# 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)

Annual Report **2010/11**

# Contents

# Corporate Profile

V.S. International Group Limited ("Company") and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacturing and sales of plastic moulded products and parts, assembling of electronic products and moulds design and fabrication.

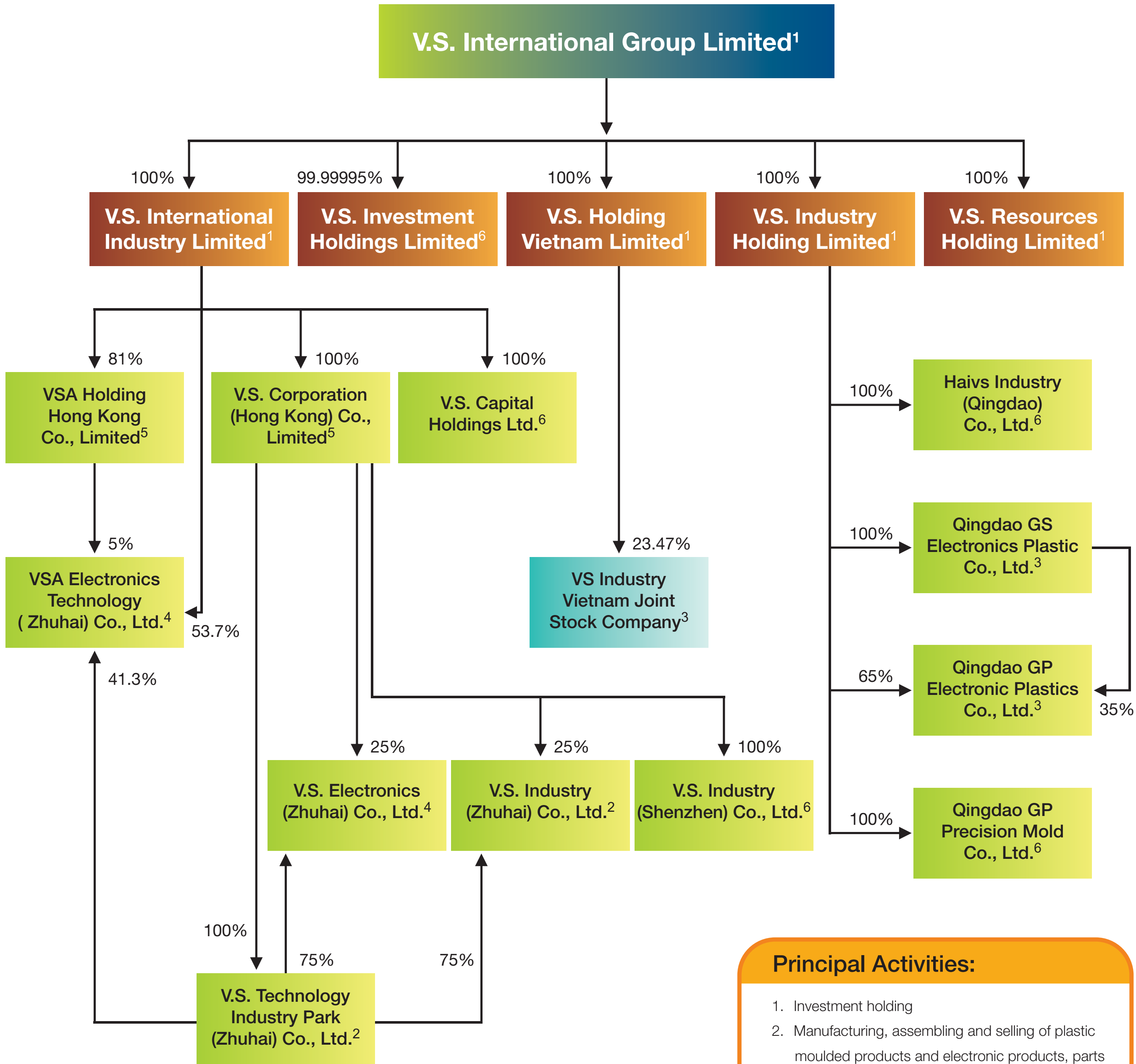
The Group commenced its business in 1997 in Shenzhen, the People's Republic of China ("PRC") and was listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") in February 2002.

Currently, the Group has two main production facilities in the PRC, located at Zhuhai and Qingdao. In view of the opportunities, the Group has ventured into Vietnam seizing the moment to emerge as one of the major plastic moulded products suppliers across the region.

The Group has continued to excel its competitive edge by extensively promoting its services as an integrated manufacturing provider and one-stop customer solution services provider. The Group also devotes efforts in achieving its ultimate goal of becoming a leading integrated electronics manufacturing service ("EMS") provider in the PRC.

# Corporate Structure

*As of 24 September 2011*




## Principal Activities:

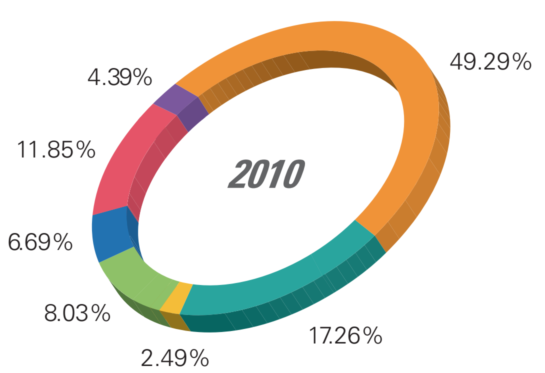
1. Investment holding
2. Manufacturing, assembling and selling of plastic moulded products and electronic products, parts and components
3. Manufacturing and selling of plastic moulded products and parts
4. Assembling and selling of electronic products, parts and components
5. Trading of electronic products, parts and components
6. Dormant

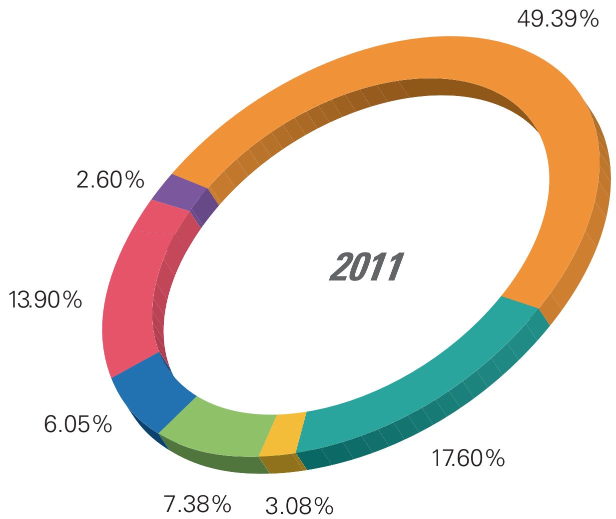
# Financial Highlights

| Key Financial Data | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total equity | **471,206** | 457,619 | 464,321 | 534,845 | 460,431 |
| Total assets | **1,728,365** | 1,749,527 | 1,516,031 | 1,553,100 | 1,500,463 |
| Net borrowings | **540,490** | 590,750 | 530,158 | 524,010 | 558,696 |
| Capital expenditure | **26,996** | 72,230 | 157,137 | 63,698 | 100,629 |
| Gearing ratio (net)(%) | **31.27%** | 33.77% | 34.97% | 33.74% | 37.23% |
| Finance costs over turnover (%) | **2.44%** | 2.28% | 3.95% | 3.47% | 3.68% |
| Inventory turnover days | **60** | 62 | 48 | 48 | 54 |
| Trade and bills receivable turnover days | **83** | 96 | 75 | 74 | 62 |
| Trade and bills payable turnover days | **79** | 89 | 68 | 68 | 60 |

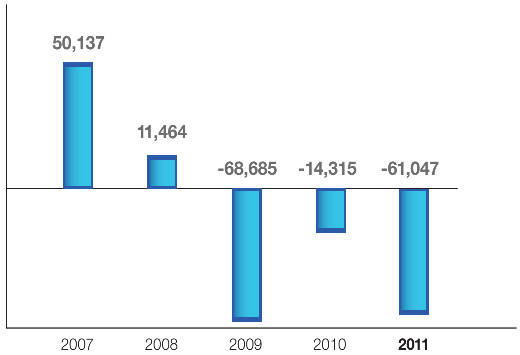
## Sales Breakdown by Geographical Locations

- PRC (other than Taiwan and Hong Kong)
- Hong Kong
- South East Asia
- Northern Asia
- Europe
- United States of America
- South Africa

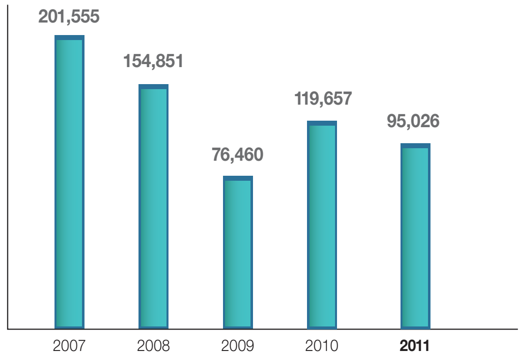


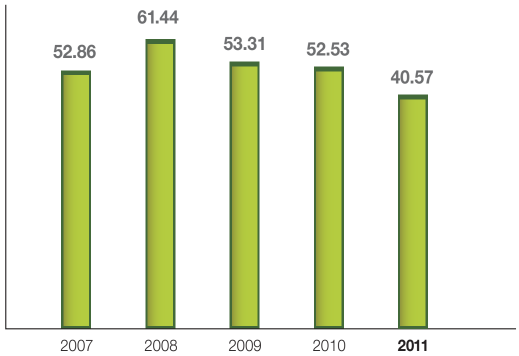
### (Loss)/Profit Attributable to Equity Shareholders (HK$'000)



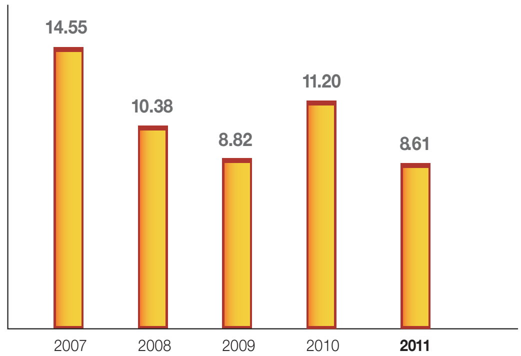

### EBITDA (HK$'000)
(Earnings before interest, tax, depreciation and amortisation)




### Net Tangible Assets Per Share (HK cents)




### Gross Profit Margin (%)




### Sales Breakdown by Business Segments

(HK$'000)


| (HK$'000) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Plastic injection and moulding | 952,473 | 876,036 | 801,290 | 981,289 | 1,131,878 |
| Assembling of electronic products | 578,528 | 531,373 | 254,947 | 211,949 | 225,506 |
| Mould design and fabrication | 98,533 | 89,479 | 142,592 | 180,985 | 137,907 |

# Chairman's Statement

**Dear Shareholders**

On behalf of the board ("Board") of directors ("Directors"), I hereby present the Company's annual report ("Annual Report") together with the consolidated financial statements of the Group for the financial year ended 31 July 2011.

## BUSINESS REVIEW

The year 2011 remains a year full of turbulences and challenges. In the first half, the Group registered a turnover of HK$867.91 million and recorded a gross profit of 87.10 million, an increase of 10.64% and improvement of 0.75% as compared to turnover of HK$784.46 million and gross profit of 79.98 million in the preceding period. In the second half, despite recorded a turnover of HK$761.62 million as compared to HK$712.43 million in the preceding period, gross profit deteriorated from HK$87.68 million to HK$53.23 million mainly due to rising products cost especially the cost of raw materials and wages.

During the year, the Group's main focus was also on reducing gearing ratio to a more sustainable level by divesting some non-core business couple with stringent control over capital expenditure.

## FINANCIAL HIGHLIGHTS

The Group's turnover for the financial year under review was HK$1,629.53 million as compared to HK$1,496.89 million in the previous financial year, representing an increase of 8.86%. Despite the increase in turnover, the Group's gross profit margin deteriorated from 11.20% to 8.61%, while the Group's gross profit decreased from HK$167.66 million to HK$140.33 million during the financial year under review. Loss attributable to equity shareholders increased significantly to HK$61.05 million as compared to the loss of HK$14.32 million in the previous year.

## DIVIDENDS

The Board does not recommend any payment of dividend for the financial year ended 31 July 2011 (2010: HK$ nil) at the forthcoming annual general meeting of the Company.

## CORPORATE DEVELOPMENT

On 22 December 2010, the Directors announced that the Company intended to raise not less than HK$34.67 million, before expenses, by issuing by way of rights not less than 288,992,000 shares of the Company ("Rights Shares") at the subscription price of HK$0.12 per Rights Share on the basis of one Rights Share for every three existing shares held with bonus warrants ("Bonus Warrants") on the basis of one warrant for every two Rights Shares ("Rights Issue"). The Bonus Warrants have a term of three years commencing from 16 March 2011 to 15 March 2014 and will entitle the holders to subscribe for new shares of the Company ("Shares") at the subscription price of HK$0.12 per Share upon exercise of the Bonus Warrants. The Rights Issue and Bonus Warrants exercise were completed in March 2011.

On 11 March 2011, the Company entered into a provisional agreement with an independent third party, for the sale of an office premises by the Company to that independent third party at the price of HK$22 million. The sale was completed on 31 May 2011 and the Group recorded a gain of approximately HK$15.72 million from the disposal of the Property.

## FUTURE PROSPECTS AND CHALLENGES

Uncertainty in global economy recovery, appreciation of RMB against USD, pricing pressure and continued rising labour cost put some pressure on the profit margin of the Group. Despite all the challenges, the group anticipates sales of plastic injection and assembly of electronics products will continue to sustain through new products development from existing and new customers.

In the light of these challenges, the Group will continue its effort to improve production efficiency and increase productivity to mitigate the impacts of rising cost and wages. The management is confident that through stringent cost control and head count management, the impacts of high running cost can be minimised.

## ACKNOWLEDGEMENT AND APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation and gratitude to our shareholders, bankers, customers, suppliers, business associates and regulatory authorities for their confidence and continuous support to the Group. I also wish to take this opportunity to thank my fellow directors, the management team, staff and employees for their full commitment, loyalty and dedication to the Group, which enabled us to overcome yet another difficult year.

