusted)

In respect of the six-month period ended 31 January 2006, the following table provides estimates of the extent to which the profits for that period are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

In respect of the six-month period ended 31 January 2005, the table discloses the adjustments that have been made to the profits as previously reported for that period, in accordance with the transitional provisions of the respective HKFRSs.

		For the six months ended 31 January 2006			**For the six months ended 31 January 2005**		
Effect of new policy (increase/ (decrease))	*Note*	**Equity holders of the Company**	**Minority interests**	**Total**	**Equity holders of the Company**	**Minority interests**	**Total**
HKFRS 2							
Equity settled share-based transactions	2(d)	**(1,114)**	**–**	**(1,114)**	–	–	–
HKFRS 3							
Amortisation of goodwill	2(e)	**137**	**–**	**137**	–	–	–
HKAS 17							
Leasehold land and buildings held for own use	2(b)	**–**	**–**	**–**	966	–	966
Total effect for the period		**(977)**	**–**	**(977)**	966	–	966
Effect on earnings per share:							
– basic (cents)		**(0.12)**			0.12		
– diluted (cents)		**(0.12)**			0.12		

(iii) Effect on amounts recognised as capital transactions with owners for the six months ended 31 January 2006 (estimated) and 31 January 2005 (as adjusted)

In respect of the six-month period ended 31 January 2006, the following table provides estimates of the extent to which the amounts recorded as capital transactions with owners are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

In respect of the six-month period ended 31 January 2005, the table discloses the adjustments that have been made to the amounts recorded as capital transactions with owners as previously reported for that period, in accordance with the transitional provisions of the respective HKFRSs.

		For the six months ended 31 January 2006			**For the six months ended 31 January 2005**		
Effect of new policy (increase/ (decrease))	*Note*	**Equity holders of the Company**	**Minority interests**	**Total**	**Equity holders of the Company**	**Minority interests**	**Total**
HKFRS 2							
Equity settled share-based transactions	2(d)	**2,364**	**–**	**2,364**	–	–	–
Total effect for the period		**2,364**	**–**	**2,364**	–	–	–

(b) 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. Revaluation surpluses or deficits were normally taken to the land and buildings revaluation reserve.

With the adoption of HKAS 17 with effect from 1 August 2005, 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 separately identified 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.

Such leasehold land will no longer be revalued. Instead, any pre-paid land premiums for acquiring the land leases, or other lease payments, are amortised on a straight line basis over the lease term. If the property is in the course of development or re-development, or the property is otherwise being used in the production of inventory, the amortisation charge is included as part of the costs of the property under development or other inventory. In all other cases the amortisation charge for the period is recognised in the income statement immediately.

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, with effect from 1 August 2005 the buildings are also stated at cost less accumulated depreciation, rather than at fair value, to be consistent with the new policy required to be adopted for the land element.

The new accounting policies have been adopted retrospectively, with the opening balances of retained profits and the land and buildings revaluation reserve and the comparative information adjusted for the amounts relating to prior periods as disclosed in note 2(a). In respect of the six months ended 31 January 2006 it is not practicable to estimate the extent to which the profits for that period, or the income or expenses taken directly to equity, are higher or lower than they would have been had the previous policy still been applied in the interim period.

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

In prior years, bills receivable 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.

(d) ***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 to subscribe for shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 August 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the income statement or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised, the related capital reserve is transferred directly to retained earnings.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2.

(e) ***Amortisation of positive goodwill (HKFRS 3, Business combinations)***

In prior periods, positive goodwill which 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 accordance with HKFRS 3 and HKAS 36 "Impairment of assets" the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangement under HKFRS 3. As a result, comparative amounts have not been restated.

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

In prior years, minority interests at the 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 period were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 August 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent.

The presentation of minority interests in the consolidated balance sheet for the comparative period has been restated accordingly.

3 Segment reporting

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

(i) ***Business segments***

The Group comprises the following main business segments:

Plastic injection 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 electronics products
Mould design and fabrication	:	manufacture and sales of plastic injection moulds

	Plastic injection moulding For the six months ended 31 January		**Assembling of electronic products For the six months ended 31 January**		**Mould design and fabrication For the six months ended 31 January**		**Consolidated For the six months ended 31 January**	
	2006	2005 (restated)	**2006**	2005 (restated)	**2006**	2005 (restated)	**2006**	2005 (restated)
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Turnover from external customers	**568,897**	489,713	**97,819**	89,081	**48,816**	40,927	**715,532**	619,721
Segment results	**79,872**	59,417	**7,825**	7,416	**10,478**	10,522	**98,175**	77,355
Unallocated operating income and expenses							**(34,862)**	(37,136)
Profit from operations							**63,313**	40,219
Finance costs							**(24,475)**	(24,554)
Share of losses of associates							**(2,973)**	(403)
Income tax							**(401)**	(2,521)
Profit after taxation							**35,464**	12,741
Depreciation and amortisation for the period	**23,942**	23,981	**8,843**	7,365	**3,995**	2,867	**36,780**	34,213
Unallocated depreciation and amortisation							**3,651**	5,080
							40,431	39,293

