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)

Interim Report 2009/10

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Beh Kim Ling *(Chairman)*
Gan Sem Yam *(Managing Director)*
Gan Chu Cheng *(Finance Director)*
Zhang Pei Yu
Yeoh Ek Boon

Non-executive Director

Gan Tiong Sia

Independent non-executive Directors

Diong Tai Pew
Cheung Kwan Hung, Anthony
Tang Sim Cheow

AUDIT COMMITTEE OF THE BOARD

Diong Tai Pew *(Chairman of the Audit Committee)*
Cheung Kwan Hung, Anthony
Tang Sim Cheow

REMUNERATION COMMITTEE OF THE BOARD

Cheung Kwan Hung, Anthony
(Chairman of the Remuneration Committee)
Beh Kim Ling
Diong Tai Pew

COMPANY SECRETARY

Ng Ting On, Polly

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

4106, 41st Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Trustee (Cayman) Limited
P.O. Box 484
HSBC House, 68 West Bay Road
Grand Cayman KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAWS

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place
Central, Hong Kong

AUDITORS

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

PRINCIPAL BANKERS

Malayan Banking Berhad
Shenzhen Development Bank Co., Ltd.
Industrial & Commercial Bank of China Ltd.
Agricultural Bank of China

Corporate Information

SUBSIDIARIES

V.S. International Industry Limited
V.S. Holding Vietnam Limited
V.S. Resources Holding Limited
P.O. Box 957, Offshore Incorporations Centre
Road Town, Tortola
British Virgin Islands

V.S. Investment Holdings Limited
Belmont Chambers, P.O. Box 3443
Road Town, Tortola
British Virgin Islands

V.S. Corporation (Hong Kong) Co., Limited
VSA Holding Hong Kong Co., Limited
V.S. Capital Holdings Limited
V.S. Industry Holding Limited
40th Floor, Jardine House
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V.S. Technology Industry Park (Zhuhai) Co., Ltd.
V.S. Industry (Zhuhai) Co., Ltd.
VSA Electronics Technology (Zhuhai) Co., Ltd.
V.S. Electronics (Zhuhai) Co., Ltd.
V.S. Industry (Shenzhen) Co., Ltd.
Beisha Village, Tangjia Wan Town
Xiangzhou District
519085 Zhuhai
Guangdong Province
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Haivs Industry (Qingdao) Co., Ltd.
Qianwangang Road South
Haier International Industrial Park
Qingdao Economic and Technology Development Zone
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266510 Qingdao
Shandong Province
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Qingdao GP Electronic Plastics Co., Ltd.
Qingdao GP Precision Mold Co., Ltd.
Hetao Export Processing Zone
Chengyang District
266113 Qingdao
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The People's Republic of China
Tel, No: (86) 532 8792 3666
Fax No: (86) 532 8792 3660

Corporate Information

ASSOCIATED COMPANIES

VS-Usotor (Zhuhai) Co., Ltd.
Gao Xin Area
Xiangzhou District
519085 Zhuhai
Guangdong Province
The People's Republic of China
Tel. No: (86) 756 3866 988
Fax No: (86) 756 3630 699

VS Industry Vietnam Joint Stock Company
Quevo Industrial Park, Vanduong Commune
Quevo District
Bacninh Province
Vietnam
Tel. No: (84) 241 3634 300
Fax No: (84) 241 3634 308

Introduction

The board ("Board") of directors ("Directors") of V.S. International Group Limited ("Company") submits herewith the interim financial report of the Company and its subsidiaries (together, the "Group") for the six months ended 31 January 2010, which has not been audited by the auditors of the Group, KPMG, but has been reviewed by KPMG and the audit committee ("Audit Committee") of the Board.

Consolidated Income Statement (Unaudited)

for the six months ended 31 January 2010
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 January 2010 $'000	2009 $'000
Turnover	3	784,456	706,119
Cost of sales		(704,477)	(625,534)
Gross profit		79,979	80,585
Other net loss	4	(5,491)	(6,217)
Distribution costs		(26,164)	(18,284)
Administrative expenses		(40,556)	(44,606)
Profit from operations		7,768	11,478
Finance costs	5(a)	(15,823)	(23,939)
Share of profits less losses of associates		1,943	68
Loss before taxation	5	(6,112)	(12,393)
Income tax credit/(expense)	6(a)	1,028	(2,262)
Loss for the period		(5,084)	(14,655)
Attributable to:			
Equity shareholders of the Company		(5,529)	(14,377)
Minority interests		445	(278)
Loss for the period		(5,084)	(14,655)
Loss per share	7		
Basic		(0.64) cents	(1.66) cents
Diluted		(0.64) cents	(1.66) cents

The notes on pages 14 to 47 form part of this interim financial report.

Consolidated Statement Of Comprehensive Income (Unaudited)

for the six months ended 31 January 2010
(Expressed in Hong Kong dollars)

	Six months ended 31 January 2010 $'000	2009 $'000
Loss for the period	(5,084)	(14,655)
Other comprehensive income/(loss) for the period		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	2,045	(4,083)
Total comprehensive loss for the period	(3,039)	(18,738)
Attributable to:		
Equity shareholders of the Company	(3,484)	(18,460)
Minority interests	445	(278)
Total comprehensive loss for the period	(3,039)	(18,738)

The notes on pages 14 to 47 form part of this interim financial report.

Consolidated Balance Sheet (Unaudited)

at 31 January 2010
(Expressed in Hong Kong dollars)

	Note	At 31 January 2010 $'000	At 31 July 2009 $'000
Non-current assets			
Fixed assets			
– Property, plant and equipment		847,707	856,758
– Interests in leasehold land held for own use under operating leases		24,600	24,815
	8	872,307	881,573
Goodwill	9	2,172	2,172
Deferred tax assets	6(c)	13,158	6,499
Interests in associates	10	24,211	22,692
		911,848	912,936
Current assets			
Inventories	11	188,564	144,890
Trade and other receivables	12	361,165	307,153
Deposits with banks	13	51,083	50,621
Cash and cash equivalents	14	125,554	100,431
		726,366	603,095
Current liabilities			
Trade and other payables	15	427,026	343,901
Interest-bearing borrowings	16(a)	348,384	334,824
Obligations under finance leases	17	9,975	8,289
Loan from a substantial shareholder	21(c)	7,315	7,300
Current taxation	6(b)	10,735	8,144
		803,435	702,458
Net current liabilities		(77,069)	(99,363)
Total assets less current liabilities		834,779	813,573

Consolidated Balance Sheet (Unaudited)

at 31 January 2010
(Expressed in Hong Kong dollars)

	Note	At 31 January 2010 $'000	At 31 July 2009 $'000
Non-current liabilities			
Other payables	15(b)	14,288	17,057
Interest-bearing borrowings	16(a)	338,626	306,974
Obligations under finance leases	17	11,638	14,090
Loan from a substantial shareholder	21(c)	7,315	9,733
Deferred tax liabilities	6(c)	1,630	1,398
		373,497	349,252
NET ASSETS		461,282	464,321
CAPITAL AND RESERVES			
Share capital	18	43,349	43,349
Reserves		413,907	417,391
Total equity attributable to equity shareholders of the Company		457,256	460,740
Minority interests		4,026	3,581
TOTAL EQUITY		461,282	464,321

The notes on pages 14 to 47 form part of this interim financial report.