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

# Management Discussion and Analysis of Results of Operations

## INDUSTRY OVERVIEW

Despite the improvement in the Group's turnover for the financial year under review, rising raw material prices and employment cost affected the performance of the Group for the year ended 31 July 2011.

## FINANCIAL REVIEW

### Turnover, Gross Profit and Segments Results

During the year under review, the Group recorded a turnover of HK$1,629.53 million, representing an increase of HK$132.64 million or 8.86% from HK$1,496.89 million in the previous year, primarily due to the increase in turnover of plastic injection and moulding business segment and assembling of electronic products business segment. The major contributor of the Group's turnover was still its plastic injection and moulding division which accounted for 58.45% (2010: 58.52%) of the turnover, with the rest contributed by assembling of electronics products and mould design and fabrication divisions which accounted for 35.50% (2010: 35.50%) and 6.05% (2010: 5.98%) of the turnover respectively.

Gross profit for the financial year under review reduced to HK$140.33 million, representing a decrease of HK$27.33 million as compared to HK$167.66 million in the previous year. The decrease in gross profit was mainly attributable to the increase in raw materials consumed which accounted for 60.39% of turnover as compared to 57.30% in previous year.

*Plastic Injection and Moulding*

During the financial year under review, the Group's plastic injection and moulding division recorded an increase of 8.72% in turnover from HK$876.04 million in previous year to HK$952.47 million. Gross profit margin of this segment deteriorated from 4.80% to 2.90% in the financial year under review.

By geographical location, Zhuhai's operation was still the main contributor and contributed a turnover of HK$575.77 million as compared to HK$559.89 million in previous year. Meanwhile Qingdao's operation recorded a turnover of HK$376.71 million, an increase of 19.08% as compared to HK$316.34 million in previous year.

*Assembling of Electronic Products*

Since the last financial year, the assembling of electronic products business has shown a continued growth and recorded a turnover of HK$578.53 million, representing an increase of HK$47.16 million or 8.88% from HK$531.37 million in previous year. However, gross profit margin of this segment deteriorated from 6.96% to 5.00% in the financial year under review, mainly due to higher raw material consumption.

*Mould Design and Fabrication*

Despite the increase in sales of other business segments, mould design and fabrication business recorded a turnover of HK$98.53 million as compared to HK$89.48 million in previous year, representing an increase of HK$9.05 million or 10.11%.

Other Net Income/(Loss)

During the financial year under review, the Group recorded other net income of HK$28.30 million (2010: other net loss of HK$2.37 million), which comprised mainly net gain on foreign exchange of HK$7.11 million, net gain on disposal of fixed assets of HK$14.21 million and reversal of provision of impairment losses in acquisition deposits of HK$4.75 million and interest and rental income of HK$1.90 million.

Distribution Costs and Administrative Expenses

Distribution costs and administration expenses amounted to HK$171.64 million, representing an increase of HK$25.47 million or 17.42% as compared to HK$146.17 million in the previous year. The increase was primarily due to increase in employees cost of HK$16.65 million and provision of doubtful debts of HK$8.56 million during the year under review.

Finance Costs

Despite lower total interest bearing borrowings of HK$716.55 million as compared to HK$762.22 million in the previous year, the finance costs were higher by 16.54% to HK$39.81 million (2010: HK$34.16 million) mainly due to higher financing cost for the year under review.

Share of Profits less losses of Associates

The Group's share of profits less losses of associates decreased to HK$3.78 million as compared to HK$4.74 million in previous year. The decrease was mainly due to lower share of profit contribution from the associate in Vietnam.

## LIQUIDITY AND FINANCIAL RESOURCES

During the financial year under review, the Group financed its operations and investing activities mainly by internally generated cash flow and banking facilities in Hong Kong and the PRC. As at 31 July 2011, the Group had cash and bank deposits as stated at HK$176.07 million (2010: HK$171.47 million), of which HK$60.61 million (2010: HK$74.42 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 dollar ("USD") 37.28%, Renminbi ("RMB") 62.43%, and Hong Kong dollars ("HKD") 0.29%.

As at 31 July 2011, the Group had outstanding interest-bearing borrowings of HK$716.55 million (2010: HK$762.22 million), mainly consisting of bank borrowings of HK$703.70 million (2010: HK$734.05 million), obligations under finance lease of HK$7.96 million (2010: HK$16.75 million) and a loan from a substantial shareholder of HK$4.89 million (2010: HK$11.42 million). The total borrowings were denominated in RMB 24.09%, USD 37.56%, and HKD 38.35%, and the maturity profile is as follows:

| | **As at 31 July 2011** | | As at 31 July 2010 | |
|---|---|---|---|---|
| **Repayable** | ***HK$ million*** | % | *HK$ million* | % |
| Within one year | **467.74** | 65.28 | 428.02 | 56.15 |
| After one year but within two years | **248.81** | 34.72 | 83.58 | 10.97 |
| After two years but within five years | **–** | 0.00 | 250.62 | 32.88 |
| Total borrowings | **716.55** | 100.00 | 762.22 | 100.00 |
| Cash and bank deposits | **(176.07)** | | (171.47) | |
| Net borrowings | **540.48** | | 590.75 | |

The total net interest bearing borrowings of the Group posted at HK$540.48 million representing 31.27% (2010: 33.77%) of total assets and 114.70% (2010: 129.09%) of total shareholders' funds respectively.

As at 31 July 2011, the Group's net current liabilities deteriorated by HK$40.32 million to HK$115.77 million (2010: HK$75.45 million). As at 31 July 2011, the Group has undrawn bank facilities of HK$243.91 million for working capital purposes. The Board is confident that the Group has sufficient operational cash flow to support its working capital requirements.

## CAPITAL STRUCTURE

As at 31 July 2011, the Group's shareholders' funds stood at HK$471.21 million (2010: HK$457.62 million), an increase of 2.97% mainly due to the cash of HK$32.65 million raised from the Group's Rights Issue during the financial year under review and the increase in exchange fluctuation reserve of HK$39.50 million which was offset against net loss of HK$61.16 million incurred for the year. Total assets of the Group amounted to HK$1,728.37 million (2010: HK$1,749.53 million), 46.75% of which were fixed assets (2010: 48.87%).

## COMMITMENTS AND CONTINGENT LIABILITY

As at 31 July 2011, the Group's capital commitments were HK$ 0.61 million (2010: HK$ nil); while the operating lease commitment was HK$0.46 million (2010: HK$0.52 million). The Group did not have material contingent liabilities as at 31 July 2011.

## FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign currency risk primarily through sales, purchases and borrowings that are denominated other than the functional currency of the operations to which they relate. The currencies giving rise to the risk were primarily HKD, USD, RMB and Japanese Yen ("JPY").

During the financial year under review, the Group incurred net exchange gain of HK$7.11 million (2010: net exchange losses of HK$2.51 million) mainly due to realised gain on forward exchange contracts of HK$4.04 million, unrealised foreign exchange gain of HK$1.68 million and unrealised forward exchange contract of HK$1.39 million. The management will continue to monitor the foreign currency risk exposure to ensure that it kept at an acceptable level.

As HKD is pegged to the USD, the Group does not expect any significant currency risk of HKD position. Some of the Group's sales transactions are denominated in USD. In view of the appreciation of RMB against USD during the year ended 31 July 2011, the Group was exposed to foreign currency risk in respect of certain trade receivables denominated in USD.

As at 31 July 2011, the notional amounts of the outstanding forward exchange contracts were USD44.80 million (2010: USD nil). The management will continue to monitor the foreign currency risk exposure and to ensure that it is kept at an acceptable level.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 July 2011, the Group had a total of 7,932 employees (2010: 8,211). During the year under review, the Group did not make any significant changes to the Group's remuneration policies.

Employees' cost to the Group (excluding Directors' remuneration and equity settled share-based payment expenses) for the financial year under review amounted to HK$311.01 million (2010: HK$261.27 million). The increase in employees' cost was mainly due to the rise in remuneration as a result of increase in minimum wages imposed by the local authorities of the PRC. The Group's remuneration package is updated on annual basis and appropriate adjustments are made with reference to prevailing conditions of the human resource market and the general outlook of the economy. Furthermore, the Group's employees are rewarded in tandem with their performance and experience. The Group has recognised that it is essential to improve employees' technical knowledge, welfare and wellbeing, so as to attract and retain quality staff dedicated towards supporting the future growth of the Group.

The Group has adopted a provident fund scheme for its employees in Hong Kong in accordance with the Mandatory Provident Fund Schemes Ordinance; in addition, it contributes to the government pension scheme for its employees in the PRC, which is also required by the relevant authorities.

As a public listed entity, the Group implements a share option scheme to provide incentives to eligible employees to participate in the Company's success.

# Directors and Senior Management Profile

## EXECUTIVE DIRECTORS

**Mr. BEH Kim Ling**, aged 53, is the chairman of the Company. Mr. Beh started his career in 1976 as a plastic moulding technician in Singapore. Three years later, Mr. Beh established VS Industry Pte Ltd. which was principally involved in the manufacturing of cassettes and video tapes parts in Singapore. In 1982, Mr. Beh, together with his wife, relocated the entire business operations of VS Industry Pte Ltd. from Singapore to Johor Bahru, Malaysia and set up V.S. Industry Berhad ("VS Berhad") in Johor Bahru, Malaysia. Mr. Beh is the executive chairman of VS Berhad since then. With the vast experience in the plastic moulding injection business gained in Singapore and Malaysia, Mr. Beh founded the Group's business in the PRC in 1997. Mr. Beh has been appointed as an executive Director since 5 November 2001.

Mr. Beh received Honorary Doctorate from the Honolulu University in Hawaii, the United States of America in November 2003. Currently, Mr. Beh focuses mainly on business development and formulation of the overall business strategy of the Group.

Mr. Beh is the husband of Madam Gan Chu Cheng and the brother-in-law of Mr. Gan Sem Yam and Mr. Gan Tiong Sia.

**Mr. GAN Sem Yam**, aged 55, is the managing Director. After completing his secondary education in 1975, Mr. Gan joined one of the shipyards in Singapore as an electrician. Mr. Gan joined VS Berhad in 1982 and was promoted to general manager and director of VS Berhad in February 1988. Mr. Gan has been appointed as an executive Director since 16 July 2001.

Mr. Gan is mainly responsible for the operations and daily management of the Group.

Mr. Gan is the brother of Madam Gan Chu Cheng and Mr. Gan Tiong Sia, and the brother-in-law of Mr. Beh Kim Ling.

**Madam GAN Chu Cheng**, aged 57, is the finance Director. Madam Gan, together with her husband, Mr. Beh Kim Ling, established VS Berhad in 1982. Madam Gan has accumulated more than 20 years experience in the plastic injection and moulding business. Madam Gan has been appointed as an executive Director since 5 November 2001 and she is an executive director of VS Berhad. Madam Gan has headed several departments including production planning, procurement and finance departments in both VS Berhad and the Group.

At present, Madam Gan is mainly responsible for the financial management of the Group.

Madam Gan is the wife of Mr. Beh Kim Ling and the sister of Mr. Gan Sem Yam and Mr. Gan Tiong Sia.

**Mr. ZHANG Pei Yu**, aged 73, has been with the Group since October 2000 and has been appointed as an executive Director since 5 November 2001. Prior to joining the Group, Mr. Zhang held various managerial positions with a number of large state-owned enterprises and government bureau in the PRC, including Shenyang Auto Mobile Manufacturing Factory, Shenyang Light Industry Bureau, Planning Economy Committee of Shenyang and Shenyang Jinbei Company. Mr. Zhang has gained substantial experience in corporate management and business development in the PRC.

Mr. Zhang is principally responsible for the corporate affairs of the Group in the PRC.

**Mr. YEOH Ek Boon**, aged 48, has been appointed as an executive Director since 21 January 2010 and is principally responsible for the strategic management of the Group. Mr. Yeoh graduated from National University of Malaysia with a Bachelor degree of Science (Hons) in 1987. Mr. Yeoh has been a Certified Quality Engineer and Certified Quality Auditor of American Society for Quality since 1990 and 1992 respectively. He also obtained a Master degree in Business Administration from Edinburgh School of Business, Heriot-Watt University in Edinburgh in 1995. Prior to joining the Group, Mr. Yeoh has gained more than 22 years' experience in manufacturing and operations in electronics manufacturing services ("EMS") industry, of which more than eight years' experiences were gained in China including holding a senior management position in Asia Pacific region in a world leading EMS company.

## NON-EXECUTIVE DIRECTORS

**Mr. GAN Tiong Sia**, aged 51, has been a member of the Board since 5 November 2001. After graduation from secondary school, Mr. Gan joined VS Berhad as a management trainee. Mr. Gan was subsequently promoted as the marketing manager of VS Berhad in 1986 and became a director of VS Berhad in February 1988.

Mr. Gan is the brother of Madam Gan Chu Cheng and Mr. Gan Sem Yam, and the brother-in-law of Mr. Beh Kim Ling.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. DIONG Tai Pew**, aged 60, was appointed as the independent non-executive Director on 31 August 2002. Mr. Diong graduated with a Diploma in Commerce from Tunku Abdul Rahman College, Malaysia in 1976. Mr. Diong is a fellow member of The Chartered Association of Certified Accountants in the United Kingdom and Malaysian Institute of Taxation in Malaysia. Mr. Diong is also a member of Malaysian Institute of Accountants and the Institute of Certified Public Accountants of Singapore.

Mr. Diong is a practicing accountant and has more than 30 years of experience in audit and investigation work, taxation, merger and acquisition as well as business development. Mr. Diong is the founder partner of UHY Diong, an accounting and consulting group in Singapore and Malaysia. Mr. Diong is also an independent non-executive director and chairman of the audit committee of both SIG Gases Berhad, a company listed on the main market of Bursa Malaysia, and Hengyang Petrochemical Logistics Limited, a company listed on the Catalist of the Singapore Exchange.

**Mr. LEE Soo Gee**, aged 50, started his career with American International Assurance Bhd ("AIA") in 1982 and resigned from his last office as sales agency director of AIA in 2002. He was a director of Malaysian AE Models Holding Berhad from 1999 to 2002, a company listed on the main market of Bursa Malaysia. Mr. Lee subsequently ventured into his own business and is currently the chairman of Imax Health Food Sdn Bhd.

Mr. Lee is an active committee member in Malaysia. He was previously an adviser to the National Civil Volunteer Force in Malaysia and is currently a vice chairman of both (i) the Malaysia-Guangdong Chamber of Investment Promotion and (ii) Malaysian Chamber of Commerce in China-Guangdong. In recognition of his contribution in Malaysia, Mr. Lee was appointed as a Justice of Peace by Sultan of the state of Kelantan in Malaysia in 2009 and was conferred the title "Datuk" by the Governor of the state of Malacca in Malaysia in 2010.