(ii) ***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. Revenue from external customers is analysed as follows:

	For the six months ended 31 January	
	2006	2005
	$'000	*$'000*
People's Republic of China ("PRC") (other than Taiwan and Hong Kong)	**418,085**	405,238
Hong Kong	**186,069**	132,815
Northern Asia	**38,462**	23,166
United States of America	**26,850**	5,324
South East Asia	**22,973**	30,234
Europe	**22,703**	22,217
Others	**390**	727
	715,532	619,721

4 Profit before taxation

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

		For the six months ended 31 January	
		2006	2005
		$'000	*$'000*
(a)	Finance costs:		
	Interest on bank advances repayable within five years	**22,879**	16,075
	Interest on bank advances repayable over five years	**–**	415
	Interest on loan from a substantial shareholder	**857**	978
	Finance charges on obligations under finance leases	**791**	1,067
	Total borrowing costs	**24,527**	18,535
	Less: Borrowing costs capitalised as construction in progress *	**(679)**	(523)
		23,848	18,012
	Exchange (gains)/losses	**(575)**	5,299
	Other charges	**1,202**	1,243
		24,475	24,554

* The borrowing costs have been capitalised at an average cost of borrowings to the Group of 5.70% (2005: 4.95%) per annum for construction in progress.

		For the six months ended 31 January	
		2006	2005 (restated)
		$'000	*$'000*
(b)	Other items:		
	Processing fees	**8,546**	7,930
	Amortisation of interests in leasehold land held for own use under operating leases	**211**	211
	Depreciation		
	– owned assets	**37,891**	36,467
	– assets held under finance leases	**2,329**	2,615
	Operating lease charges in respect of properties	**4,324**	6,187
	Amortisation of goodwill	**–**	137
	Impairment losses for doubtful debts (reversed)/charged	**(214)**	1,080
	Provision for slow moving inventories	**1,675**	1,700
	Loss on disposal of fixed assets	**4,585**	9,536
	Interest Income	**(2,922)**	(1,213)
	Rental Income	**(1,353)**	(728)

5. Income tax

(a) Income tax in the consolidated income statement (unaudited) represents:

	For the six months ended 31 January	
	2006	2005 (restated)
	$'000	*$'000*
Current tax – PRC	**401**	2,521

No provision has been made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax during the six months ended 31 January 2006 and 2005.

Taxable income for the subsidiaries of the Company in 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 which 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 six months ended 31 January 2006 except for two following 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 December 2006	15%
Haivs Industry (Qingdao) Co., Ltd.	1 August 2005 to 31 December 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 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.

(b) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of accumulated tax losses of $1,372,000 (31 July 2005: $1,558,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

6. Dividends

(a) Dividend attributable to the interim period

The Directors do not recommend any payment of interim dividend for the six months ended 31 January 2006 (2005: Nil).

(b) Dividend attributable to the previous financial year, approved and paid during the interim period

	For the six months ended 31 January	
	2006	2005
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the period, of 0.8 cents (2005: 0.5 cents) per share	**6,606**	4,100

7. **Earnings per share**

(a) ***Basic earnings per share***

The calculation of basic earnings per share is based on the profit attributable to shareholders of $35,041,000 (2005 (restated): $11,933,000) and the weighted average number of 822,323,000 (2005: 820,000,000) shares in issue during the six months ended 31 January 2006.

(b) ***Diluted earnings per share***

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the parent of $35,041,000 and the weighted average number of ordinary shares of 833,459,000 after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme.

There were no potential dilutive ordinary shares in existence during the six months ended 31 January 2005.

8. **Trade and other receivables**

	At 31 January 2006 ***$'000***	At 31 July 2005 *$'000*
Trade receivables	**180,683**	212,973
Bills receivable	**33,398**	10,422
Other receivables, prepayments and deposits	**42,223**	36,781
	256,304	260,176

All of the trade and other receivables are expected to be recovered within one year. Credit terms granted by the Group to customers generally range from 30 to 120 days. The ageing analysis of trade and bills receivable (net of impairment losses) is as follows:

	At 31 January 2006 ***$'000***	At 31 July 2005 *$'000*
Within 30 days	**95,476**	121,433
Over 30 days but within 90 days	**97,574**	81,271
Over 90 days and less than one year	**21,031**	20,691
	214,081	223,395

9. **Trade and other payables**

	At 31 January 2006 ***$'000***	At 31 July 2005 *$'000*
Trade payables	**154,274**	187,344
Bills payable	**9,615**	20,883
Accrued charges and other payables	**88,469**	94,456
	252,358	302,683

All trade and other payables are expected to be settled within one year.