Consolidated Statement of Changes in Equity (Unaudited)

for the six months ended 31 January 2010
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company									
	Share capital $'000	Share premium $'000	Capital reserves $'000	Foreign exchange translation reserve $'000	Statutory reserve fund $'000	Employee share-based capital reserve $'000	Retained profits $'000	Total $'000	Minority interests $'000	Total $'000
At 1 August 2008	43,349	72,006	9,584	115,000	39,135	6,556	245,452	531,082	3,763	534,845
Total comprehensive loss for the period										
Loss for the period	–	–	–	–	–	–	(14,377)	(14,377)	(278)	(14,655)
Other comprehensive income										
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	–	–	–	(4,083)	–	–	–	(4,083)	–	(4,083)
Total comprehensive loss for the period	–	–	–	(4,083)	–	–	(14,377)	(18,460)	(278)	(18,738)
Transactions with owners, recorded directly in equity										
Share options lapsed during the period	–	–	–	–	–	(296)	296	–	–	–
At 31 January 2009	43,349	72,006	9,584	110,917	39,135	6,260	231,371	512,622	3,485	516,107

Consolidated Statement of Changes in Equity (Unaudited)

for the six months ended 31 January 2010
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company									
	Share capital $'000	Share premium $'000	Capital reserves $'000	Foreign exchange translation reserve $'000	Statutory reserve fund $'000	Employee share-based capital reserve $'000	Retained profits $'000	Total $'000	Minority interests $'000	Total $'000
At 1 February 2009	43,349	72,006	9,584	110,917	39,135	6,260	231,371	512,622	3,485	516,107
Total comprehensive loss for the period										
Loss for the period	–	–	–	–	–	–	(54,308)	(54,308)	96	(54,212)
Other comprehensive income										
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	–	–	–	2,426	–	–	–	2,426	–	2,426
Total comprehensive loss for the period	–	–	–	2,426	–	–	(54,308)	(51,882)	96	(51,786)
Transactions with owners, recorded directly in equity										
Share options lapsed during the period	–	–	–	–	–	(6,260)	6,260	–	–	–
Appropriation of reserves	–	–	–	–	4,880	–	(4,880)	–	–	–
Total transactions with owners	–	–	–	–	4,880	(6,260)	1,380	–	–	–
At 31 July 2009	43,349	72,006	9,584	113,343	44,015	–	178,443	460,740	3,581	464,321

Consolidated Statement of Changes in Equity (Unaudited)

for the six months ended 31 January 2010
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company									
	Share capital $'000	Share premium $'000	Capital reserves $'000	Foreign exchange translation reserve $'000	Statutory reserve fund $'000	Employee share-based capital reserve $'000	Retained profits $'000	Total $'000	Minority interests $'000	Total $'000
At 1 August 2009	43,349	72,006	9,584	113,343	44,015	–	178,443	460,740	3,581	464,321
Total comprehensive loss for the period										
Loss for the period	–	–	–	–	–	–	(5,529)	(5,529)	445	(5,084)
Other comprehensive income										
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	–	–	–	2,045	–	–	–	2,045	–	2,045
Total comprehensive loss for the period	–	–	–	2,045	–	–	(5,529)	(3,484)	445	(3,039)
At 31 January 2010	43,349	72,006	9,584	115,388	44,015	–	172,914	457,256	4,026	461,282

The notes on pages 14 to 47 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement (Unaudited)

for the six months ended 31 January 2010
(Expressed in Hong Kong dollars)

	Note	Six months ended 31 January 2010 $'000	2009 $'000
Cash generated from/(used in) operations		44,382	(5,506)
Income tax paid by the subsidiaries in the People's Republic of China ("PRC")		(2,807)	(749)
Net cash generated from/(used in) operating activities		41,575	(6,255)
Net cash used in investing activities		(40,726)	(53,218)
Net cash generated from financing activities		25,605	42,325
Net increase/(decrease) in cash and cash equivalents		26,454	(17,148)
Cash and cash equivalents at 1 August	14	72,644	110,061
Effect of foreign exchange rate changes		(2,096)	680
Cash and cash equivalents at 31 January	14	97,002	93,593

The notes on pages 14 to 47 form part of this interim financial report.

Notes to the Interim Financial Report (Unaudited)

(Expressed in Hong Kong dollars unless otherwise indicated)

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 on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, "*Interim financial reporting*", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 27 March 2010.

The 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 2009, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. 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 contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 July 2009. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, "*Review of interim financial information performed by the independent auditor of the entity*", issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on pages 57 to 58.

The financial information relating to the financial year ended 31 July 2009 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 2009 are available from the Company's registered office. The auditors have expressed a modified opinion on those financial statements in their report dated 25 September 2009.

1 BASIS OF PREPARATION (CONTINUED)

As at 31 January 2010, the Group's current liabilities exceeded its current assets by $77,069,000 and the Group incurred a loss of $5,084,000 for the period ended 31 January 2010. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. As at 31 January 2010, the Group had undrawn banking facilities totalling $93,577,000 for working capital purposes. In addition, the Group is currently in the process of negotiating with certain banks to renew its current bank loans upon expiry or to obtain additional banking facilities in order to improve its liquidity position. The Directors have evaluated all the relevant facts available to them and are of the opinion that there are good track records or relationships with banks which would enhance the Group's ability to renew its current bank loans upon expiry or secure adequate banking facilities to enable the Group to continue to operate as a going concern and to meet its financial obligations as and when they fall due for the foreseeable future. Accordingly, the interim financial report has been prepared on a going concern basis. Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The effect of these adjustments has not been affected in this interim financial report.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 8, *Operating segments*
- HKAS 1 (revised 2007), *Presentation of financial statements*
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, *Consolidated and separate financial statements-cost of an investment in a subsidiary, jointly controlled entity or associate*
- HKAS 23 (revised 2007), *Borrowing costs*

The amendments to HKAS 23 have no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. The impact of the remainder of these developments on the interim financial report is as follows:

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on business and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management (see note 3). Corresponding amounts have been provided on a basis consistent with the revised segment information.

- As a result of the adoption of HKAS 1 (revised 2007), all items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The consolidated statement of changes in equity has also been reformatted to include details of changes for each component of equity during the period. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- The "improvements to HKFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued an omnibus batch of amendments. Of these, the following amendment has resulted in a change to the Group's accounting policies:

  – As a result of amendments to HKAS 28, *Investments in associates*, impairment losses recognised in respect of the associates and jointly controlled entities carried under the equity method are no longer allocated to the goodwill inherent in that carrying value. As a result, when there has been a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre-or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, the new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

3 SEGMENT REPORTING

The Group manages its business by divisions, which are organised by a mixture of both business lines and geography. On first-time adoption of HKFRS 8, *Operating segments* and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has identified the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

3 SEGMENT REPORTING (CONTINUED)

(a) Segment results, assets and liabilities

In accordance with HKFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible and current assets with the exception of interests in associates and other corporate assets. Segment liabilities include trade creditors, accruals and bills payable attributable to the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "segment result". To arrive at "segment result", the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as head office or corporate administration costs.