Mr. Lee has been appointed as an independent non-executive Director, the chairman of Remuneration Committee and a member of the Audit Committee with effect from 28 January 2011.

**Mr. TANG Sim Cheow**, aged 52, was appointed as an independent non-executive Director on 30 September 2004. Mr. Tang graduated from the University of Malaya with a Bachelor of Accounting degree in 1984. He is a member of the Malaysian Institute of Accountants and Malaysian Institute of Certified Public Accountants, and a fellow member of the Chartered Tax Institute of Malaysia. Mr. Tang joined KPMG Kuala Lumpur upon graduation and was promoted to tax manager in 1988. In 1992, Mr. Tang was seconded to KPMG Johor Bahru to head the tax practice of the Johor Bahru Branch and was promoted to tax director in 1995. Since 2000, Mr. Tang operates his own accounting firm S C Tang & Associates, in Malaysia which provides assurance, tax and consultancy services.

Mr. Tang is currently an independent non-executive director of VS Berhad, a substantial shareholder of the Company which is listed on the main market of Bursa Malaysia.

## SENIOR MANAGEMENT OF THE GROUP

**Mr. LUI Chong Huat**, aged 42, is the business unit director of V.S. Technology Industry Park (Zhuhai) Co., Ltd. (" VS Zhuhai"), V.S. Industry (Zhuhai) Co., Ltd. ("VSI (Zhuhai)", VSE Electronics (Zhuhai) Co., Ltd. ("VSE (Zhuhai)") and VSA Electronics Technology (Zhuhai) Co., Ltd ("VSA (Zhuhai)") (collectively, "VS Zhuhai Campus"). Mr. Lui joined the Group in August 1997 and held senior positions as senior quality control manager, ISO management representative and senior production manager. Mr. Lui has gained over 15 years experience in the plastic injection, assembling of electronic products, tooling fabrication and moulding business. Mr. Lui has attended various management training courses and programmes on quality management control.

**Mr. LO Boon Wah**, aged 42, is the general manager of Haivs Industry (Qingdao) Co., Ltd. ("Haivs Qingdao"), Qingdao GS Electronics Plastic Co., Ltd. ("Qingdao GS") and Qingdao GP Electronic Plastics Co., Ltd. ("Qingdao GPI"). Mr. Lo, who joined the Group in July 2001, holds a Bachelor of Business Administration degree from the University of Utara Malaysia in Malaysia and has over 10 years experience in the management and administrative functions of manufacturing corporations.

**Mr. LEE Keng Eng**, aged 38, is the operation finance director of the Group. Mr. Lee joined the Group as the finance manager of Haivs Qingdao and Qingdao GS, Qingdao GPI and Qingdao GP Precision Mold Co., Ltd. since year 2004 and was promoted to the present position in April 2009. Mr. Lee has gained over 15 years of experiences in relation to accounting, financing and taxation in the PRC.

**Mr. TEA Gang Chiang**, aged 31, joined the Group as internal audit manager in June 2011. Mr. Tea holds a Bachelor Degree in Accounting and Finance from Oxford Bookes University. He is a member of both ACCA and Institute Internal Audit Malaysia. He obtained Certified Internal Auditor in February 2011. Prior to joining the Group, Mr. Tea has 3 years of external audit experience with Ernst & Young and 3 years of experience in internal audit function in a public listed company in Malaysia.

**Mr. CHONG Chin Siong**, aged 44, is the corporate finance director of the Group. Mr. Chong graduated from the University Science of Malaysia with a Bachelor of Management (majoring in finance and accounting) in year 1992. Prior to joining the Group in January 2009, Mr. Chong has gained more than 15 years experience in internal audit, corporate finance and financial management in a number of public listed companies in Malaysia.

The Company is committed to maintaining a high standard of corporate governance and endeavours in following the code provisions ("Code Provisions") of the "Code on Corporate Governance Practices" as set out in Appendix 14 to the Rules ("Listing Rules") Governing the Listing of Securities on the Stock Exchange. The Board considers such commitment is essential for the growth of the Group and for maximising the interest of the shareholders of the Company ("Shareholders"). The Company regularly reviews its corporate governance practices to ensure that the latest development in corporate governance can be followed and observed.

## CORPORATE GOVERNANCE PRACTICES

Throughout the financial year under review, the Company had complied with the Code Provisions, save for the deviations from Code Provisions A.2.1.

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. As the founder of the Group, Mr. Beh Kim Ling has extensive experience and knowledge in the core business of the Group and his duties for overseeing the Group's operations is clearly beneficial to the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group. Going forward, the Board will periodically review the effectiveness of this arrangement.

## DIRECTORS' SECURITIES TRANSACTIONS

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

The Company, has made specific enquiry of all Directors and the Directors have confirmed that they have complied with the Code and Appendix 10 to the Listing Rules throughout the financial year ended 31 July 2011.

## BOARD OF DIRECTORS

The Board is currently composed of five executive Directors namely Mr. Beh Kim Ling as the chairman, Mr. Gan Sem Yam, Madam Gan Chu Cheng, Mr. Zhang Pei Yu and Mr. Yeoh Ek Boon; one non-executive Director, Mr. Gan Tiong Sia; and three independent non-executive Directors namely Mr. Diong Tai Pew, Mr. Lee Soo Gee and Mr. Tang Sim Cheow. The biographical details of the Directors are set out under "Directors and Senior Management Profile" of this Annual Report. All Directors are subject to retirement by rotation and may offer themselves for re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

The Board meets regularly to review and determine the corporate strategies and overall strategic policies. Each of the members of the Board has full access to relevant information at the meetings. During the financial year ended 31 July 2011, the Board has convened four meetings at which, among other things, the following activities were conducted:

(1) approved the annual report for the financial year ended 31 July 2010 and matters to be considered at the 2010 annual general meeting;

(2) reviewed and approved corporate strategies of the Group for the financial year ending 31 July 2012;

(3) approved the interim results for the six months ended 31 January 2011; and

(4) approved continuing connected transactions of the Group.

Apart from the regular board meetings, the Board met on other occasions when a board-level decision on a particular matter was required.

Details of the Directors' attendance records at the board meetings during the financial year ended 31 July 2011 are as follows:

| | **Attendance** |
|---|---|
| ***Executive Directors*** | |
| Mr. Beh Kim Ling (Chairman) | 4/4 |
| Mr. Gan Sem Yam | 4/4 |
| Madam Gan Chu Cheng | 4/4 |
| Mr. Zhang Pei Yu | 4/4 |
| Mr. Yeoh Ek Boon | 4/4 |
| ***Non-executive Director*** | |
| Mr. Gan Tiong Sia | 4/4 |

| | Attendance |
|---|---|
| ***Independent non-executive Directors*** | |
| Mr. Diong Tai Pew | 4/4 |
| Mr. Cheung Kwan Hung, Anthony (resigned on 28 January 2011) | 1/4 |
| Mr. Lee Soo Gee (appointed on 28 January 2011) | 2/4 |
| Mr. Tang Sim Cheow | 4/4 |

Whilst the Board as a whole is to determine the corporate strategies and overall strategy policies, the executive Directors and senior management of the Company, as delegated by the Board, are responsible for implementing the determined strategies and policies and the day-to-day management of the Group's business.

Save as disclosed under "Directors and Senior Management Profile" of this Annual Report, there is no other relationship (whether financial, business, family or other material/relevant relationships) among the members of the Board.

The Company has received from each of the independent non-executive Directors a written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors to be independent.

## NOMINATION OF DIRECTORS

The Board has not set up a nomination committee. The nomination of new Directors has been delegated to the Chairman and other executive Directors. Their work includes reviewing regularly the need to appoint additional Directors and formulating the policy for nominating suitable candidates as additional Directors, such as candidates with appropriate professional knowledge and industry experiences. The Board will then consider the appointment of the candidates nominated by them as Directors.

## REMUNERATION COMMITTEE

The remuneration committee of the Company ("Remuneration Committee") currently comprised three members, two independent non-executive Directors, Mr. Lee Soo Gee (chairman) and Mr. Diong Tai Pew, and one executive Director, Mr. Beh Kim Ling. The Remuneration Committee was established by the Board on 14 February 2006 and its duties are clearly defined in its terms of reference which have been prepared and adopted according to the Code Provisions. The function of the Remuneration Committee is to make recommendations to the Board on the policy and structure for all remuneration of Directors and senior management.

During the financial year ended 31 July 2011, the Remuneration Committee has met twice to review and approve the remuneration structure of the Directors and senior management of the Company as well as discretionary bonus of the executive Directors for the financial year ended 31 July 2010. All Remuneration Committee members attended the meeting.

## AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") currently comprises three independent non-executive Directors, namely Mr. Diong Tai Pew (chairman), Mr. Lee Soo Gee and Mr. Tang Sim Cheow. The original terms of reference of the Audit Committee were prepared and adopted with reference to "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants. Pursuant to a resolution passed by the Board at its meeting held on 29 March 2005, a new set of terms of reference of the Audit Committee which were prepared in accordance with and with reference to the Code Provisions were adopted in replacement of the original terms of reference and the new terms of reference came into effect on 29 March 2005.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the annual and interim reports of the Company prior to their approval by the Board, the effectiveness of the external and internal audit and of internal controls and risk evaluation.

During the financial year under review, the Audit Committee has convened two meetings and conducted the following activities:

(1) reviewed the annual and interim reports of the Company;

(2) reviewed the report of internal audit department, internal controls system and financial matters of the Group in pursuance of the terms of reference;

(3) reviewed the audit findings of the external auditors of the Company;

(4) made recommendation to the Board on the re-appointment of the external auditors; and

(5) reviewed all ongoing continuing connected transactions of the Group.

Details of attendance of each member of the Audit Committee during the financial year ended 31 July 2011 are as follows:

| | **Attendance** |
|---|---|
| Mr. Diong Tai Pew | 2/2 |
| Mr. Cheung Kwan Hung, Anthony (resigned on 28 January 2011) | 1/2 |
| Mr. Lee Soo Gee (appointed on 28 January 2011) | 1/2 |
| Mr. Tang Sim Cheow | 2/2 |

There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

## AUDITORS' REMUNERATION

Details of fees paid or payable to the Group's external auditors for the year ended 31 July 2011 are as follows:

| **Services rendered** | **Fee paid/payable** |
|---|---|
| | HK$ |
| Annual audit | 1,882,000 |
| Interim review | 242,000 |
| Non-audit services | 712,000 |
| | 2,836,000 |

## RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the financial statements for each financial period which gives a true and fair view of the state of affairs of the Group. In preparing the financial statements for the financial year ended 31 July 2011, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

The statement of the external auditors about their reporting responsibilities on the financial statements are set out in the Auditors' Report to the Shareholders on pages 42 to 43 of this Annual Report.

## INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective system of internal control. During the financial year under review, the Board has reviewed the effectiveness of the internal control system of the Group through the Audit Committee. There was no significant incidence of failure in connection with the financial, operational and compliance control during the financial year ended 31 July 2011.

Subsequent to 1 January 2009, being the effective date of the amended Listing Rules, the Board has considered the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

# Report of the Directors

The Directors have pleasure in submitting their Annual Report together with the audited financial statements of the Group for the financial year ended 31 July 2011.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group is principally engaged in the manufacturing and sales of plastic moulded products and parts, assembling of electronic products and mould design and fabrication.

An analysis of the principal activities and geographical locations of the operations of the Group during the financial year is set out in note 13 to the audited financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

| | Percentage of the Group's total | |
|---|---|---|
| | **Sales** | **Purchases** |
| The largest customer | 12% | – |
| Five largest customers in aggregate | 48% | – |
| The largest supplier | – | 8% |
| Five largest suppliers in aggregate | – | 26% |

At no time during the financial year had the Directors, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

## FINANCIAL STATEMENTS

The results of the Group for the financial year ended 31 July 2011 and the state of the Company's and the Group's affairs as at 31 July 2011 are set out in the audited financial statements on pages 44 to 118.

## DIVIDENDS

The Board does not recommend the payment of a final dividend in respect of the financial year ended 31 July 2011 (2010: Nil).

## FIXED ASSETS

Details of movements in fixed assets of the Company and the Group during the financial year are set out in note 14 to the audited financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the financial year are set out in note 27 to the audited financial statements.

## RESERVES

Details of movements in the reserves of the Group is set out in the consolidated statement of changes in equity in the audited financial statements. Details of movement in the reserves of the Company's individual components of equity are set out in note 28 to the audited financial statements.

## DISTRIBUTABLE RESERVES

As at 31 July 2011, the Company's reserves available for distribution calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands amounted to HK$267,813,000 (2010: HK$240,153,000). These reserves may be distributed provided that immediately following the date on which the distribution is proposed to be made, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

## DIRECTORS

The Directors during the financial year and up to the date of this report were:–

***Executive Directors***

Beh Kim Ling
Gan Sem Yam
Gan Chu Cheng
Zhang Pei Yu
Yeoh Ek Boon

***Non-executive Director***

Gan Tiong Sia

***Independent non-executive Directors***

Diong Tai Pew
Lee Soo Gee (appointed on 28 January 2011)
Tang Sim Cheow

## DIRECTORS (CONTINUED)

In accordance with article 108(A) of the Company's articles of association, not less than one-third of the Directors for the time being should retire from office by rotation at each annual general meeting. Accordingly, Mr. Beh Kim Ling, Mr. Zhang Pei Yu and Mr. Gan Tiong Sia will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election at such meeting.

Mr. Lee Soo Gee was appointed as an independent non-executive Director on 28 January 2011. Pursuant to Art 112 of the Company's articles of association, Mr. Lee should hold office only until the forthcoming annual general meeting and, being eligible, offer himself for re-election at such meeting.

## DIRECTORS'SERVICE CONTRACTS

Each of Messrs. Beh Kim Ling, Gan Sem Yam, Zhang Pei Yu, Madam Gan Chu Cheng and Mr. Yeoh Ek Boon, being all the executive Directors, has entered into a service contract with the Company for an initial term of three years commencing from the date of appointment, and is automatically renewable for successive terms of one year upon expiry of the then current term, until terminated by not less than three months' notice in writing served by either party to the other.