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

	At 31 January 2006 ***$'000***	At 31 July 2005 *$'000*
Due within 30 days or on demand	**68,129**	150,342
Due after 30 days but within 90 days	**73,060**	38,339
Due after 90 days but within 180 days	**13,085**	19,546
Due after 180 days but within 365 days	**9,615**	–
Total creditors and bills payable	**163,889**	208,227

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Overview

The Group has demonstrated significant improvement in all its operation performances. Earnings per share has increased to 4.26 cents for the six months ended 31 January 2006 as compared to 1.46 cents for the last corresponding period.

During the period under review, the Group recorded turnover of HK$715.53 million, representing a rise of 15.46% as compared to that of HK$619,72 million for the last corresponding period. In tandem with the improvement in turnover, the Group's gross profit increased by HK$16.94 million to HK$116.09 million from HK$99.15 million for the last corresponding period.

Profit attributable to shareholders had soared from HK$11.93 million in the last corresponding period to HK$35.04 million for the period under review.

Business and Financial Review

Turnover and gross profits by business activities of the Group are summarised as follows:

Plastic injection moulding business

The Group's principal business, plastic injection moulding, continued to record positive growth during the period under review. Sales generated from this business segment had recorded HK$568.90 million, as compared to HK$489.71 million for the last corresponding period. The increase is mainly due to introduction of new models and increased orders from existing customers. Its contribution to the Group's turnover remained at approximately 79%.

The segment result of plastic injection moulding business had registered improvement from HK$59.42 million for the last corresponding period to HK$79.87 million for the period under review. Labor costs experienced substantial increase during the period under review primarily due to the upward revision of minimum wages in PRC. However, with higher utilization of production capacity and the development of higher value added secondary processes, the profit margin for this segment recorded a satisfactory improvement from 12.13% to 14.04%.

Assembling of electronic products business

Turnover for the assembling of electronic products business had increased by 9.81% against the last corresponding period. The increase of orders was due to introduction of new semi assembly of audio products from existing customers. The Group is in the course of securing potential customers and anticipates that more sales will be generated in the subsequent period.

Fees generated from the processing of printed circuit board for electronic products and its related electronic products using surface mounting technologies had registered improvement from HK$17.81 million for the last corresponding period to HK$23.25 million for the period under review. The profit margin of this segment remained comparable to that of the last corresponding period.

Mould design and fabrication business

Mould design and fabrication business has achieved remarkable growth in the first six-month period, turnover generated from the mould design and fabrication business showed an increase of 19.28% to reach HK$48.82 million as compared to HK$40.93 million for the last corresponding period. The increase is due to increased orders from existing and new customers.

However, due mainly to the increase of labor cost, this segment had recorded reduced profit margin of 21.46% during the period under review as compared to 25.71% for the last corresponding period.

Distribution and administrative expenses

During the period under review, the Group recorded total distribution expenses of HK$11.16 million, representing a reduction of 8.99% as compared to that of the last corresponding period. The reduction was mainly resulted from the management's effectiveness in credit control, which has reduced the exposure to doubtful debt, and therefore decreased the amount required for impairment losses for bad and doubtful debts for the period under review.

Administrative expenses for the period under review had increased generally by 1.02% to register at HK$41.18 million. The increase was mainly due to the adoption of new accounting policy HKFRS2, which the Group had recognised HK$1.11 million fair value of share options granted to the employees as an expense in the income statement.

Finance costs

During the period under review, the Group incurred lower total borrowing costs which amounted to HK$24.52 million as compared to HK$18.53 million for the last corresponding period. The total borrowing costs has increased as a result of higher interest rate and borrowing level. However the exchange gain of HK$0.57 million incurred during the period under review, as compared to an exchange loss of HK$5.30 million incurred in the last corresponding period, had cushioned such impact and reduced the total finance costs. The net exchange gain generated from the settlement of machinery and equipment for the period under review largely resulted from appreciation of the Renminbi against the Japanese Yen.

Share of losses of associates

The Group had recorded share of losses of associates of HK$2.97 million for the period under review. The losses is mainly due to the under utilisation of production capacity in the manufacturing of plastic parts and components using spray painting technology. The Group is in the course of developing potential customers, production process and stabilising the production yield.