In addition to receiving segment information concerning "segment result", management is provided with segment information concerning revenue (including inter-segment), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

3 SEGMENT REPORTING (CONTINUED)

(a) Segment results, assets and liabilities (continued)

	Plastic injection and moulding		Assembling of electronic products		Mould design and fabrication		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Six months ended 31 January:								
Turnover from external customers	462,904	523,721	282,153	110,212	39,399	72,186	784,456	706,119
Reportable segment revenue	462,904	523,721	282,153	110,212	39,399	72,186	784,456	706,119
Reportable segment result	15,212	43,152	22,752	2,821	8,989	12,378	46,953	58,351
At 31 January/31 July:								
Reportable segment assets	875,716	754,330	318,747	263,431	146,108	157,387	1,340,571	1,175,148
Addition to non-current segment assets during the period	36,156	79,150	2,540	47,069	102	4,442	38,798	130,661
Reportable segment liabilities	289,929	216,546	119,095	99,795	16,830	24,642	425,854	340,983

3 SEGMENT REPORTING (CONTINUED)

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	Six months ended 31 January 2010 $'000	Six months ended 31 January 2009 $'000
Revenue		
Reportable segment revenue	784,456	706,119
Consolidated turnover	784,456	706,119

	Six months ended 31 January 2010 $'000	Six months ended 31 January 2009 $'000
Profit		
Reportable segment profit	46,953	58,351
Share of profits less losses of associates	1,943	68
Finance costs	(15,823)	(23,939)
Unallocated depreciation and amortisation	(2,690)	(1,491)
Unallocated operating income and expenses	(36,495)	(45,382)
Consolidated loss before taxation	(6,112)	(12,393)

	At 31 January 2010 $'000	At 31 July 2009 $'000
Assets		
Reportable segment assets	1,340,571	1,175,148
Interests in associates	24,211	22,692
Unallocated head office and corporate assets	273,432	318,191
Consolidated total assets	1,638,214	1,516,031

3 SEGMENT REPORTING (CONTINUED)

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities (continued)

	At 31 January 2010 $'000	At 31 July 2009 $'000
Liabilities		
Reportable segment liabilities	425,854	340,983
Unallocated head office and corporate liabilities	751,078	710,727
Consolidated total liabilities	1,176,932	1,051,710

(c) Geographical segments

The Group's business participates in seven (2009: six) major economic environments.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

Turnover from external customers is analysed as follows:

	Six months ended 31 January	
	2010 $'000	2009 $'000
PRC (other than Taiwan and Hong Kong)	373,089	434,252
Hong Kong	177,606	108,730
United States of America	84,038	59,212
Northern Asia	64,252	77,129
Europe	51,018	14,372
South East Asia	17,876	12,424
South Africa	16,577	–
	784,456	706,119

Analysis of the Group's carrying amount of segment non-current assets has not been presented as over 90% of the non-current assets are located in the PRC.

4 OTHER NET LOSS

	Six months ended 31 January	
	2010	2009
	$'000	$'000
Interest income	(523)	(2,721)
Rentals receivable from operating leases	(3,121)	(3,350)
Net foreign exchange losses	2,917	2,802
Change in fair value of forward foreign exchange contracts	–	5,237
Net loss on forward foreign exchange contracts	–	3,469
Net loss on disposal of fixed assets	1,974	532
Impairment losses on acquisition deposits (notes 12(ii) and (d))	5,209	–
Others	(965)	248
	5,491	6,217

5 LOSS BEFORE TAXATION

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

	Six months ended 31 January	
	2010	2009
	$'000	$'000
(a) Finance costs:		
Interest on bank advances repayable within five years	12,835	21,164
Interest on loan from a substantial shareholder	310	485
Finance charges on obligations under finance leases	680	59
Total borrowing costs	13,825	21,708
Less: borrowing costs capitalised as construction in progress *	(49)	(63)
	13,776	21,645
Other changes	2,047	2,294
	15,823	23,939

* The borrowing costs have been capitalised at an average cost of borrowings to the Group of 4.36% (2009: 5.83%) per annum for construction in progress.

5 LOSS BEFORE TAXATION (CONTINUED)

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

	Six months ended 31 January	
	2010	2009
	$'000	$'000
(b) Other items:		
Amortisation of interests in leasehold land held for own use under operating leases	**288**	208
Depreciation		
– other assets	**48,028**	45,979
– assets held under finance leases	**1,274**	2,377
Operating lease charges in respect of properties		
– factory and hostel rentals	**4,839**	4,697
Impairment losses		
– trade receivables (note 12(b))	**660**	244
– acquisition deposits (notes 12(ii) and (d))	**5,209**	–

6 INCOME TAX

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

	Six months ended 31 January	
	2010	2009
	$'000	$'000
Current tax – PRC		
Provision for the period	5,399	4,268
Over-provision in respect of prior years	–	(1,598)
	5,399	2,670
Deferred tax		
Origination and reversal of temporary differences	(6,427)	(408)
	(1,028)	2,262

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 2010 and 2009.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which was effective from 1 January 2008. As a result of the new tax law, taxable income for the subsidiaries of the Company in the PRC is subject to a standard PRC income tax rate of 25%, except for certain subsidiaries of the Company in the PRC which had enjoyed preferential tax rates before 1 January 2008.

Pursuant to the notice on the Implementation Rules of the Grandfather Relief under the new tax law, Guofa (2007) No. 39, issued on 26 December 2007 by the State Council, the income tax rate applicable to the subsidiaries of the Company in the PRC which had enjoyed preferential tax rates before 1 January 2008 will be gradually increased from the ex-preferential income tax rates to 25% over a five-year transition period commencing from 1 January 2008. The applicable income tax rate is 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively.

(Expressed in Hong Kong dollars unless otherwise indicated)

6 INCOME TAX (CONTINUED)

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

Subsidiaries of the Company in the PRC were either entitled to income tax exemption or sustained losses for taxation purposes for the six months ended 31 January 2010 except for the following seven 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 2008 to 31 December 2008	18%
	1 January 2009 to 31 December 2009	20%
	1 January 2010 to 31 January 2010	22%
Haivs Industry (Qingdao) Co., Ltd.	1 August 2008 to 31 December 2008	18%
	1 January 2009 to 31 December 2009	20%
	1 January 2010 to 31 January 2010	22%
V.S. Industry (Zhuhai) Co., Ltd.	1 August 2008 to 31 December 2008	9%
	1 January 2009 to 31 December 2009	20%
	1 January 2010 to 31 January 2010	22%
Qingdao GS Electronics Plastic Co., Ltd.	1 August 2008 to 31 December 2008	9%
	1 January 2009 to 31 December 2009	10%
	1 January 2010 to 31 January 2010	22%
Qingdao GP Precision Mold Co., Ltd.	1 August 2008 to 31 January 2010	25%
V.S. Electronics (Zhuhai) Co., Ltd.	1 August 2008 to 31 January 2010	25%
VSA Electronics Technology (Zhuhai) Co., Ltd.	1 August 2008 to 31 December 2008	9%
	1 January 2009 to 31 December 2009	10%
	1 January 2010 to 31 January 2010	22%

6 INCOME TAX (CONTINUED)

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

Pursuant to the new tax law in the PRC, from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by tax treaty) on various types of passive income such as dividends derived from sources within the PRC. A withholding tax rate of 5% is applicable to entities held by a Hong Kong incorporated subsidiary.