Mr. Gan Tiong Sia is currently appointed as a non-executive Director and Messrs. Diong Tai Pew, Lee Soo Gee and Tang Sim Cheow are currently appointed as independent non-executive Directors. The appointments of Messrs. Gan Tiong Sia, Diong Tai Pew, Lee Soo Gee and Tang Sim Cheow are for a term of one year renewable automatically for successive terms of one year until terminated by not less than two months' notice in writing served by either party to the other.

No Director proposed for re-election at the Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

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

As at 31 July 2011, 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:

## 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 securities** (Note 2) | **Approximate percentage of interest** |
|---|---|---|---|---|
| Beh Kim Ling | The Company | Beneficial owner | 67,962,027 Shares(L) (Note 3, 6 and 7) | 5.88% |
| | 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) | Nominal |
| Gan Sem Yam | The Company | Beneficial owner | 35,737,117 Shares(L) (Note 3, 6 and 7) | 3.09% |
| | 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) | Nominal |
| Gan Chu Cheng | The Company | Beneficial owner | 97,502,038 Shares(L) (Note 3, 6 and 7) | 8.43% |
| | 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) | Nominal |

## 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 securities** (Note 2) | **Approximate percentage of interest** |
|---|---|---|---|---|
| Zhang Pei Yu | The Company | Beneficial owner | 9,162,867 Shares(L) (Note 3 and 6) | 0.79% |
| Yeoh Ek Boon | The Company | Beneficial owner | 17,185,153 Shares(L) (Note 3, 6 and 7) | 1.49% |
| Gan Tiong Sia | The Company | Beneficial owner | 36,215,074 Shares(L) (Note 4, 6 and 7) | 3.13% |
| | VSHK | Beneficial owner | 3,750,000 non voting deferred Shares of HK$1 each (L) | 5.00% |
| Diong Tai Pew | The Company | Beneficial owner | 1,413,129 Shares(L) (Note 5, 6 and 7) | 0.12% |
| Tang Sim Cheow | The Company | Beneficial owner | 639,130 Shares(L) (Note 5 and 6) | 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 and underlying shares of the Company or its associated corporations.

3. 9,160,867 of these Shares would be allotted and issued upon exercise in full of the share option granted to each of the executive Directors, namely Mr. Beh Kim Ling, Mr. Gan Sem Yam, Madam Gan Chu Cheng, Mr. Zhang Pei Yu and Mr. Yeoh Ek Boon respectively by the Company under its share option scheme, details of which are set out in note 6 below.

4. 4,473,911 of these Shares would be allotted and issued upon exercise in full of the share option granted to the non-executive Director, Mr. Gan Tiong Sia by the Company under its share option scheme, details of which are set out in note 6 below.

5. 639,130 of these Shares would be allotted and issued upon exercise in full of the share option granted to each of the Independent non-executive Directors, namely Mr. Diong Tai Pew and Mr. Tang Sim Cheow respectively by the Company under its share option scheme, details of which are set out in note 6 below.

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

Notes: (continued)

6. On 3 February 2010, share options were granted by the Company under the Share Option Scheme (as defined below) to, among other eligible participants, the Directors. All these share options, which remained outstanding as at 31 July 2011, are exercisable at a subscription price of HK$0.169 per Share during the exercise periods set out below. Details of these share options granted are as follows:–

| Name of Director | Number of Shares that would be allotted and issued | Exercise period |
|---|---|---|
| Beh Kim Ling | (i) 2,748,260<br>(ii) 2,748,260<br>(iii) 3,664,347 | 1 August 2010 to 31 July 2013<br>1 August 2011 to 31 July 2013<br>1 August 2012 to 31 July 2013 |
| Gan Sem Yam | (i) 2,748,260<br>(ii) 2,748,260<br>(iii) 3,664,347 | 1 August 2010 to 31 July 2013<br>1 August 2011 to 31 July 2013<br>1 August 2012 to 31 July 2013 |
| Gan Chu Cheng | (i) 2,748,260<br>(ii) 2,748,260<br>(iii) 3,664,347 | 1 August 2010 to 31 July 2013<br>1 August 2011 to 31 July 2013<br>1 August 2012 to 31 July 2013 |
| Zhang Pei Yu | (i) 2,748,260<br>(ii) 2,748,260<br>(iii) 3,664,347 | 1 August 2010 to 31 July 2013<br>1 August 2011 to 31 July 2013<br>1 August 2012 to 31 July 2013 |
| Yeoh Ek Boon | (i) 2,748,260<br>(ii) 2,748,260<br>(iii) 3,664,347 | 1 August 2010 to 31 July 2013<br>1 August 2011 to 31 July 2013<br>1 August 2012 to 31 July 2013 |
| Gan Tiong Sia | (i) 1,342,173<br>(ii) 1,342,173<br>(iii) 1,789,565 | 1 August 2010 to 31 July 2013<br>1 August 2011 to 31 July 2013<br>1 August 2012 to 31 July 2013 |
| Diong Tai Pew | (i) 191,739<br>(ii) 191,739<br>(iii) 255,652 | 1 August 2010 to 31 July 2013<br>1 August 2011 to 31 July 2013<br>1 August 2012 to 31 July 2013 |
| Tang Sim Cheow | (i) 191,739<br>(ii) 191,739<br>(iii) 255,652 | 1 August 2010 to 31 July 2013<br>1 August 2011 to 31 July 2013<br>1 August 2012 to 31 July 2013 |

7. On 14 March 2011, upon completion of and in connection with the Rights Issue, an aggregate of 144,496,000 Bonus Warrants were issued to the subscribers on the basis of one Bonus Warrant for every two Rights Shares taken up. The holders of the Bonus Warrants are entitled to subscribe for ordinary Shares at an exercise price of HK$0.12 per Share for the period from 16 March 2011 to 15 March 2014. Details of the Bonus Warrants issued to the Directors are as follows:

| Name of Director | Number of Shares that would be allotted and issued upon exercise of the Bonus Warrants |
|---|---|
| Beh Kim Ling | 6,533,461 |
| Gan Sem Yam | 3,046,250 |
| Gan Chu Cheng | 19,113,465 |
| Yeoh Ek Boon | 1,157,428 |
| Gan Tiong Sia | 2,103,463 |
| Diong Tai Pew | 91,333 |

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

Save as disclosed above, at no time during the financial year ended 31 July 2011 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 33 to the audited financial statements, 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 financial year or at any time during the financial year.

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

As at 31 July 2011, 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 | 497,716,400 (L) | Beneficial owner | 43.06% |
| Inabata Sangyo (HK) Limited | 82,000,000 (L) | Beneficial owner | 7.09% |

Note:

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

## SHARE OPTION SCHEME

The Company operates a share option scheme ("Share Option Scheme"), which was adopted on 20 January 2002, for the purpose of providing incentives or rewards to selected eligible participants for their contribution to the Group. The Share Option Scheme became effective on 8 February 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Details of the Share Option Scheme are set out in note 25 to the audited financial statements.

Eligible participants of the Share Option Scheme include the following:

(i) any employee or proposed employee (whether full time or part time) of the Group or any entity ("Invested Entity") in which any member of the Group holds any equity interest (including any executive director but excluding any non-executive director of the Group or any Invested Entity);

(ii) any non-executive directors (including independent non-executive directors) of the Group or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vii) (for so long as VS Berhad remains as a controlling Shareholder (as defined in the Listing Rules)) any employee or proposed employee (whether full time or part time) of VS Berhad, any of its subsidiaries or any entity in which VS Berhad or any of its subsidiaries holds an equity interest, including any executive director of VS Berhad, any of such subsidiaries or any entity in which VS Berhad or any of its subsidiaries holds an equity interest;

(viii) (for so long as VS Berhad remains as a controlling Shareholder) any non-executive directors (including independent non-executive directors) of VS Berhad, any of its subsidiaries or any entity in which VS Berhad or any of its subsidiaries holds an equity interest; and

(ix) any other group or classes of participants from time to time determined by the Board as having contributed or may contribute by way of joint venture and business alliances to the development and growth of the Group.

## SHARE OPTION SCHEME (CONTINUED)

As at the date of this report, the total number of Shares available for issue, save for those granted but yet to be exercised, under the Share Option Scheme is 29,889,470, which represent approximately 2.59% of the issued share capital of the Company as at date of this report. The maximum number of Shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

Share options granted to a Director, chief executive of the Company or substantial Shareholder, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive Directors (excluding independent non-executive Director who is the grantee of the options). In addition, where any grant of share options to a substantial Shareholder or an independent non-executive Director, or to any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in excess of 0.1% of the Shares in issue and with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK$5 million, in a 12-month period up to and including the date of grant, such grant of share options are subject to Shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 by the grantee. The exercise period for the share options granted is determined by the Board, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the option subject to the provisions for early termination under the Share Option Scheme.

The subscription price for Shares under the Share Option Scheme shall be a price determined by the Board, but shall not be less than the highest of:–

(i) the closing price of Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the grant, which must be a business day;

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant; and

(iii) the nominal value of the Shares.

## SHARE OPTION SCHEME (CONTINUED)

The following table discloses details of share options held by the grantees and movements in such holdings during the financial year ended 31 July 2011:

| Name of grantee | Date of grant (Note 1) | Exercisable period | Exercise price HK$ | Weighted average closing price on the date immediately before the exercise date HK$ | Outstanding at 1 August 2010 | Exercised during the year | Granted during the year | Adjusted during the year | Lapsed during the year | Outstanding at 31 July 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | |
| Beh Kim Ling | 3 February 2010 | 1 August 2010 to 31 July 2013 | 0.169 | N/A | 2,580,000 | – | – | 168,260 | – | 2,748,260 |
| | | 1 August 2011 to 31 July 2013 | 0.169 | N/A | 2,580,000 | – | – | 168,260 | – | 2,748,260 |
| | | 1 August 2012 to 31 July 2013 | 0.169 | N/A | 3,440,000 | – | – | 224,347 | – | 3,664,347 |
| Gan Sem Yam | 3 February 2010 | 1 August 2010 to 31 July 2013 | 0.169 | N/A | 2,580,000 | – | – | 168,260 | – | 2,748,260 |
| | | 1 August 2011 to 31 July 2013 | 0.169 | N/A | 2,580,000 | – | – | 168,260 | – | 2,748,260 |
| | | 1 August 2012 to 31 July 2013 | 0.169 | N/A | 3,440,000 | – | – | 224,347 | – | 3,664,347 |
| Gan Chu Cheng | 3 February 2010 | 1 August 2010 to 31 July 2013 | 0.169 | N/A | 2,580,000 | – | – | 168,260 | – | 2,748,260 |
| | | 1 August 2011 to 31 July 2013 | 0.169 | N/A | 2,580,000 | – | – | 168,260 | – | 2,748,260 |
| | | 1 August 2012 to 31 July 2013 | 0.169 | N/A | 3,440,000 | – | – | 224,347 | – | 3,664,347 |

## SHARE OPTION SCHEME (CONTINUED)

| Name of grantee | Date of grant (Note 1) | Exercisable period | Exercise price HK$ | Weighted average closing price on the date immediately before the exercise date HK$ | Outstanding at 1 August 2010 | Exercised during the year | Granted during the year | Adjusted during the year | Lapsed during the year | Outstanding at 31 July 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| Zhang Pei Yu | 3 February 2010 | 1 August 2010 to 31 July 2013 | 0.169 | N/A | 2,580,000 | – | – | 168,260 | – | 2,748,260 |
| | | 1 August 2011 to 31 July 2013 | 0.169 | N/A | 2,580,000 | – | – | 168,260 | – | 2,748,260 |
| | | 1 August 2012 to 31 July 2013 | 0.169 | N/A | 3,440,000 | – | – | 224,347 | – | 3,664,347 |
| Yeoh Ek Boon | 3 February 2010 | 1 August 2010 to 31 July 2013 | 0.169 | N/A | 2,580,000 | – | – | 168,260 | – | 2,748,260 |
| | | 1 August 2011 to 31 July 2013 | 0.169 | N/A | 2,580,000 | – | – | 168,260 | – | 2,748,260 |
| | | 1 August 2012 to 31 July 2013 | 0.169 | N/A | 3,440,000 | – | – | 224,347 | – | 3,664,347 |
| Gan Tiong Sia | 3 February 2010 | 1 August 2010 to 31 July 2013 | 0.169 | N/A | 1,260,000 | – | – | 82,173 | – | 1,342,173 |
| | | 1 August 2011 to 31 July 2013 | 0.169 | N/A | 1,260,000 | – | – | 82,173 | – | 1,342,173 |
| | | 1 August 2012 to 31 July 2013 | 0.169 | N/A | 1,680,000 | – | – | 109,565 | – | 1,789,565 |
| Diong Tai Pew | 3 February 2010 | 1 August 2010 to 31 July 2013 | 0.169 | N/A | 180,000 | – | – | 11,739 | – | 191,739 |
| | | 1 August 2011 to 31 July 2013 | 0.169 | N/A | 180,000 | – | – | 11,739 | – | 191,739 |
| | | 1 August 2012 to 31 July 2013 | 0.169 | N/A | 240,000 | – | – | 15,652 | – | 255,652 |

## SHARE OPTION SCHEME (CONTINUED)

| Name of grantee | Date of grant (Note 1) | Exercisable period | Exercise price HK$ | Weighted average closing price on the date immediately before the exercise date HK$ | Outstanding at 1 August 2010 | Exercised during the year | Granted during the year | Adjusted during the year | Lapsed during the year | Outstanding at 31 July 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| Cheung Kwan Hung, Anthony (resigned as a Director with effect from 28 January 2011) | 3 February 2010 | 1 August 2010 to 31 July 2013 | 0.169 | N/A | 180,000 | – | – | – | 180,000 | – |
| | | 1 August 2011 to 31 July 2013 | 0.169 | N/A | 180,000 | – | – | – | 180,000 | – |
| | | 1 August 2012 to 31 July 2013 | 0.169 | N/A | 240,000 | – | – | – | 240,000 | – |
| Tang Sim Cheow | 3 February 2010 | 1 August 2010 to 31 July 2013 | 0.169 | N/A | 180,000 | – | – | 11,739 | – | 191,739 |
| | | 1 August 2011 to 31 July 2013 | 0.169 | N/A | 180,000 | – | – | 11,739 | – | 191,739 |
| | | 1 August 2012 to 31 July 2013 | 0.169 | N/A | 240,000 | – | – | 15,652 | – | 255,652 |
| | | | | | 49,000,000 | – | – | 3,156,506 | 600,000 | 51,556,506 |
| Other employees (Note 2) | 3 February 2010 | 1 August 2010 to 31 July 2013 | 0.169 | N/A | 11,304,000 | – | – | 747,967 | 1,806,501 | 10,245,466 |
| | | 1 August 2011 to 31 July 2013 | 0.169 | N/A | 11,304,000 | – | – | 747,967 | 1,806,501 | 10,245,466 |
| | | 1 August 2012 to 31 July 2013 | 0.169 | N/A | 15,072,000 | – | – | 989,454 | 2,401,562 | 13,659,892 |
| | | | | | 37,680,000 | – | – | 2,485,388 | 6,014,564 | 34,150,824 |
| | | | | | 86,680,000 | – | – | 5,641,894 | 6,614,564 | 85,707,330 |

## SHARE OPTION SCHEME (CONTINUED)

Notes:

1. The average of closing price of the Shares as stated on the Stock Exchange's daily quotation sheets five trading days immediately before 3 February 2010, being the date of the grant of share options during the year, was HK$0.180. The exercise price of share options was being adjusted to HK$0.169 pursuant to Rights Issue of 288,992,000 shares and 144,496,000 warrants.