Future Prospects

With the restructured organisation and new hike achievement in the Group's turnover, the prospect of the Group is encouraging going forward. Looking on the growing global demand for consumer electronics products and based on the existing operating environments, the Directors expect the performance of the Group will continue to be satisfactory for the current financial year.

Consistent with the Group's strategy to continue strengthening its core business in plastic injection, the Group has expanded into the Vietnam market through a joint venture in Vietnam. The cooperation and joint investment is for the manufacturing and sales of plastic mould products and parts. Given the present low cost infrastructure, Vietnam is expected to be a substantial manufacturing base in the region. Such a perception has prompted the management to consider establishing an early presence in Vietnam. This joint venture has marked a strategic move of the Group to become a market player in the Vietnam plastic injection industry.

The Group is currently focusing on quality control and upgrading the measure equipments in mould design and fabrication business. This approach is to build up the segment's ability to cater for high-end products that require advanced technology. It is anticipated that this segment will continue to achieve remarkable growth in the second half of the current financial year and maintain its profit contribution to the Group.

As for the assembling of electronic products business, the Group has successfully developed a new customer base engaged in the assembly of photo printing machine. The Group is anticipating a continuing improvement in this segment for both turnover and profit contribution for the coming second half of the financial year. Despite the fact that processing of printed circuit board business of the Group had continuously achieved growth, the Group is still in the process of widening its customer base.

To enhance the profitability of the Group, the Directors will continue to monitor closely the Group's cost of financing and improve gearing by the internal generated fund. The Group will also manage internal control by enhancing the current enterprise resources planning system and inventory management to further strengthen its solid management for the challenge ahead.

Other Information

Liquidity and financial resources

As at 31 January 2006, the Group had cash and bank deposits of HK$256.36 million (2005: HK$266.33 million) of which HK$149.98 million (2005: HK$154.78 million) were pledged to banks for banking facilities granted to the Group. The cash and bank deposits were denominated in United States ("**US**") dollars, Renminbi ("**RMB**") and Hong Kong dollars which represented 78.08%, 20.56% and 1.36% respectively of the total cash and bank deposits.

The Group generally finances its operations through a combination of shareholders equity, internally generated cash flows and borrowings from banks in Hong Kong and the PRC. As at 31 January 2006, the Group had unutilised banking facilities of HK$27.92 million (2005: HK$27.43 million).

The Group's total borrowings as at 31 January 2006 amounted to HK$820.48 million (2005: HK$833.82 million) which included a shareholder's loan of HK$31.79 million (2005: HK$34.24 million). The borrowings were mainly for business expansion, capital expenditure and working capital purposes with interest rates ranging from 4.70% per annum to 7.75% per annum. The amounts of borrowings denominated in US dollars, RMB and Hong Kong dollars were the equivalent of HK$353.89 million, HK$424.08 million and HK$42.51 million, respectively.

The Group's gearing ratio, represented by the net interest bearing borrowings over the Group's total asset as at 31 January 2006, was 39.36% (2005: 38.70%). The Directors would continue to monitor the borrowing level and try their best to maintain the gearing ratio at a reasonable level.

Even though the Group's current liabilities exceed its current assets by HK$145.32 million, the Directors believe that with the Group's internally generated funds and current banking facilities, the Group has sufficient financial resources to satisfy its current commitments and ongoing working capital requirements.

Charges on assets

As at 31 January 2006, certain assets of the Group with aggregate carrying value of HK$535.80 million (2005: HK$574.20 million) were pledged to secure banking facilities granted to the Group.

Foreign exchange risk

The Group's exposure to foreign exchange rate fluctuations during the period under review including turnover, purchases and borrowings, were denominated in US dollars, Japanese Yen, Renminbi and Hong Kong dollars. With the appreciation of Renminbi against US dollars, the Group reported a net exchange gain of HK$0.57 million during the period under review, against a net exchange loss of HK$5.30 million in the last corresponding period. The Group foresees that Renminbi will continue to strengthen against US dollars and the management will closely monitor the exchange rate fluctuation to ensure sufficient prevention measure for any adverse impact.

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

During the period under review, 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 provisions set out in the 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 Group's 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 six months ended 31 January 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 APPENDIX 14 TO THE LISTING RULES

Save that (1) the non-executive Director and two of the independent non-executive Directors, are not appointed for specific terms, (2) the remuneration committee of the Board was not established until 14 February 2006, and (3) the code on corporate governance was not adopted until 14 February 2006, none of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not, at any time during the six months ended 31 January 2006, in compliance with the relevant requirements of Appendix 14 to the Listing Rules. The Board is considering to change the term of appointment of such Directors to a specific term.

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 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 the revised Appendix 10 to the Listing Rules which came into effect on 31 March 2004.

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 New Code and Appendix 10 to the Listing Rules.

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
18 March 2006

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