According to the notice Caishui [2008] No.1 released by the Ministry of Finance and the State Administration of Taxation, distributions of pre-2008 retained profits of a foreign-invested enterprise to a foreign investor in 2008 or after are exempted from the PRC withholding tax. The Group is liable to withholding tax on dividends distributed from the subsidiaries incorporated in the PRC relating to profits generated on or after 1 January 2008. At 31 July 2009, the undistributed profits generated before 1 January 2008 by the subsidiaries incorporated in the PRC, which amounted to $129,791,000, are not subject to the withholding tax on future distribution. Deferred tax liabilities of $1,630,000 (2009: $1,398,000) have been recognised in respect of the temporary differences of $32,600,000 (2009: $27,960,000) which are related to the undistributed profits generated on or after 1 January 2008 by the subsidiaries incorporated in the PRC (Note 6(c)).

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.

In January 2009, management reassessed the income tax exposure of VS Zhuhai and reversed unutilised income tax provisions totalling $1,598,000 as management considered the income tax for the relevant periods has already been settled in full in accordance with the tax returns issued by the relevant tax authority. Management considered the balance of income tax payable as at 31 January 2009 to be adequate and not excessive.

(b) Income tax in the consolidated balance sheet (unaudited) represents:

	At 31 January 2010 $'000	At 31 July 2009 $'000
PRC income tax payable	**10,735**	8,144

6 INCOME TAX (CONTINUED)

(c) Deferred tax assets recognised

The components of deferred tax assets recognised in the consolidated balance sheet (unaudited) and the movements during the period are as follows:

	Accumulated losses of PRC subsidiaries $'000
Deferred tax arising from:	
At 1 August 2008	–
Credited to profit or loss	6,499
At 31 July 2009	6,499
At 1 August 2009	6,499
Credited to profit or loss	6,659
At 31 January 2010	13,158

The components of deferred tax liabilities recognised in the consolidated balance sheet (unaudited) and the movements during the period are as follows:

	Withholding tax on retained earnings of PRC subsidiaries $'000
Deferred tax arising from:	
At 1 August 2008	(2,046)
Charged to profit or loss	648
At 31 July 2009	(1,398)
At 1 August 2009	(1,398)
Credited to profit or loss	(232)
At 31 January 2010	(1,630)

7 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of $5,529,000 (2009: loss of $14,377,000) and the 866,976,000 shares in issue during the current and the prior period.

(b) Diluted losses per share

There were no potential dilutive ordinary shares in existence during the six months ended 31 January 2010 and 2009.

8 FIXED ASSETS

	Buildings held for own use $'000	Leasehold improve-ments $'000	Plant and machinery $'000	Office equipment, furniture and fixtures $'000	Motor vehicles $'000	Construction in progress $'000	Sub-total $'000	Interests in leasehold land held for own use under operating leases $'000	Total $'000
Cost:									
At 1 August 2009	334,472	15,760	998,570	44,052	22,969	6,016	1,421,839	28,608	1,450,447
Exchange adjustments	953	46	2,723	139	71	6	3,938	85	4,023
Additions	653	1,094	33,665	2,136	3,047	879	41,474	–	41,474
Transfer	–	–	2,426	459	–	(2,885)	–	–	–
Disposals	(177)	–	(7,090)	(120)	–	–	(7,387)	–	(7,387)
At 31 January 2010	335,901	16,900	1,030,294	46,666	26,087	4,016	1,459,864	28,693	1,488,557
Accumulated depreciation and amortisation:									
At 1 August 2009	43,852	5,839	469,769	28,528	17,093	–	565,081	3,793	568,874
Exchange adjustments	127	15	1,193	85	50	–	1,470	12	1,482
Charge for the period	3,889	482	42,309	1,774	848	–	49,302	288	49,590
Written back on disposals	(29)	–	(3,559)	(108)	–	–	(3,696)	–	(3,696)
At 31 January 2010	47,839	6,336	509,712	30,279	17,991	–	612,157	4,093	616,250
Net book value:									
At 31 January 2010	288,062	10,564	520,582	16,387	8,096	4,016	847,707	24,600	872,307
At 31 July 2009	290,620	9,921	528,801	15,524	5,876	6,016	856,758	24,815	881,573

8 FIXED ASSETS (CONTINUED)

At 31 January 2010, certain fixed assets had been pledged as security for bank loans (note 16(b)).

The Group leases certain production plant and machinery under finance leases expiring in one to three years. At the end of the lease term, the ownership of the assets will be transferred to the Group. None of the leases includes contingent rentals.

The net book value of plant and machinery of the Group held under finance leases was $21,913,000 at 31 January 2010 (31 July 2009: $23,187,000)

9 GOODWILL

Cost and carrying amount:

	$'000
At 31 July 2009 and 31 January 2010	2,172

The directors make an assessment on the recoverable amount of goodwill annually and considered that there was no impairment at 31 January 2010.

10 INTERESTS IN ASSOCIATES

	At 31 January 2010 $'000	At 31 July 2009 $'000
Share of net assets	15,690	14,171
Goodwill	8,521	8,521
	24,211	22,692

10 INTERESTS IN ASSOCIATES (CONTINUED)

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or the assets of the Group.

Name of associate	Form of business structure	Place of incorporation	Place of operation	Particulars of capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by subsidiaries	Principal activity
VS Industry Vietnam Joint Stock Company	Limited liability company	Vietnam	Vietnam	Legal capital of US$10,200,000	25.0%	25.0%	Manufacturing and selling of plastic moulded products and parts
VS-Usotor (Zhuhai) Co., Ltd. ("VS-Usotor")	Sino- foreign equity joint venture	PRC	PRC	Registered capital of $6,200,000	15.3% (note)	15.3%	Manufacturing and selling of metal stamped parts and components

Note:

Although the Group's equity interest in VS-Usotor is 15.3%, as the Group has the ability to exercise significant influence over the management of VS-Usotor, including participating in the financial and operating policy decisions, it is considered to be an associate of the Group.

11 INVENTORIES

(a) Inventories in the consolidated balance sheet (unaudited) comprise:

	At 31 January 2010 $'000	At 31 July 2009 $'000
Raw materials	**105,197**	68,165
Work-in-progress	**39,262**	44,150
Finished goods	**44,105**	32,575
	188,564	144,890

11 INVENTORIES (CONTINUED)

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	Six months ended 31 January 2010 $'000	Six months ended 31 January 2009 $'000
Carrying amount of inventories sold	703,944	624,121
Write down of inventories	533	1,413
	704,477	625,534

12 TRADE AND OTHER RECEIVABLES

	At 31 January 2010 $'000	At 31 July 2009 $'000
Trade receivables	266,273	209,293
Bills receivable (note (i))	42,371	39,393
Less: allowance for doubtful debts (note 12(b))	(2,533)	(2,563)
	306,111	246,123
Other receivables, prepayments and deposits	50,497	47,291
Acquisition deposits (notes (12(ii) and (d))	4,557	13,739
	361,165	307,153

(i) Bills discounted to banks with recourse totalling $17,819,000 (31 July 2009: $32,483,000) were included in bills receivable (note 16(b)) as at 31 January 2010.