2. Other employees include employees of the Group (other than the Directors) working under employment contracts with the Group which are regarded as "continuous contracts" for the purpose of the Employment Ordinance (Cap.57, Laws of Hong Kong).

3. There were 5,641,894 new share options being granted pursuant to the Rights Issue of 288,992,000 shares and 144,496,000 warrants during the year.

4. There were no share options being cancelled during the financial year ended 31 July 2011.

The fair value of the share options granted during the year with the exercise price of HK$0.169 per share is estimated at approximately HK$0.258 at the date of grant using the Binomial option pricing model (the "Model"). The Model is one of the commonly used models to estimate the fair value of an option. The variables and assumptions used in computing the fair value of the share options are based on the management's best estimate. The value of an option varies with different variables of a number of subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. The inputs into the Model were as follows:

| | |
|---|---|
| Dividend yield (%) | 0.00 |
| Expected volatility (%) | 85.48 |
| Risk-free interest rate (%) | 1.22 |
| Expected life of options (years) | 3.50 |
| Exercise price (HK$ per share) | 0.169 |

The expected life of the options is estimated by averaging the vesting term and the term from vesting date to the option expiry date and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the financial year ended 31 July 2011.

## CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Details of the significant related party transactions for the financial year ended 31 July 2011 are set out in note 33 to the audited financial statements.

The Group had entered into the following continuing connected transactions during the financial year ended 31 July 2011, details of which are required to be disclosed in this report pursuant to Chapter 14A of the Listing Rules:–

(i) Continuing connected transactions with V.S. (Zhuhai) Management Co., Ltd. ("VS Management")

On 31 July 2009, V.S. Technology Industry Park (Zhuhai) Co., Ltd. ("VS Zhuhai"), V.S. Industry (Zhuhai) Co., Ltd. ("VSI (Zhuhai)"), VSA Electronics Technology (Zhuhai) Co., Ltd. ("VSAZH") and V.S. Electronics (Zhuhai) Co., Ltd. ("VSE (Zhuhai)") (collectively, the "Tenants") entered into a lease agreement ("Lease Agreement") with VS Management for the leasing of 21 blocks of residential buildings ("Leased Premises") in a residential complex for a term of three years commenced on 1 August 2009. The Leased Premises are used as staff quarters of the Tenants.

The Directors believed that the proximity of the Leased Premises to the production facilities of the Tenants not only gives the employees great convenience but also can help to reduce the transportation costs incurred by the Group for arranging employees to come to work. In addition, the Directors considered that the Leased Premises can provide well-managed staff quarters for the Tenants.

Each of VS Zhuhai, VSI (Zhuhai) and VSE (Zhuhai) is a wholly-owned subsidiary of the Company while VSAZH is a non-wholly-owned subsidiary of the Company. The entire issued share capital of VS Management is owned by Mr. Beh Kim Ling, an executive Director. Accordingly, VS Management is an associate of each of Mr. Beh Kim Ling and Madam Gan Chu Cheng (the wife of Mr. Beh Kim Ling) and is therefore a connected person of the Company pursuant to Rule 14A.11(4) of the Listing Rules and the tenancy arrangements as contemplated under the Lease Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Pursuant to the Lease Agreement, the rent and management fee of RMB4,233,245 was paid/is payable on 15 August of each of 2009, 2010 and 2011 and 15 February of each of 2010, 2011 and 2012 respectively. The aggregate annual rent and management fee payable by the Tenants to VS Management is estimated to be RMB 8,466,490 for each of the three financial years ending 31 July 2012. The annual expected cap amount of rent and management fee payable is RMB8,466,490 for each of the three financial years ending 31 July 2012. The amount actually paid by the Tenants for the year ended 31 July 2011 was HK$9,996,000 (approximately RMB8,466,000).

Details of the above-mentioned continuing connected transactions were set out in the Company's announcements dated 31 July 2009.

## CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS (CONTINUED)

(ii) Continuing connected transactions with V.S. Industry Berhad

On 16 November 2007, VSIIL entered into a master supply agreement ("VS Berhad Supply Agreement") with V.S. Industry Berhad in relation to the supplies of moulds and plastic moulded products and parts by VSIIL and its subsidiaries ("VSIIL Group") to V.S Industry Berhad and its subsidiaries ("VS Berhad Group") for a term of three years commencing from 1 August 2008 and ended on 31 July 2011. The expected capped amounts of sales to VS Berhad Group for the year ended 31 July 2011 was HK$132,700,000, whilst actual amount of sales to VS Berhad Group for the year ended 31 July 2011 was HK$2,710,000.

VSIIL entered into a new master supply agreement with VS Berhad on 24 September 2011 ("New VS Berhad Supply Agreement"), in which the expected capped amount of sales to VS Berhad for each of the three years ending 31 July 2014 are HK$9,800,000.

The actual amount, specification and price of the products to be supplied under the VS Berhad Supply Agreement and New VS Berhad Supply Agreement are subject to individual orders placed by the VS Berhad Group with the VSIIL Group. Relevant information on the VS Berhad Supply Agreement and New VS Berhad Supply Agreement were set out in the announcement of the Company dated 16 November 2007 and 24 September 2011 respectively.

VSIIL Group is principally engaged in the production and sales of plastic moulded components and parts, assembling of electronic products and mould design and fabrication. VS Berhad Group is principally involved in the manufacturing, assembling and sale of electronic and plastic moulded products, components and parts. The VSIIL Group has been selling moulds designed and fabricated, and plastic moulded products and parts manufactured by the VSIIL Group to the VS Berhad Group since 2000. The supply of moulds and plastic moulded products and parts by the VSIIL Group to the VS Berhad Group will continue to be conducted in the ordinary and usual course of business of the Group.

As VS Berhad is a substantial shareholder of the Company, VS Berhad is a connected person of the Company. The sales under the VS Berhad Supply Agreement and New VS Berhad Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

(iii) Continuing connected transactions with Tai Ann Vehicle Service Centre ("Tai Ann")

On 30 December 2008, VS Zhuhai, a wholly owned subsidiary of the Company, entered into a service agreement ("Tai Ann Service Agreement") with Tai Ann. Pursuant to the Tai Ann Service Agreement, VS Zhuhai agreed to engage Tai Ann to provide motor vehicle repairing and maintenance services, including regular replacement of engine oil, daily routine maintenance and 24-hour on-call maintenance services for a term commencing from 1 January 2009 and ended on 31 July 2011.

## CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS (CONTINUED)

(iii) Continuing connected transactions with Tai Ann Vehicle Service Centre ("Tai Ann") (continued)

The actual quantity, specifications and fees in respect of the services to be provided by Tai Ann under Tai Ann Service Agreement will be subject to individual orders placed by VS Zhuhai with Tai Ann. Relevant information on the Tai Ann Service Agreement was set out in the Company's announcement dated 31 July 2009.

Tai Ann has been providing motor vehicle repairing and maintenance services to the Group since April 2006 and Tai Ann had been a reliable business partner throughout the years. It is expected that the continuance of business cooperation with Tai Ann will ensure the steady provision of the services to VS Zhuhai.

Tai Ann is wholly-owned by Mr. Zhang Zhe, who is the son of Mr. Zhang Pei Yu ("Mr. Zhang"), an executive Director. Mr. Zhang is a connected person of the Company pursuant to Rule 14A.11(1) of the Listing Rules. Pursuant to Rule 14A.11(4)(b) of the Listing Rules, Mr. Zhang Zhe, being the son of Mr. Zhang, is an associate of Mr. Zhang and a connected person of the Company. Pursuant to Rule 1.01 of the Listing Rules, Tai Ann is an associate of Mr. Zhang Zhe. Mr. Zhang does not have any direct or indirect interest in Tai Ann and he cannot control the composition of a majority of the board of directors of Tai Ann. The transactions between Tai Ann and VS Zhuhai during the period from 1 January 2009 to 30 June 2009 accounted for about 92% of the total revenue of Tai Ann for the same period. In view of the proportion of revenue of Tai Ann contributed by VS Zhuhai, the Board considered Tai Ann as a connected person of the Company and the transactions under the Agreement as continuing connected transactions for the Company.

As disclosed in the Company's announcement dated 27 March 2010, due to the higher utilization of the transport vehicles of the Group to cope with the growing sales of the Group, the Directors considered that there would be an increase in the service fees payable to Tai Ann and accordingly the annual caps for the transaction amount for the year ended 31 July 2011 was HK$3,000,000, whilst the actual amount of service fees paid to Tai Ann for the year ended 31 July 2011 was HK$938,000.

(iv) Continuing connected transactions with Zhuhai Kejie Polymer Material Co., Ltd. ("Zhuhai Kejie")

On 24 August 2009, VS Zhuhai and VSI (Zhuhai) entered into a master processing agreement ("Kejie Master Processing Agreement") with Zhuhai Kejie. Pursuant to the Kejie Master Processing Agreement, VS Zhuhai and VSI (Zhuhai) agreed to engage Zhuhai Kejie for the provision of processing services, being colouration of plastic resin material and modification of chemical structure of plastic resin for the term of the Kejie Master Processing Agreement commencing from 1 August 2009 and ending on 31 July 2012.

The quantity, specification and price of the processing services to be provided by Zhuhai Kejie will be subject to individual orders placed by VS Zhuhai and VSI (Zhuhai) with Zhuhai Kejie. Relevant information of the Kejie Master Processing Agreement was set out in the Company's announcement dated 24 August 2009.

## CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS (CONTINUED)

(iv) Continuing connected transactions with Zhuhai Kejie Polymer Material Co., Ltd. ("Zhuhai Kejie") (continued)

The process of colouration of plastic resin materials and modification of chemical structure of plastic resin would enhance the quality of the finished goods. However, VS (Zhuhai) and VSI Zhuhai do not have the necessary machineries and skilled labours for such processes. For these reasons, VS (Zhuhai) and VSI Zhuhai have been outsourcing the processes. As Zhuhai Kejie is located in Zhuhai which is in closer proximity to the Group's production facilities, the Directors considered that it is more convenient and in the interest of the relevant companies to engage Zhuhai Kejie for the provision of processing services.

The expected annual capped amounts for the fees payable to Zhuhai Kejie under the Kejie Mater Processing Agreement for each of the two years ended 31 July 2011 and the year ending 31 July 2012 are HK$9,000,000. The actual amount of fees paid to Zhuhai Kejie for the year ended 31 July 2011 was HK$ 3,729,000.

Zhuhai Kejie is owned by Hongkong Weihui Int'l Limited as to 80%, which is owned by Mr. K.H. Beh as to 60%. Mr. K.H. Beh is the brother of Mr. Beh Kim Ling ("Mr. Beh"), an executive Director. Mr. Beh does not have any direct or indirect interest in Zhuhai Kejie and cannot control the composition of a majority of the board of directors of Zhuhai Kejie. Save as mentioned above, Mr. Beh does not have any other relationship with Zhuhai Kejie. Pursuant to Rule 14A.11(1) of the Listing Rules, Mr. Beh, being a Director, is a connected person of the Company. Pursuant to Rule 14A.11(4)(b) of the Listing Rules, Mr. K.H. Beh, being the brother of Mr. Beh, is an associate of Mr. Beh. In view of such relationships and the transactions contemplated under the Kejie Master Processing Agreement, Zhuhai Kejie is deemed to be a connected person of the Company under the Listing Rules. Accordingly, the transactions pursuant to the Kejie Master Processing Agreement are deemed to be continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

(v) Continuing connected transactions with Lip Sheng Precision (Zhuhai) Co., Ltd. ("Lip Sheng")

On 24 August 2009, VS Zhuhai and VSI (Zhuhai) entered into an agreement ("Lip Sheng Agreement") with Lip Sheng. Pursuant to the Lip Sheng Agreement, Lip Sheng agreed to supply moulds fabricated and certain moulded products and parts ("Products") to VS Zhuhai and VSI (Zhuhai) during the term of Lip Sheng Agreement commencing on 1 August 2009 and ending on 31 July 2012.

The actual quantity, specifications and price of the products to be supplied by Lip Sheng under the Lip Sheng Agreement will be subject to individual orders to be placed by VS Zhuhai and VSI (Zhuhai) with Lip Sheng. Relevant information of the Lip Sheng Agreement was set out in the Company's announcement dated 24 August 2009.

## CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS (CONTINUED)

(v) Continuing connected transactions with Lip Sheng Precision (Zhuhai) Co., Ltd. ("Lip Sheng") (continued)

Lip Sheng has been supplying the Products to the Group since 2006. Lip Sheng has been a reliable business partner throughout the years. It is expected that the continuance of business cooperation with Lip Sheng will ensure the steady supply of the products for the Group.

The expected annual capped amounts of the purchases of the products from Lip Sheng by VS Zhuhai and VSI (Zhuhai) for each of the two years ended 31 July 2011 and the year ending 31 July 2012 are HK$6,000,000. The actual amount of fees paid to Lip Sheng for the year ended 31 July 2011 was HK$ 711,000.