12 TRADE AND OTHER RECEIVABLES (CONTINUED)

(ii) During the year ended 31 July 2008, the Group paid a deposit of $11,408,000 to an independent third party ("Possible Cooperation Partner"), whose principal businesses include, among others, exploration for natural resources in Heilongjiang Province, the PRC, for an exclusive right of negotiation in relation to the strategic investment in or cooperation between the Possible Cooperation Partner and the Group.

On 19 June 2008, the Group entered into an agreement with the Possible Cooperation Partner to invest $24,442,000, as a capital injection, to acquire a 51% equity interest of Heilongjiang Savoy Minerals Co., Limited ("Heilongjiang Savoy"), which is registered in the PRC, the principal activity of which is the exploration for natural resources in Heilongjiang Province in the PRC. The agreement will only be effective when the capital injection and verification process is completed.

The Group subsequently entered into supplementary agreements with the Possible Cooperation Partner on 2 March 2009. Pursuant to the supplementary agreement, the period for the requirements of the agreement to be fulfilled was extended to 31 July 2009.

During the year ended 31 July 2009, the deposit of $11,408,000 was refunded by the Possible Cooperation Partner and the Group has injected the first instalment of approximately $8,035,000 into Heilongjiang Savoy.

On 10 August 2009, resolutions were passed by the directors of Heilongjiang Savoy to approve a further extension of the due date for settlement of the remaining balance of $16,407,000 (the "Balance") from 31 July 2009 to 31 December 2009. The shareholders of Heilongjiang Savoy also entered into supplemental agreements ("Supplemental Agreement and Articles") to amend the relevant provisions in the joint venture agreement and articles of Heilongjiang Savoy to further extend the due date for settlement of the Balance from 31 July 2009 to 31 December 2009. The Supplemental Agreement and Articles were effective upon approval obtained from the PRC approving authorities on 19 August 2009. Since the capital injection had not been completed as at 31 January 2010, the amount paid of $3,126,000 (net of allowances for doubtful debts of $4,909,000 (note 12(d))) is included within acquisition deposits as at 31 January 2010.

Heilongjiang Savoy has not started operations up to the date of this report. The Directors are of the view that the Group did not have any financial and operational control over Heilongjiang Savoy at 31 January 2010.

In addition to the above, the Group also paid a refundable deposit of $1,431,000 (net of allowances for doubtful debts of $300,000 (note 12(d)) to an independent third party for an exclusive right of negotiation in relation to exploration for natural resources in Inner Mongolia, the PRC. The deposit is refundable if no agreement is reached.

All of the trade and other receivables are expected to be recovered within one year.

12 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Ageing analysis

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

	At 31 January 2010 $'000	At 31 July 2009 $'000
Current	256,451	214,056
Less than one month past due	27,777	16,470
One to three months past due	16,401	10,323
More than three months but less than twelve months past due	5,482	5,274
Amounts past due	49,660	32,067
	306,111	246,123

Credit terms granted by the Group to customers generally range from 30 to 120 days. Debtors with balance that are more than 12 months past due are requested to settle all outstanding balances before any further credit is granted.

12 TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade and bills receivable

Impairment losses in respect of trade and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivable directly.

The movement in the allowance for doubtful debts during the period/year, including both specific and collective loss components, is as follows:

	At 31 January 2010 $'000	At 31 July 2009 $'000
At 1 August	2,563	1,541
Impairment loss recognised	660	1,076
Uncollectible amounts written off	(690)	(54)
At 31 January/31 July	2,533	2,563

At 31 January 2010, the Group's trade and bills receivable of $11,782,000 (31 July 2009: $16,185,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that the amounts were not expected to be recovered. Consequently, specific allowances for doubtful debts of $2,533,000 have been recognised as at 31 January 2010 (31 July 2009: $2,563,000) after considering subsequent settlement and other relevant factors.

12 TRADE AND OTHER RECEIVABLES (CONTINUED)

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	At 31 January 2010 $'000	At 31 July 2009 $'000
Neither past due nor impaired	256,451	214,056
Less than one month past due	27,777	16,470
One to three months past due	8,661	1,975
More than three months but less than twelve months past due	3,973	–
	40,411	18,445
	296,862	232,501

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

12 TRADE AND OTHER RECEIVABLES (CONTINUED)

(d) Impairment of acquisition deposits

In order to focus on the core businesses, the Group is planning to withdraw from the investment in Heilongjiang Savoy. The acquisition deposit totalling $8,035,000 shall either be disposed of by the Group or refunded to the Group. The Directors made an assessment of the recoverable amount of the acquisition deposit and impairment losses of $4,909,000 were made as at 31 January 2010.

In addition, allownace for doubtful debts of $300,000 (note 12(ii)) was made for the refundable deposit of $1,731,000.

Impairment losses in respect of acquisition deposits are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against the acquisition deposits directly.

The movement in the allowance for doubtful debts during the period/year is as follows:

	At 31 January 2010 $'000	At 31 July 2009 $'000
At 1 August	–	–
Impairment loss recognised	5,209	–
At 31 January/ 31 July	5,209	–

13 DEPOSITS WITH BANKS

	At 31 January 2010 $'000	At 31 July 2009 $'000
Deposits with banks with original maturity date over three months	131	3,372
Pledged fixed deposits with banks	50,952	47,249
	51,083	50,621

Pledged fixed deposits with banks have been pledged to banks as security for certain banking facilities, including trade finance, bank loans and overdrafts (note 16(b)).

14 CASH AND CASH EQUIVALENTS

	At 31 January 2010 $'000	At 31 July 2009 $'000
Cash at bank and in hand	125,554	100,431
Cash and cash equivalents in the balance sheet	125,554	100,431
Bank overdrafts (note 16(a))	(28,552)	(27,787)
Cash and cash equivalents in the consolidated cash flow statement	97,002	72,644

15 TRADE AND OTHER PAYABLES

	At 31 January 2010 $'000	At 31 July 2009 $'000
Trade payables	224,656	186,492
Bills payable	49,690	16,684
Payables for the purchase of fixed assets (note 15(b))	70,779	74,559
Accrued expenses and other payables	81,901	66,166
	427,026	343,901

Except for the other payables mentioned in note 15(b), the trade and other payables are expected to be settled or recognised as income within one year.

15 TRADE AND OTHER PAYABLES (CONTINUED)

(a) Included in trade and other payables are trade and bills payable with the following ageing analysis as at the balance sheet date:

	At 31 January 2010 $'000	At 31 July 2009 $'000
Due within 1 month or on demand	105,722	77,144
Due after 1 month but within 3 months	151,032	90,852
Due after 3 months but within 6 months	17,592	35,180
	274,346	203,176

(b) Payables for the purchase of fixed assets

The Group acquired certain fixed assets from suppliers under instalment terms ranging from 18 months to 30 months. Included in payables for the purchase of fixed assets is the current portion of the amounts payable to fixed assets suppliers under instalment terms. An analysis of the amounts due to fixed assets suppliers under instalment terms is as follows:

	At 31 January 2010 $'000	At 31 July 2009 $'000
Current:		
Within 1 year or on demand	16,514	11,510
Non-current:		
After 1 year but within 2 years	14,288	17,057
	30,802	28,567

Amount due to suppliers under instalment terms are unsecured and bear interest at 7.5% – 9.7% per annum.

16 INTEREST-BEARING BORROWINGS

(a) An analysis of current and non-current bank loans and overdrafts is as follows:

	At 31 January 2010 $'000	At 31 July 2009 $'000
Current:		
Overdrafts		
– secured	28,552	27,787
Bank loans		
– secured	233,968	251,696
– unsecured	85,864	55,341
	319,832	307,037
	348,384	334,824
Non-current:		
Bank loans		
– secured	338,626	306,974
	687,010	641,798

None of the non-current bank loans is expected to be settled within one year.

16 INTEREST-BEARING BORROWINGS (CONTINUED)

(b) Certain banking facilities, including trade finance, overdrafts and bank loans, are secured by the following assets of the Group:

	At 31 January 2010 $'000	At 31 July 2009 $'000
Bills receivable (note 12)	17,819	32,483
Fixed deposits (note 13)	50,952	47,249
Interests in leasehold land held for own use under operating leases with aggregate carrying value (note 8)	24,600	24,815
Plant and machinery with aggregate carrying value (note 8)	48,786	53,200
Buildings held for own use with aggregate carrying value (note 8)	284,560	281,043
	426,717	438,790

The above-mentioned secured banking facilities, totalling $683,864,000 (31 July 2009: $662,098,000), were utilised to the extent of $650,836,000 (31 July 2009: $603,141,000) at 31 January 2010. The Group's banking facilities also included certain unsecured banking facilities, totalling $131,968,000 (31 July 2009: $159,936,000), which were utilised to the extent of $85,864,000 (31 July 2009: $55,341,000) at 31 January 2010.

(c) Two (31 July 2009: two) of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 January 2010 and 31 July 2009, none of the covenants relating to drawn down facilities had been breached.

17 OBLIGATIONS UNDER FINANCE LEASES

At 31 January 2010, the Group had obligations under finance leases repayable as follows:

	At 31 January 2010			At 31 July 2009		
	Present value of the minimum lease payments $'000	Interest expense relating to future periods $'000	Total Minimum lease payments $'000	Present value of the minimum lease payments $'000	Interest expense relating to future periods $'000	Total minimum lease payments $'000
Within one year	9,975	1,670	11,645	8,289	1,803	10,092
After one year but within two years	9,975	693	10,668	9,946	934	10,880
After two years but within five years	1,663	20	1,683	4,144	102	4,246
	11,638	713	12,351	14,090	1,036	15,126
	21,613	2,383	23,996	22,379	2,839	25,218

18 SHARE CAPITAL

	At 31 January 2010		At 31 July 2009	
	Number of shares '000	Amount $'000	Number of shares '000	Amount $'000
Authorised:				
Ordinary shares of $0.05 each	4,000,000	200,000	4,000,000	200,000
Issued and fully paid:				
At the beginning of the period/year and at the end of the period/year	866,976	43,349	866,976	43,349

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

19 DIVIDENDS

(i) Dividends payable to equity shareholders of the Company attributable to the interim period

No dividend has been proposed by the Company after the balance sheet date attributable to the periods ended 31 January 2010 and 2009.

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

No dividends has been approved or paid by the Company after the balance sheet date attributable to the previous financial year.

20 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding not provided for in the interim financial report are as follows:

	At 31 January 2010 $'000	At 31 July 2009 $'000
Contracted for	34,931	32,765

As at 31 January 2010 and 31 July 2009, capital commitments include the capital injection of $16,407,000 in Heilongjiang Savoy (note 12 (ii)), the remaining balance represents commitments for acquisition of plant and machineries.

20 COMMITMENTS (CONTINUED)

(b) Operating lease commitments

The Group leases a number of properties under operating leases. The leases typically run for periods from one year to three years with an option to renew the lease upon expiry when all terms are renegotiated. Lease charges in respect of these operating leases amounting to $4,839,000 (2009: $4,697,000) were recognised as expenses in the unaudited consolidated income statement. None of the leases includes contingent rentals.

The total future minimum lease payments for properties under non-cancellable operating leases are payable as follows:

	At 31 January 2010 $'000	At 31 July 2009 $'000
Within one year	84	708

Significant leasing arrangements in respect of machinery classified as being held under finance leases and land held under operating leases are described in notes 8 and 17.

21 MATERIAL RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances disclosed elsewhere in this interim financial report, the Group entered into the following material related party transactions:

	Six months ended 31 January	
	2010	2009
	$'000	$'000
Sales to a substantial shareholder	**9**	7,116
Sales to minority shareholders of VSA Holding Hong Kong Co., Limited ("VSA (HK)")	**8,322**	7,997
	8,331	15,113
Interest paid and payable to a substantial shareholder (note 21(c))	**310**	485
Royalty fee paid and payable to a minority shareholder of VSA (HK)	**–**	578
Technical advisory fee paid and payable to a minority shareholder of VSA (HK)	**–**	1,113
Operating lease charges paid to a company controlled by a director	**4,483**	3,221
Purchase of raw materials from an associate	**3,875**	369
Management fee paid and payable to a company controlled by a director	**324**	233
Sub-contracting fee paid and payable to a company controlled by the family member of a director	**2,927**	2,997
Repair and maintenance services paid and payable to a company controlled by the family member of a director	**1,255**	–

The Directors are of the opinion that the above transactions were conducted in accordance with the underlying agreements entered into with the related parties in the ordinary course of business of the Group.

21 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Amounts due from related parties included as part of trade and other receivables were as follows:

	At 31 January 2010 $'000	At 31 July 2009 $'000
Amount due from a company controlled by the family member of a director	72	–
Amount due from a minority shareholder of VSA(HK)	1,913	2,477
Amount due from a company controlled by a director	6,272	5,728
Amounts due from associates	30	3,963
Amount due from a substantial shareholder	812	1,067
	9,099	13,235

Amounts due from related parties are interest free, unsecured and have no fixed terms of repayments.

(c) Amounts due to related parties were detailed as follows:

	At January 2010		At 31 July 2009	
	Trade and other payables $'000	Loan from a substantial shareholder* $'000	Trade and other payables $'000	Loan from a substantial shareholder* $'000
Amounts due to directors	300	–	300	–
Amount due to a company controlled by a director	823	–	183	–
Amount due to a company controlled by the family member of a director	2,113	–	2,174	–
Amounts due to associates	196	–	98	–
Amount due to a minority shareholder of VSA(HK)	682	–	961	–
Amount due to a substantial shareholder				
– current portion	1,427	7,315	1,721	7,300
– non-current portion	–	7,315	–	9,733
	5,541	14,630	5,437	17,033

(Expressed in Hong Kong dollars unless otherwise indicated)

21 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Amounts due to related parties were detailed as follows (continued):

* Pursuant to the loan agreement entered into between the Group and the substantial shareholder dated 20 January 2002, the loan, which amounted to US$6,279,000 (equivalent to $48,916,000) as at the date of the loan agreement is repayable in twenty equal consecutive half-yearly instalments on 1 February and 1 August each year commencing on 1 August 2002. The loan is unsecured and carries interest at 5% per annum (2009: 5%) on the outstanding balance. Interest paid and payable to the substantial shareholder, amounted to $310,000 (2009: $485,000) for the six months ended 31 January 2010.