Lip Sheng is wholly-owned by Lip Sheng International Limited which is wholly owned by Mr. Gan Tong Chuan. Mr. Gan Tong Chuan is (i) the brother of Madam Gan Chu Cheng ("Madam Gan"), an executive Director; (ii) the brother of Mr. S.Y. Gan, an executive Director; (iii) the brother of Mr. T.S. Gan, a non-executive Director; and (iv) the brother-in-law of Mr. Beh, an executive Director and the husband of Madam Gan. Madam Gan, Mr. S.Y. Gan, Mr. T.S. Gan and Mr. Beh do not have any direct or indirect interest in Lip Sheng and cannot control the composition of a majority of the board of directors of Lip Sheng. Save as mentioned above, Madam Gan, Mr. S.Y. Gan, Mr. T.S. Gan and Mr. Beh do not have any other relationship with Lip Sheng. Pursuant to Rule 14A.11(1) of the Listing Rules, each of Madam Gan, Mr. S.Y. Gan, Mr. T.S. Gan and Mr. Beh, being a Director, is a connected person of the Company.

Pursuant to Rule 14A.11(4)(b) of the Listing Rules, Mr. Gan Tong Chuan, being the brother of Madam Gan, Mr. S.Y. Gan and Mr. T.S. Gan, is an associate of Madam Gan, Mr. S.Y. Gan and Mr. T.S. Gan. In view of such relationships and the transactions contemplated under the Agreement, Lip Sheng is deemed to be a connected person of the Company under the Listing Rules. Accordingly, the transactions pursuant to the Agreement are deemed to be continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

The Board, including the independent non-executive Directors, confirmed that each of the continuing connected transactions set out in paragraphs (i) to (v) had been entered into:

1. in the ordinary and usual course of business of the Group;

2. on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

3. in accordance with the relevant agreement governing them on terms that were fair and reasonable and in the interests of the Shareholders as a whole.

## CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS (CONTINUED)

The auditors of the Company also confirmed that the continuing connected transactions set out in paragraphs (i) to (v) above:–

1. had been approved by the Board;

2. (where applicable) were in accordance with the pricing policies of the Group;

3. had been entered into in accordance with the terms of the agreements relating to these transactions; and

4. the aggregate consideration received or paid in respect of the above continuing connected transactions during the financial year ended 31 July 2011 had not exceeded the cap disclosed in the respective announcement and/or circular.

Save as disclosed therein, there were no other connected transactions which are required to be disclosed in this annual report in accordance with the requirements of Chapter 14A of the Listing Rules.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association although there are no restrictions against such rights under the law in the Cayman Islands.

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

During the financial year ended 31 July 2011, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 July 2011 are set out in notes 23, 24 and 33(c) to the audited financial statements.

## INTEREST CAPITALISED

The amount of interest capitalised by the Group during the financial year ended 31 July 2011 is set out in note 6(a) to the audited financial statements.

## FIVE YEARS SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 122 of this Annual Report.

## PROPERTIES

Particulars of the major properties and property interests of the Group are shown on page 121 of this report.

## RETIREMENT SCHEMES

Particulars of the retirement schemes of the Group are set out in note 5 to the audited financial statements.

## AUDIT COMMITTEE

The Board established the Audit Committee on 20 January 2002 and was re-constituted on 30 September 2004. The role, function and composition of the Audit Committee are set out on page 20 of this Annual Report.

The Audit Committee has reviewed the Group's financial statements for the financial year ended 31 July 2011 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.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors confirmation of his independence from the Group and the Company considers that each of them to be independent pursuant to Rule 3.13 of the Listing Rules.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the best knowledge of the Directors at the date of this annual report, there was a sufficient prescribed public float of the issued Shares under the Listing Rules at any time during the financial year ended 31 July 2011.

## AUDITORS

KPMG will retire and, being eligible, offer themselves for re-appointment at the Annual General Meeting. A resolution for the re-appointment of KPMG as auditors of the Company will be proposed at the Annual General Meeting.

By order of the Board

**Beh Kim Ling**
*Chairman*
Macau
24 September 2011

# Auditors' Report

KPMG

**Independent auditor's report to the shareholders of**

**V.S. International Group Limited**

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of V.S. International Group Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 44 to 118, which comprise the consolidated and company statements of financial position as at 31 July 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 July 2011 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 1(b) to the consolidated financial statements which describes that the Group incurred a loss of HK$61,158,000 for the year ended 31 July 2011 and as at that date the Group's current liabilities exceeded its current assets by HK$115,772,000. 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(b) to the consolidated financial statements, these consolidated financial statements have 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 other banking facilities to enable the Group to meet its financial obligations as and when they fall due for the foreseeable future. These consolidated financial statements do not include any adjustments that would result from the failure to renew or obtain such banking facilities.

**KPMG**
*Certified Public Accountants*
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
24 September 2011

# Consolidated Income Statement

*for the year ended 31 July 2011*
*(Expressed in Hong Kong dollars)*

| | Note | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|---|
| **Turnover** | 3 & 13 | **1,629,534** | 1,496,888 |
| Cost of sales | | **(1,489,201)** | (1,329,233) |
| **Gross profit** | | **140,333** | 167,655 |
| Other net income/(loss) | 4 | **28,301** | (2,366) |
| Distribution costs | | **(68,399)** | (60,338) |
| Administrative expenses | | **(103,237)** | (85,830) |
| **(Loss)/profit from operations** | | **(3,002)** | 19,121 |
| Finance costs | 6(a) | **(39,806)** | (34,158) |
| Share of profits less losses of associates | | **3,778** | 4,735 |
| **Loss before taxation** | 6 | **(39,030)** | (10,302) |
| Income tax | 7 | **(22,128)** | (3,619) |
| **Loss for the year** | | **(61,158)** | (13,921) |
| **Attributable to:** | | | |
| Equity shareholders of the Company | 10 | **(61,047)** | (14,315) |
| Non-controlling interests | | **(111)** | 394 |
| **Loss for the year** | | **(61,158)** | (13,921) |
| **Loss per share** | 12 | | |
| Basic | | **(6.22) cents** | (1.65) cents |
| Diluted | | **(6.22) cents** | (1.65) cents |

The notes on pages 51 to 118 form part of these financial statements.

# Consolidated Statement of Comprehensive Income

*for the year ended 31 July 2011*
*(Expressed in Hong Kong dollars)*

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Loss for the year** | **(61,158)** | (13,921) |
| **Other comprehensive income for the year** | | |
| Exchange differences on translation of financial statements of subsidiaries outside Hong Kong | **39,501** | 5,693 |
| **Total comprehensive loss for the year** | **(21,657)** | (8,228) |
| **Attributable to:** | | |
| Equity shareholders of the Company | **(21,546)** | (8,622) |
| Non-controlling interests | **(111)** | 394 |
| **Total comprehensive loss for the year** | **(21,657)** | (8,228) |

The notes on pages 51 to 118 form part of these financial statements.

# Consolidated Statement of Financial Position

*at 31 July 2011*
*(Expressed in Hong Kong dollars)*

| | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | | |
| – Property, plant and equipment | | **782,464** | 830,182 |
| – Interests in leasehold land held for own use under operating leases | | **25,555** | 24,793 |
| | 14 | **808,019** | 854,975 |
| Goodwill | 15 | **2,172** | 2,172 |
| Deferred tax assets | 26(b) | **–** | 14,674 |
| Interest in associates | 17 | **27,047** | 27,004 |
| Deferred assets | 19(d) | **6,602** | – |
| | | **843,840** | 898,825 |
| **Current assets** | | | |
| Inventories | 18 | **245,006** | 227,151 |
| Trade and other receivables | 19 | **463,454** | 452,080 |
| Deposits with banks | 20 | **60,733** | 74,531 |
| Cash and cash equivalents | 21(a) | **115,332** | 96,940 |
| | | **884,525** | 850,702 |
| **Current liabilities** | | | |
| Trade and other payables | 22 | **525,036** | 488,744 |
| Interest-bearing borrowings | 23 | **454,886** | 411,433 |
| Obligations under finance leases | 24 | **7,962** | 10,051 |
| Loan from a substantial shareholder | 33(c) | **4,894** | 6,539 |
| Current taxation | 26(a) | **7,519** | 9,387 |
| | | **1,000,297** | 926,154 |
| **Net current liabilities** | | **(115,772)** | (75,452) |
| **Total assets less current liabilities** | | **728,068** | 823,373 |
| **Non-current liabilities** | | | |
| Other payables | 22(c) | **6,303** | 29,794 |
| Interest-bearing borrowings | 23 | **248,814** | 322,621 |
| Obligations under finance leases | 24 | **–** | 6,700 |
| Loan from a substantial shareholder | 33(c) | **–** | 4,877 |
| Deferred tax liabilities | 26(b) | **1,745** | 1,762 |
| | | **256,862** | 365,754 |
| **NET ASSETS** | | **471,206** | 457,619 |

*at 31 July 2011*
*(Expressed in Hong Kong dollars)*

| | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Share capital | 27(a)(i) | **57,798** | 43,349 |
| Reserves | | **410,778** | 411,529 |
| **Total equity attributable to equity shareholders of the Company** | | **468,576** | 454,878 |
| **Non-controlling interests** | | **2,630** | 2,741 |
| **TOTAL EQUITY** | | **471,206** | 457,619 |

Approved and authorised for issue by the board of directors on 24 September 2011.

**Beh Kim Ling**
*Chairman*

**Gan Sem Yam**
*Managing Director*

The notes on pages 51 to 118 form part of these financial statements.

# Statement of Financial Position

*at 31 July 2011*
*(Expressed in Hong Kong dollars)*

| | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14(b) | – | 6,016 |
| Investments in subsidiaries | 16 | 424,843 | 423,644 |
| | | 424,843 | 429,660 |
| **Current assets** | | | |
| Other receivables | 19 | 53,196 | 53,679 |
| Cash and cash equivalents | 21(a) | 193 | 62 |
| | | 53,389 | 53,741 |
| **Current liabilities** | | | |
| Other payables | 22 | 143,371 | 180,149 |
| **Net current liabilities** | | (89,982) | (126,408) |
| **Total assets less current liabilities** | | 334,861 | 303,252 |
| **Non-current liabilities** | | | |
| Deferred income | 22(a) | 9,250 | 19,750 |
| **NET ASSETS** | | 325,611 | 283,502 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 27(a) | 57,798 | 43,349 |
| Reserves | 28(a) | 267,813 | 240,153 |
| **TOTAL EQUITY** | | 325,611 | 283,502 |

Approved and authorised for issue by the board of directors on 24 September 2011.

**Beh Kim Ling**
*Chairman*

**Gan Sem Yam**
*Managing Director*

The notes on pages 51 to 118 form part of these financial statements.

# Consolidated Statement of Changes in Equity

*for the year ended 31 July 2011*
*(Expressed in Hong Kong dollars)*

| | Note | Share capital $'000 (Note 27(a)(i)) | Share premium $'000 (Note 28 (b)(i)) | Capital reserves $'000 (Note 28 (b)(i)) | Foreign exchange translation reserve $'000 (Note 28 (b)(ii)) | Statutory reserve fund $'000 (Note 28 (b)(iii)) | Employee share-based capital reserve $'000 (Note 28 (b)(iv)) | Retained profits $'000 | Total $'000 | Non-controlling interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to equity shareholders of the Company | | | | | | | | | |
| **Balance at 1 August 2009** | | 43,349 | 72,006 | 9,584 | 113,343 | 44,015 | – | 178,443 | 460,740 | 3,581 | 464,321 |
| **Changes in equity for 2010:** | | | | | | | | | | | |
| Loss for the year | | – | – | – | – | – | – | (14,315) | (14,315) | 394 | (13,921) |
| Other comprehensive income | | – | – | – | 5,693 | – | – | – | 5,693 | – | 5,693 |
| Total comprehensive loss | | – | – | – | 5,693 | – | – | (14,315) | (8,622) | 394 | (8,228) |
| Equity settled share-based transactions | 25 | – | – | – | – | – | 2,911 | – | 2,911 | – | 2,911 |
| Acquisition of non-controlling interests | 29 | – | – | – | – | – | – | (151) | (151) | (1,234) | (1,385) |
| **Balance at 31 July 2010 and 1 August 2010** | | **43,349** | **72,006** | **9,584** | **119,036** | **44,015** | **2,911** | **163,977** | **454,878** | **2,741** | **457,619** |
| **Changes in equity for 2011:** | | | | | | | | | | | |
| Loss for the year | | **–** | **–** | **–** | **–** | **–** | **–** | **(61,047)** | **(61,047)** | **(111)** | **(61,158)** |
| Other comprehensive income | | **–** | **–** | **–** | **39,501** | **–** | **–** | **–** | **39,501** | **–** | **39,501** |
| Total comprehensive loss | | **–** | **–** | **–** | **39,501** | **–** | **–** | **(61,047)** | **(21,546)** | **(111)** | **(21,657)** |
| Equity settled share-based transactions | 25 | **–** | **–** | **–** | **–** | **–** | **2,596** | **–** | **2,596** | **–** | **2,596** |
| Issuance of shares by rights issue | 27(a)(ii) | **14,449** | **18,199** | **–** | **–** | **–** | **–** | **–** | **32,648** | **–** | **32,648** |
| **At 31 July 2011** | | **57,798** | **90,205** | **9,584** | **158,537** | **44,015** | **5,507** | **102,930** | **468,576** | **2,630** | **471,206** |

The notes on pages 51 to 118 form part of these financial statements.

# Consolidated Cash Flow Statement

*for the year ended 31 July 2011*
*(Expressed in Hong Kong dollars)*

| | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 21(b) | **90,461** | 46,071 |
| Income tax paid by subsidiaries in the People's Republic of China ("PRC") | 26(a) | **(9,339)** | (10,187) |
| **Net cash generated from operating activities** | | **81,122** | 35,884 |
| **Investing activities** | | | |
| Payments for the purchase of fixed assets | | **(54,748)** | (69,395) |
| Proceeds from sale of fixed assets | | **31,728** | 5,331 |
| Refund of an acquisition deposit | 4 | **4,752** | 5,326 |
| Uplift of deposits with banks | | **17,346** | – |
| Deposits with banks | | **–** | (23,376) |
| Interest received | | **1,872** | 1,346 |
| Dividends received from an associate | | **3,735** | 423 |
| Payment for the acquisition of non-controlling interest | 29 | **–** | (1,385) |
| **Net cash generated from/(used in) investing activities** | | **4,685** | (81,730) |
| **Financing activities** | | | |
| Capital element of finance lease rentals paid | | **(8,789)** | (5,628) |
| Interest element of finance lease rentals paid | 6(a) | **(1,226)** | (2,091) |
| Repayment of loan from a substantial shareholder | | **(6,522)** | (5,617) |
| Repayment of bank loans | | **(1,074,529)** | (655,231) |
| Proceeds from new bank loans | | **1,041,306** | 746,379 |
| Net proceeds from issuance of shares by rights issue (note 27(a)(ii)) | | **32,648** | |
| Other borrowing costs paid | | **(38,652)** | (32,140) |
| **Net cash (used in)/generated from financing activities** | | **(55,764)** | 45,672 |
| **Net increase/(decrease) in cash and cash equivalents** | | **30,043** | (174) |
| **Cash and cash equivalents at 1 August** | 21 | **70,255** | 72,644 |
| **Effect of foreign exchange rates changes** | | **(5,359)** | (2,215) |
| **Cash and cash equivalents at 31 July** | 21 | **94,939** | 70,255 |

The notes on pages 51 to 118 form part of these financial statements.