Except for the loan from a substantial shareholder of the Company, the amounts due to other related parties are interest-free, unsecured and have no fixed terms of repayments.

22 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 31 JANUARY 2010

Up to the date of issue of this interim financial report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the six months ended 31 January 2010 and which have not been adopted in this interim financial report.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to result in a restatement of the Group's results of operations and financial position.

	Effective for accounting periods beginning on or after
Improvements to HKFRSs 2009	1 January 2010
Revised HKAS 24, *Related party disclosures*	1 January 2011
HKFRS 9, *Financial instruments*	1 January 2013

23 NON-ADJUSTING POST BALANCE SHEET EVENT

Pursuant to the resolution duly passed at the annual general meeting ("AGM") held on 28 November 2008, the general scheme limit ("General Scheme Limit") of the share option scheme ("Share Option Scheme") of the Company was refreshed. The total number of ordinary shares which could be allotted and issued upon exercise of all options granted or to be granted under the Share Option Scheme must not in aggregate exceed 10 percent of the shares in issue as at the date of the AGM. As at the date of the AGM, there were 866,976,000 shares of the Company in issue. Accordingly, the refreshed General Scheme Limit was 86,697,600 shares of the Company.

Pursuant to a resolution passed by Directors in a meeting of the Board on 3 February 2010, the Board approved the grant of 86,680,000 share options under the rules of the Share Option Scheme.

The grantees comprised five executive Directors, one non-executive Director, three independent non-executive Directors, one director of VSA(HK) and other 56 employees of the Group.

The main purpose of the Share Option Scheme is to enable the Group to grant Options to the eligible participants as incentives or rewards for their contribution to past and future performances of the Group. In appreciation of their efforts and support and/or as incentives for their continual support for the Group, it was recommended that share options be granted to the Grantees under the Share Option Scheme, to subscribe for ordinary shares at an exercise price of $0.18 ("Exercise Price") per share. The share options have a term of three years commencing from 1 August 2010 and shall vest (if applicable) and become exercisable in three tranches in the proportion of approximately 30%, 30% and 40% on 1 August 2010, 1 August 2011 and 1 August 2012 respectively.

24 APPROVAL OF THE INTERIM FINANCIAL REPORT

The interim financial report was approved by the Board on 27 March 2010.

Management Discussion and Analysis of Results of Operations

OVERVIEW

The Group continued to operate under very challenging business condition for the six months ended 31 January 2010. With signs of general improvement in global economy outlook in the six months ended 31 January 2010, overall demand from customers have increased as compared to the second half of the previous financial year.

FINANCIAL REVIEW

During the period under review, the Group recorded a turnover HK$784.46 million, representing an increase of HK$78.34 million or 11.09% as compared to HK$706.12 million in the corresponding period. Despite recorded higher turnover, gross profit slid from HK$80.59 million to HK$79.98 million, representing a decrease of 0.75%, mainly due to product mix and higher labour cost for the six months ended 31 January 2010. Loss attributable to equity shareholders improved substantially and recorded at a loss of HK$5.53 million as compared to loss of HK$14.38 million in the corresponding period mainly due to lower administration expenses and finance costs coupled with positive contribution from the investment in our associates in Vietnam.

Plastic Injection and moulding business

During the period under review, plastic injection and moulding segment remained the Group's core business and contributed to 59.01% of the Group's turnover. The turnover for this segment reduced to HK$462.90 million as compared to HK$523.72 million in the corresponding period, representing a decrease of HK$60.82 million or 11.61% mainly attributable to significant reduction in the sales to one of Group's major customers.

Assembling of electronic products business

As a result of the Group's strategy to focus on assembling of box-built electronics products since second half of 2009, turnover for assembling of electronics products business has increased to HK$282.15 million as compared to HK$110.21 million in the corresponding period, representing an increase of HK$171.94 million or 156.01%.

Moving forward the Group will continue to intensify its marketing efforts and to broaden its customer base by providing more value-added assembly services to the customers.

Mould design and fabrication business

Continued to be affected from the impact of global economy downturn since 2009, customers have reduced and slowed down the development of new models which directly related to the turnover of the mould design and fabrication segment. As a result, this segment recorded a turnover of HK$39.40 million, a significant drop of HK$32.79 million or 45.42% as compared to HK$72.19 million in the corresponding period.

Distribution costs and administrative expenses

During the period under review, distribution costs amounted to HK$26.16 million, representing an increase of HK$7.88 million or 43.11% as compared to HK$18.28 million in the corresponding period. The increase was primarily due to higher packaging and transportation cost incurred on certain products delivered to one of the major overseas customers. The reduction in administrative expenses was primarily due to the inclusion of one-off termination benefits payments with relation to the closure of a production plant in Shenzhen in the corresponding period.

Other net loss/income

During the period under review, the Group incurred other net loss of HK$5.49 million (2009: HK$6.22 million), which comprised mainly net loss on foreign exchange of HK$2.92 million, net loss on disposal of fixed assets of HK$1.97 million and provision of impairment losses in acquisition deposits of HK$5.21 million which was offset by interest and rental income of HK$3.64 million.

Finance costs

The finance costs reduced to HK$15.82 million as compared to HK$23.94 million in the corresponding period mainly due to lower interest rate on bank borrowing for the period under review.

Share of profits less losses of associates

The Group's share of profit less losses of associates increased to HK$1.94 million as compared to HK$0.07 million in the corresponding period mainly due to higher share of profit contribution from its associate in Vietnam.

Future Prospects

Notwithstanding the general improvement in global economic outlook, the Group expects business conditions remain challenging for the second half of the financial year. In addition to uneven pace of economy recovery, pricing pressure as well as rising labour cost will put a squeeze on the profit margin of the Group. In attempt to mitigate some of the adverse impact resulting from these challenges, the Group has undertaken some operation reorganisation in order to increase efficiency and productivity. The management is confident that through stringent cost control and head count management, impacts on high running costs could be minimised.

LIQUIDITY AND FINANCIAL RESOURCES

During the period 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 January 2010, the Group had cash and bank deposits as stated at HK$176.64 million (31 July 2009: HK$151.05 million), of which HK$50.95 million (31 July 2009: HK$47.25 million) was pledged to the banks for the facilities granted to the Group. The cash and bank deposits were denominated in the currencies of United States dollars ("**USD**") 58.18%, Renminbi ("**RMB**") 39.79%, and Hong Kong dollars ("**HKD**") 2.03%.

As at 31 January 2010, the Group had outstanding interest-bearing borrowings of HK$723.25 million (31 July 2009: HK$681.21 million), mainly consisting of bank borrowings of HK$687.01 million (31 July 2009: HK$641.80 million), obligations under finance lease of HK$21.61 million (31 July 2009: HK$22.38 million) and a loan from a substantial shareholder of HK$14.63 million (31 July 2009: HK$17.03 million). The total borrowings were denominated in RMB 22.91%, USD 33.38%, and HKD 43.71%, and the maturity profile is as follows:

	As at 31 January 2010		As at 31 July 2009	
Repayable	HK$ million	%	HK$ million	%
Within one year	365.67	50.56	350.41	51.44
After one year but within two years	66.85	9.24	38.81	5.70
After two years but within five years	290.73	40.20	291.99	42.86
Total bank borrowings	723.25	100.00	681.21	100.00
Cash and bank deposits	(176.64)		(151.05)	
Net borrowings	546.61		530.16	

As at 31 January 2010, the Group's net current liabilities were at HK$77.07 million (31 July 2009: HK$99.36 million). As at date of this report, the Group has undrawn bank facilities of HK$99.32 million for working capital purposes. The Board is confident that the Group has sufficient operational cash flow to support its working capital requirements.

CHARGES ON ASSETS

As at 31 January 2010, certain assets of the Group with aggregate carrying value of HK$432.41 million (31 July 2009: HK$438.79 million) were pledged to secure loan and trade financing facilities for the Group.

Other Information

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign currency risk primarily through sales, purchases and borrowings that are denominated in a currency other than the functional currency of the operations to which they relates. The currencies giving rise to the risk were primarily HKD, USD, Japanese Yen ("JPY") and RMB. During the period under review, the Group incurred a net loss on foreign exchange of HK$2.92 million mainly due to appreciation of JPY against HKD.

As at 31 January 2010, the Group did not have any outstanding foreign exchange contract.

EMPLOYEES AND REMUNERATION POLICY

As at 31 January 2010, the Group had a total of 7,411 employees (31 July 2009: 6,553). During the period under review, the Group did not make significant changes to the Group's remuneration policies for its employees.

Employees' cost to the Group (excluding Directors' remuneration) for the period under review amounted to HK$122.35 million (2009: HK$109.98 million). The Group's remuneration package is updated on an annual basis and appropriate adjustments are made with reference to prevailing conditions of the human resource market and the general outlook of the economy. Furthermore, the Group's employees are rewarded in tandem with their performance and experience. The Group has recognised the need for the improvement of employees' technical knowledge, welfare and wellbeing, so as to attract and retain quality and dedicated employees towards 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 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.

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

During the six months 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 Audit Committee has reviewed the Group's interim financial report for the six months ended 31 January 2010 and is of the opinion that such statements comply with the applicable accounting standards, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the requirements of applicable laws, codes and regulations and that adequate disclosure pursuant thereto has been made.

DIRECTOR'S INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 January 2010, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance ("SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have taken under such provisions of the SFO) or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules ("Model Code"), to be notified to the Company and the Stock Exchange were as follows:

Name of Director (Note 1)	The Company/name of associated corporation	Capacity	Number and class of shares (Note 2)	Approximate percentage of interest
Beh Kim Ling	The Company	Beneficial owner	39,200,775 Shares (L)	4.52%
	V.S. Corporation (Hong Kong) Co., Limited ("VSHK")	Beneficial owner	3,750,000 non-voting deferred shares of HK$1 each (L)	5.00%
	V.S. Investment Holdings Limited ("VS Investment")	Beneficial owner	5 ordinary shares of HK$1 each (L)	–
Gan Sem Yam	The Company	Beneficial owner	17,437,500 Shares (L)	2.01%
	VSHK	Beneficial owner	3,750,000 non-voting deferred shares of HK$1 each (L)	5.00%
	VS Investment	Beneficial owner	5 ordinary shares of HK$1 each (L)	–

DIRECTOR'S INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (CONTINUED)

Name of Director (Note 1)	The Company/name of associated corporation	Capacity	Number and class of shares (Note 2)	Approximate percentage of interest
Gan Chu Cheng	The Company	Beneficial owner	31,000,775 Shares (L)	3.58%
	VSHK	Beneficial owner	3,750,000 non-voting deferred shares of HK$1 each (L)	5.00%
	VS Investment	Beneficial owner	5 ordinary shares of HK$1 each (L)	–
Zhang Pei Yu	The Company	Beneficial owner	2,000 Shares (L)	0.00%
Yeoh Ek Boon	The Company	Beneficial owner	3,852,000 Shares (L)	0.44%
Gan Tiong Sia	The Company	Beneficial owner	25,400,775 Shares (L)	2.93%
	VSHK	Beneficial owner	3,750,000 non-voting deferred shares of HK$1 each (L)	5.00%
Diong Tai Pew	The Company	Beneficial owner	500,000 Shares (L)	0.06%
Chueng Kwan Hung, Anthony	The Company	Beneficial owner	500,000 Shares (L)	0.06%

Notes:

1. Mr. Beh Kim Ling is the husband of Madam Gan Chu Cheng, and the brother-in-law of Messrs. Gan Sem Yam and Gan Tiong Sia. Madam Gan Chu Cheng is the sister of Messrs. Gan Sem Yam and Gan Tiong Sia.

2. The letter "L" represents the Director's long position interest in the shares of the Company or its associated corporations.

DIRECTOR'S INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (CONTINUED)

Save as disclosed above, none of the Directors and chief executive of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the the six months ended 31 January 2010 was the Company, any of its subsidiaries or fellow subsidiaries was a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the related party transactions as disclosed in note 21 to the interim financial report, no contract of significance to which the Company, any of its subsidiaries or fellow subsidiaries was a party, in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the period under review or at any time during the period under review.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 January 2010, the following persons, other than a Director or chief executive of the Company, had an interest or a short position in the Shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	Number of Shares held (Note 1)	Nature of interest/capacity	Approximate percentage of Interest
V.S. Industry Berhad	371,996,900 (L)	Beneficial owner	42.91%
Inabata Sangyo (HK) Limited	82,000,000 (L)	Beneficial owner	9.46%

Note:

1. The letter "L" represents the shareholder's long position interest in the Shares.

Other Information

SHARE OPTION SCHEME

There are no outstanding share options as at 31 January 2010.

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 six months 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.

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.

COMPLIANCE WITH APPENDIX 10 TO THE LISTING RULES

The Company has adopted a securities dealing code ("SD Code") regarding the dealings of the Directors and members of the senior management of the Group in securities of the Company, on terms no less exacting than the required standard under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

The Company, having made specific enquiry on all Directors, is not aware of any non-compliance by any Director during the period under review with the SD Code and Appendix 10 to the Listing Rules throughout the six months period ended 31 January 2010.

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

Macau, the PRC
27 March 2010

Review report to the board of directors of V.S. International Group Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 6 to 47, which comprises the consolidated balance sheet of V.S. International Group Limited and its subsidiaries as of 31 January 2010, the related consolidated income statement, statement of comprehensive income and statement of changes in equity and condensed consolidated statement of cash flows for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *"Interim financial reporting"*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *"Review of interim financial information performed by the independent auditor of the entity"*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 31 January 2010 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *"Interim financial reporting"*.

EMPHASIS OF MATTER

Without qualifying our conclusion, we draw attention to note 1 to the interim financial report which describes that as at 31 January 2010, the Group's current liabilities exceeded its current assets by HK$77,069,000 and the Group incurred a loss of HK$5,084,000 for the period ended 31 January 2010. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. As explained in note 1 to the interim financial report, the interim financial report has been prepared on a going concern basis, the validity of which depends upon the Group's ability to renew its current bank loans upon expiry or secure adequate banking facilities to enable the Group to continue to operate as a going concern and to meet its financial obligations as and when they fall due for the foreseeable future. The interim financial report does not include any adjustments that would result from the failure to renew or obtain such banking facilities.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
27 March 2010