## 1 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by V.S. International Group Limited ("the Company") and its subsidiaries (together referred to as "the Group") is set out below.

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

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 July 2011 comprise the Company and its subsidiaries and the Group's interest in associates.

As at 31 July 2011, the Group's current liabilities exceeded its current assets by $115,772,000 and the Group incurred a loss of $61,158,000 for the year ended 31 July 2011. 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 July 2011, the Group had undrawn banking facilities totalling $243,914,000 for working capital purposes. In addition, the Group is currently in the process of negotiating with certain banks to renew the current bank loans upon expiry or to obtain additional banking facilities in order to improve the 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 enhance the Group's ability to renew the current bank loans upon expiry or to secure other adequate banking facilities to enable the Group to meet its financial obligations as and when they fall due for the foreseeable future. Accordingly, the financial statements have 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 and to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in the financial statements.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that derivative financial instruments are measured at fair value (see note 1(f)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) Basis of preparation of the financial statements (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 34.

### (c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. The Group measures non-controlling interests at the proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)).

### (d) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Associates (continued)

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(e) and (i)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(d)).

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (see note 1(i)).

### (e) Goodwill

Goodwill represents the excess of the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(i)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### (f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(i)):

– land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease (see note 1(h));

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(h)); and

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion;

– Leasehold improvements are depreciated over the shorter of their estimated useful lives, being 10 years from the date of completion, and the unexpired terms of the leases; and

– Plant and machinery 3-10 years

– Office equipment, furniture and fixtures 3-5 years

– Motor vehicles 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except that land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Impairment of assets

(i) Impairment of receivables

Receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse affect on the debtor.

If any such evidence exists, the impairment loss for receivables stated at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

For receivables stated at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– investments in subsidiaries and interests in associates;

– pre-paid interests in leasehold land classified as being held under an operating lease; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(i)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

### (j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

### (l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(q)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

### (o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Funds (the "MPF") as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and other retirement benefit schemes, are recognised as an expense in profit or loss as and when incurred.

Annual contributions to pension schemes operated by the government in the PRC are recognised as an expense in profit or loss as and when incurred.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (o) Employee benefits (continued)

(ii) Share-based payments (continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### (p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (p) Income tax (continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (q) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) Financial guarantees issued, provisions and contingent liabilities (continued)

(i) Financial guarantees issued (continued)

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

Where the guarantee is issued by the Company in respect of banking facilities granted to its subsidiaries, the asset identified is a form of capital contribution, i.e. an addition to the cost of the investment in the subsidiaries.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(q)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (r) Revenue recognition (continued)

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

### (s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of an operation outside Hong Kong is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

### (t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (u) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### (v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following revised HKFRSs, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company:

- HKFRS 3 (revised 2008), Business combinations

- Amendments to HKAS 27, Consolidated and separate financial statements

## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

- Amendments to HKFRS 5, Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary
- Amendment to HKAS 39, Financial instruments: Recognition and measurement –eligible hedged items
- Improvements to HKFRSs (2009)
- HK(IFRIC) 17, Distributions of non-cash assets to owners
- HK (Int) 5, Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause

These HKFRs developments have no material impact on the Group's financial statements as they were either consistent with accounting policies already adopted by the Group or they were not relevant to the Group's and the Company's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 3 TURNOVER

The principal activities of the Group are manufacturing and sale of plastic moulded products and parts, assembling of electronic products and mould design and fabrication.

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

An analysis of turnover derived from the principal activities of the Group is as follows:

| | **2011** | 2010 |
|---|---|---|
| | **$'000** | $'000 |
| **Breakdown of turnover by principal activities** | | |
| Plastic injection and moulding | **952,473** | 876,036 |
| Assembling of electronic products | **578,528** | 531,373 |
| Mould design and fabrication | **98,533** | 89,479 |
| | **1,629,534** | 1,496,888 |

The Group's customer base is diversified and includes three customers with whom transactions have exceeded 10% of the Group's aggregate revenues for the year ended 31 July 2011 (2010: two). Details of concentrations of credit risk arising from these customers are set out in note 30(a).

Further details regarding the Group's principal activities are disclosed in note 13 to these financial statements.

## 4 OTHER NET INCOME/(LOSS)

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Interest income | 1,872 | 1,346 |
| Rentals receivable from operating leases | 33 | 5,942 |
| Net foreign exchange gain/(loss) | 1,683 | (2,513) |
| Net gain/(loss) on disposal of fixed assets | 14,208 | (1,514) |
| Reversal/(recognition) of impairment losses on acquisition deposits (Notes (i) and (ii)) | 4,752 | (8,413) |
| Fines by local authorities (Note (iii)) | (2,280) | (57) |
| Change in fair value of forward foreign exchange contracts (Note (iv)) | 1,391 | – |
| Net gain on forward exchange contracts | 4,037 | – |
| Others | 2,605 | 2,843 |
| | 28,301 | (2,366) |

Notes:

(i) On 19 June 2008, the Group entered into an agreement with an independent third party to invest RMB21,823,000 (equivalent to approximately $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 would be effective when the capital injection and verification process is completed.

During the year ended 31 July 2009, the Group has injected the first instalment of approximately $8,035,000 ("Injected Capital") into Heilongjiang Savoy.

On 10 August 2009, resolutions were passed by the directors of Heilongjiang Savoy to approve an extension of the due date for settlement of the remaining balance of RMB14,797,000 (equivalent to approximately $16,407,000) from 31 July 2009 to 31 December 2009. The capital injection had not been completed as at 31 July 2010. Management decided to abort the plan to invest in Heilongjiang Savoy and was doubtful in recovering the deposits paid to Heilongjiang Savoy. Provision of $8,035,000 was made during the year ended 31 July 2010.

On 6 December 2010, resolutions were passed by the directors of Heilongjiang Savoy to approve the withdrawal of the investment in Heilongjiang Savoy by the Group. The shareholders of Heilongjiang Savoy also entered into supplemental agreements and articles ("Agreement") with the Group. The parties to the Agreement agreed that a compensation fee ("Compensation Fee") of RMB2,700,000 (equivalent to approximately $3,283,000) was paid by the Group to another shareholder for the withdrawal by the Group from Heilongjiang Savoy. The Injected Capital, net of the Compensation fee, was refunded to the Group on 28 January 2011. Therefore a reversal of impairment loss on acquisition deposit of $4,752,000 was recognised for the year ended 31 July 2011.

(ii) In addition to the above, the Group also paid a refundable deposit of $5,704,000 to an independent third party for an exclusive right of negotiation in relation to exploration for natural resources in Inner Mongolia, the PRC. In order to focus on the existing principal activities, management decided to abort the investment plan in Inner Mongolia. During the year ended 31 July 2010, $5,326,000 of the deposit was refunded and $378,000 has been written off to profit or loss.

## 4 OTHER NET INCOME/(LOSS) (CONTINUED)

(iii) During the year ended 31 July 2011, a fine of $2,280,000 was paid to the Customs Bureau in Gongbei District of the PRC (中華人民共和國拱北海關) for underpaid value added tax and custom duties.

(iv) In order to mininise the foreign currency risk exposure, the Group entered into certain forward exchange contracts with aggregate notional contract amounts of USD44,800,000 during the year ended 31 July 2011 (2010: Nil). The outstanding forward exchange contracts will expire within one year. The aggregate fair value of the outstanding forward exchange contracts amounted to $1,391,000 at 31 July 2011 (31 July 2010: Nil) has been recognised as derivative financial instruments. The changes in fair value of the forward exchange contracts were recognised in profit or loss.

## 5 STAFF COSTS

| | **2011** | 2010 |
|---|---|---|
| | **$'000** | $'000 |
| Salaries, wages and allowances | **310,892** | 263,538 |
| Contribution to retirement benefit schemes | **16,515** | 11,166 |
| Equity settled share-based payment expenses (note 25) | **2,596** | 2,911 |
| | **330,003** | 277,615 |

Staff costs include directors' remuneration totalling $17,861,000 (2010: $15,080,000) (note 8).

Subsidiaries of the Company operating in the PRC participate in a government pension scheme whereby the subsidiaries are required to pay annual contributions at rates from 10% to 32% of the standard wages of employees determined by the relevant authorities in the PRC. Under the scheme, retirement benefits of existing and former employees are payable by the relevant authorities and the Group has no further obligations beyond the annual contributions.

Contributions to the MPF are required under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The Group and its employees in Hong Kong make monthly mandatory contributions to the Mandatory Provident Fund Scheme at 5% of the employees' relevant income as defined under the Mandatory Provident Fund Schemes Ordinance. The contributions from employees and employer are subject to a cap of monthly relevant income of $20,000.

The Group did not operate nor participate in any other scheme for retirement benefits provided to the Group's employees during the year.

## 6 LOSS BEFORE TAXATION

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

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **(a) Finance costs:** | | |
| Interest on bank advances repayable within five years | **30,858** | 26,237 |
| Interest on loan from a substantial shareholder | **309** | 555 |
| Finance charges on obligations under finance leases | **1,226** | 2,091 |
| Total borrowing costs | **32,393** | 28,883 |
| Less: borrowing costs capitalised as construction in progress * | **(72)** | (73) |
| | **32,321** | 28,810 |
| Other charges | **7,485** | 5,348 |
| | **39,806** | 34,158 |

* The borrowing costs have been capitalised at a rate of 4.1% (2010: 4.0%) per annum for construction in progress.

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **(b) Other items:** | | |
| Cost of inventories (note (i) & 18(b)) | **1,489,201** | 1,329,233 |
| Auditors' remuneration | | |
| – audit services | **1,882** | 2,009 |
| – other services | **954** | 1,020 |
| Impairment of doubtful debts charged/(reversed) | | |
| – trade receivables | **5,719** | (553) |
| – other receivables | **2,840** | – |
| Amortisation of interests in leasehold land held for own use under operating leases | **598** | 577 |
| Reversal/(recognition) of impairment losses on acquisition deposits (note 4(i)) | **4,752** | (8,413) |
| Depreciation | | |
| – other assets | **98,736** | 98,253 |
| – assets held under finance leases | **2,329** | 2,246 |
| Operating lease charges in respect of properties | | |
| – factory and hostel rentals | **10,423** | 9,959 |
| Fines by local authorities (note 4(iii)) | **2,280** | 57 |

## 6 LOSS BEFORE TAXATION (CONTINUED)

Note:

(i) Cost of inventories includes $332,393,000 (2010: $299,817,000) relating to staff costs, depreciation, and operating lease charges which amount is also included in the respective total amounts disclosed separately above or note 6 for each of these types of expenses.

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

### (a) Taxation in the consolidated income statement represents:

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| **Current tax – PRC** | | |
| Provision for income tax for the year | 7,404 | 10,159 |
| Under-provision in respect of prior years | 67 | – |
| | 7,471 | 10,159 |
| **Withholding tax for dividends paid by a subsidiary in the PRC** | – | 1,271 |
| **Deferred tax** | | |
| Written off and origination of temporary differences | 14,657 | (7,811) |
| | 22,128 | 3,619 |

No provision has been made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax during the years ended 31 July 2011 and 2010.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("Income Tax Law") which was effective from 1 January 2008. As a result of the Income Tax Law, taxable income for the subsidiaries of the Company in the PRC is subject to 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 Income 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 20%, 22%, 24% and 25% for 2009, 2010, 2011 and 2012, respectively.

Subsidiaries which were granted certain tax relief before 1 January 2008 can continually enjoy such 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.

(Expressed in Hong Kong dollars unless otherwise indicated)

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (CONTINUED)

### (a) Taxation in the consolidated income statement represents (continued):

For the year ended 31 July 2011, the following subsidiaries of the Company in the PRC were either subject to standard or preferential income tax rates, except that V.S. Industry (Shenzhen) Co., Ltd. ("VSI Shenzhen"), V.S. Technology Industry Park (Zhuhai) Co., Ltd. ("VS Zhuhai"), Haivs Industry (Qingdao) Co., Ltd. ("Haivs"), VSA Electronics Technology (Zhuahi) Co., Ltd. ("VSA Zhuhai") and Qingdao GP Precision Mold Plastics Co., Ltd. ("Qingdao Mold") sustained losses for taxation purposes for the year ended 31 July 2011:

| Name of subsidiary | Period | Income tax rate |
|---|---|---|
| V.S. Industry (Zhuhai) Co., Ltd. ("VSI Zhuhai") | 1 August 2009 to 31 December 2009 | 20% |
| | 1 January 2010 to 31 December 2010 | 22% |
| | 1 January 2011 to 31 July 2011 | 24% |
| Qingdao GS Electronics Plastic Co., Ltd. ("Qingdao GS") | 1 August 2009 to 31 December 2009 | 10% |
| | 1 January 2010 to 31 December 2010 | 22% |
| | 1 January 2011 to 31 July 2011 | 24% |
| V.S. Electronics (Zhuhai) Co., Ltd. ("VSE Zhuhai") | 1 August 2009 to 31 July 2011 | 25% |
| Qingdao GP Electronic Plastics Co., Ltd. ("Qingdao GP") | 1 August 2009 to 31 December 2009 | 0% |
| | 1 January 2010 to 31 December 2010 | 11% |
| | 1 January 2011 to 31 July 2011 | 12.5% |

Pursuant to the Income 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.

Pursuant to the Sino-Hong Kong Double Tax Arrangement and Sino-Macau Double Tax Arrangement and the related regulations, a qualified Hong Kong or Macau tax resident will be liable for a reduced withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong or Macau tax resident is the "beneficial owner" and holds 25% or more of the equity interest of the PRC enterprise. A withholding tax rate of 5% is applicable to entities held by a Hong Kong incorporated subsidiary.

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (CONTINUED)

### (a) Taxation in the consolidated income statement represents (continued):

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 2011, the undistributed profits generated before 1 January 2008 by the subsidiaries incorporated in the PRC, which amounted to $129,791,000 (2010: $129,791,000), are not subject to the withholding tax on future distribution. As at 31 July 2011, deferred tax liabilities of $1,745,000 (2010: $1,762,000) have been recognised in respect of the temporary differences of $34,892,000 (2010: $35,234,000) which are related to the undistributed profits generated on or after 1 January 2008 by the subsidiaries incorporated in the PRC (Note 26(b)).

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) Reconciliation between tax expense and accounting loss at applicable tax rates:

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| Loss before taxation | **(39,030)** | (10,302) |
| Notional tax on loss before taxation, calculated at the rates applicable to profits in the jurisdictions concerned | **(9,877)** | 3,945 |
| Tax effect of withholding tax paid | **–** | 1,271 |
| Tax effect of non-deductible expenses | **4,467** | 1,090 |
| Tax effect of unused tax losses not recognised | **28,614** | 120 |
| Tax effect on withholding tax of retained earnings in the PRC subsidiaries | **(17)** | 364 |
| Under-provision in respect of prior years | **(451)** | – |
| Tax effect of tax relief granted | **(608)** | (3,171) |
| Actual tax expense | **22,128** | 3,619 |

## 8 DIRECTORS' REMUNERATION

The remuneration of directors for the year ended 31 July 2011 is set out below:

| | Fees | Salaries | Discre-tionary bonuses (note (i)) | Share-based payments (note (ii)) | Retirement scheme contributions | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Executive directors** | | | | | | |
| Beh Kim Ling | – | 7,205 | – | 258 | – | 7,463 |
| Gan Sem Yam | – | 2,866 | – | 258 | – | 3,124 |
| Gan Chu Cheng | – | 2,048 | – | 258 | – | 2,306 |
| Zhang Pei Yu | – | 744 | 62 | 258 | – | 1,064 |
| Yeoh Ek Boon | – | 2,866 | – | 258 | – | 3,124 |
| | – | 15,729 | 62 | 1,290 | – | 17,081 |
| **Non-executive director** | | | | | | |
| Gan Tiong Sia | 180 | – | – | 126 | – | 306 |
| **Independent non-executive directors** | | | | | | |
| Diong Tai Pew | 160 | – | – | 18 | – | 178 |
| Cheung Kwan Hung, Anthony *(note (iv))* | 70 | – | – | 18 | – | 88 |
| Lee Soo Gee *(note (v))* | 70 | – | – | – | – | 70 |
| Tang Sim Cheow | 120 | – | – | 18 | – | 138 |
| | 420 | – | – | 54 | – | 474 |
| | 600 | 15,729 | 62 | 1,470 | – | 17,861 |

## 8 DIRECTORS' REMUNERATION (CONTINUED)

The remuneration of directors for the year ended 31 July 2010 is set out below:

| | Fees | Salaries | Discre-tionary bonuses (note (i)) | Share-based payments (note (ii)) | Retirement scheme contributions | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Executive directors** | | | | | | |
| Beh Kim Ling | – | 5,400 | – | 289 | – | 5,689 |
| Gan Sem Yam | – | 2,940 | – | 289 | – | 3,229 |
| Gan Chu Cheng | – | 2,100 | – | 289 | – | 2,389 |
| Zhang Pei Yu | – | 613 | 66 | 289 | – | 968 |
| Yeoh Ek Boon (note (iii)) | – | 1,715 | – | 289 | – | 2,004 |
| | – | 12,768 | 66 | 1,445 | – | 14,279 |
| **Non-executive director** | | | | | | |
| Gan Tiong Sia | 180 | – | – | 141 | – | 321 |
| **Independent non-executive directors** | | | | | | |
| Diong Tai Pew | 160 | – | – | 20 | – | 180 |
| Cheung Kwan Hung, Anthony (note (iv)) | 140 | – | – | 20 | – | 160 |
| Tang Sim Cheow | 120 | – | – | 20 | – | 140 |
| | 420 | – | – | 60 | – | 480 |
| | 600 | 12,768 | 66 | 1,646 | – | 15,080 |

Notes:

(i) Each of the executive directors is entitled, on completion of every twelve months of service, to a management bonus in respect of each financial year of the Company in an amount to be determined by the board of directors which is subject to a cap.

(ii) These represent the estimated value of share options granted to the directors under the Company's Share Option Scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(o)(ii).

(iii) Mr. Yeoh Ek Boon has been appointed as an executive Director with effect from 21 January 2010.

(iv) Mr. Cheung Kwan Hung, Anthony has been resigned as an independent non-executive Director with effect from 28 January 2011.

(v) Mr. Lee Soo Gee has been appointed as an independent non-executive Director with effect from 28 January 2011.

## 9 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2010: four) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other individual (2010: one individual) are as follows:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Salaries and other emoluments | 1,243 | 1,134 |
| Retirement scheme contributions | – | – |
| Discretionary bonuses | 79 | 104 |
| Share-based payments | 59 | 66 |
| | 1,381 | 1,304 |

The emoluments of the individual (2010: one individual) with the highest emoluments are within the following bands:

| | Number of individuals | |
|---|---|---|
| | 2011 | 2010 |
| $Nil–$1,000,000 | – | – |
| $1,000,001–$1,500,000 | 1 | 1 |

Under the Company's Share Option Scheme described in note 25, the individual of the Company with the highest emoluments was granted 2,088,000 (2010: 1,960,000) share options during the year ended 31 July 2011 to subscribe for shares in the Company. None of the share options granted were exercised during the year ended 31 July 2011 (2010: Nil).

There were no amounts paid during the year ended 31 July 2011 (2010: Nil) to the directors or any of the five highest paid individuals as inducement to join or upon joining the Company or the Group or as compensation for loss of office.

## 10 RESULT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated result attributable to equity shareholders of the Company includes a loss of $4,834,000 (2010: loss of $15,975,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount of the Company's loss for the year:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements | (4,834) | (15,975) |
| Income recognised in respect of financial guarantees provided by the Company to its subsidiaries | 11,699 | 11,818 |
| Company's profit/(loss) for the year (note 28(a)) | 6,865 | (4,157) |

## 11 DIVIDENDS

No final dividend has been proposed by the Company after the end of the reporting period attributable to the years ended 31 July 2011 and 2010.

## 12 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 $61,047,000 (2010: loss of $14,315,000) and the weighted average of 981,086,000 ordinary shares (2010: 866,976,000 shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

| | **2011** | 2010 |
|---|---|---|
| | **’000** | ’000 |
| Issued ordinary shares at 1 January | **866,976** | 866,976 |
| Effect of issuance of shares by rights issue (note 27(a)(ii)) | **114,110** | – |
| Weighted average number of ordinary shares at 31 July | **981,086** | 866,976 |

### (b) Diluted loss per share

During the year ended 31 July 2011, the effects of share options and bonus warrants are anti-dilutive. There were no potential dilutive ordinary shares in existence during the year ended 31 July 2010.

## 13 SEGMENT REPORTING

The Group manages its business by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group’s most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented 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 |

## 13 SEGMENT REPORTING (CONTINUED)

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

For the purposes of assessing segment performance and allocating resources between segments, 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 years ended 31 July 2011 and 2010 is set out below.

| | Plastic injection and moulding | | Assembling of electronic products | | Mould design and fabrication | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Turnover from external customers | **952,473** | 876,036 | **578,528** | 531,373 | **98,533** | 89,479 | **1,629,534** | 1,496,888 |
| **Reportable segment revenue** | **952,473** | 876,036 | **578,528** | 531,373 | **98,533** | 89,479 | **1,629,534** | 1,496,888 |
| **Reportable segment result** | **27,585** | 42,006 | **28,946** | 36,989 | **10,194** | 18,017 | **66,725** | 97,012 |
| Depreciation and amortisation for the year | **(57,663)** | (61,127) | **(27,110)** | (24,481) | **(12,508)** | (11,765) | **(97,281)** | (97,373) |
| Impairment of doubtful debts (reversed)/charged | **5,473** | (159) | **3,077** | – | **9** | (394) | **8,559** | (553) |
| **Reportable segment assets** | **920,955** | 941,608 | **329,703** | 377,739 | **158,365** | 143,177 | **1,409,023** | 1,462,524 |
| Addition to non-current segment assets during the year | **15,175** | 64,352 | **1,513** | 4,639 | **3,799** | 222 | **20,487** | 69,213 |
| **Reportable segment liabilities** | **266,355** | 330,826 | **147,531** | 141,303 | **33,060** | 28,709 | **446,946** | 500,838 |

## 13 SEGMENT REPORTING (CONTINUED)

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

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| **Revenue** | | |
| Reportable segment revenue | 1,629,534 | 1,496,888 |
| Consolidated turnover | 1,629,534 | 1,496,888 |

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| **Profit** | | |
| Reportable segment profit | 66,725 | 97,012 |
| Share of profits less losses of associates | 3,778 | 4,735 |
| Finance costs | (39,806) | (34,158) |
| Unallocated depreciation and amortisation | (4,382) | (3,703) |
| Unallocated head office and corporate expenses | (65,345) | (74,188) |
| Consolidated loss before taxation | (39,030) | (10,302) |

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| **Assets** | | |
| Reportable segment assets | 1,409,023 | 1,462,524 |
| Interests in associates | 27,047 | 27,004 |
| Unallocated head office and corporate assets | 292,295 | 259,999 |
| Consolidated total assets | 1,728,365 | 1,749,527 |

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| **Liabilities** | | |
| Reportable segment liabilities | 446,946 | 500,838 |
| Unallocated head office and corporate liabilities | 810,213 | 791,070 |
| Consolidated total liabilities | 1,257,159 | 1,291,908 |

## 13 SEGMENT REPORTING (CONTINUED)

### (c) Geographical segments

The Group's business participates in seven (2010: seven) 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:

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| PRC (other than Taiwan and Hong Kong) | 804,896 | 737,738 |
| Hong Kong | 286,822 | 258,435 |
| United States of America | 226,535 | 177,392 |
| Northern Asia | 120,184 | 120,159 |
| Europe | 98,510 | 100,115 |
| South East Asia | 50,149 | 37,346 |
| South Africa | 42,438 | 65,703 |
| | 1,629,534 | 1,496,888 |

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.

## 14 FIXED ASSETS

### (a) The Group

| | Buildings held for own use $'000 | Leasehold improvements $'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 | 3,277 | 169 | 9,867 | 373 | 238 | 21 | 13,945 | 598 | 14,543 |
| Transfer | – | – | 2,504 | 460 | – | (2,964) | – | – | – |
| Additions | 1,021 | 1,602 | 61,850 | 5,992 | 695 | 1,070 | 72,230 | – | 72,230 |
| Disposals | (178) | – | (14,268) | (234) | – | – | (14,680) | – | (14,680) |
| At 31 July 2010 | 338,592 | 17,531 | 1,058,523 | 50,643 | 23,902 | 4,143 | 1,493,334 | 29,206 | 1,522,540 |
| At 1 August 2010 | 338,592 | 17,531 | 1,058,523 | 50,643 | 23,902 | 4,143 | 1,493,334 | 29,206 | 1,522,540 |
| Exchange adjustments | 18,179 | 941 | 51,906 | 3,235 | 1,388 | 94 | 75,743 | 1,631 | 77,374 |
| Transfer | 2,760 | – | 487 | – | – | (3,247) | – | – | – |
| Additions | 1,058 | 53 | 10,868 | 8,821 | 4,975 | 1,221 | 26,996 | – | 26,996 |
| Disposals | (7,248) | – | (40,620) | (343) | (1,289) | – | (49,500) | – | (49,500) |
| At 31 July 2011 | 353,341 | 18,525 | 1,081,164 | 62,356 | 28,976 | 2,211 | 1,546,573 | 30,837 | 1,577,410 |
| **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 | 482 | 57 | 3,788 | 895 | 185 | – | 5,407 | 43 | 5,450 |
| Charge for the year | 7,867 | 1,015 | 85,246 | 4,702 | 1,669 | – | 100,499 | 577 | 101,076 |
| Written back on disposals | (29) | – | (7,631) | (175) | – | – | (7,835) | – | (7,835) |
| At 31 July 2010 | 52,172 | 6,911 | 551,172 | 33,950 | 18,947 | – | 663,152 | 4,413 | 667,565 |
| At 1 August 2010 | 52,172 | 6,911 | 551,172 | 33,950 | 18,947 | – | 663,152 | 4,413 | 667,565 |
| Exchange adjustments | 2,937 | 356 | 25,537 | 1,987 | 1,055 | – | 31,872 | 271 | 32,143 |
| Charge for the year | 8,350 | 1,122 | 83,908 | 5,138 | 2,547 | – | 101,065 | 598 | 101,663 |
| Written back on disposals | (1,353) | – | (29,035) | (321) | (1,271) | – | (31,980) | – | (31,980) |
| At 31 July 2011 | 62,106 | 8,389 | 631,582 | 40,754 | 21,278 | – | 764,109 | 5,282 | 769,391 |
| **Net book value:** | | | | | | | | | |
| At 31 July 2011 | 291,235 | 10,136 | 449,582 | 21,602 | 7,698 | 2,211 | 782,464 | 25,555 | 808,019 |
| At 31 July 2010 | 286,420 | 10,620 | 507,351 | 16,693 | 4,955 | 4,143 | 830,182 | 24,793 | 854,975 |

## 14 FIXED ASSETS (CONTINUED)

### (b) The Company

| | Buildings held for own use $'000 | Office equipment, furniture and fixtures $'000 | Total $'000 |
|---|---|---|---|
| **Cost:** | | | |
| At 1 August 2009, 31 July 2010 and 1 August 2010 | 7,247 | 200 | 7,447 |
| Disposals | (7,247) | – | (7,247) |
| At 31 July 2011 | – | 200 | 200 |
| **Accumulated depreciation:** | | | |
| At 1 August 2009 | 1,087 | 198 | 1,285 |
| Charge for the year | 145 | 1 | 146 |
| At 31 July 2010 | 1,232 | 199 | 1,431 |
| At 1 August 2010 | 1,232 | 199 | 1,431 |
| Charge for the year | 121 | 1 | 122 |
| Written back on disposals | (1,353) | – | (1,353) |
| At 31 July 2011 | – | 200 | 200 |
| **Net book value:** | | | |
| At 31 July 2011 | – | – | – |
| At 31 July 2010 | 6,015 | 1 | 6,016 |

## 14 FIXED ASSETS (CONTINUED)

**(c) The analysis of net book value of properties is as follows:**

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **$'000** | $'000 | **$'000** | $'000 |
| In Hong Kong | | | | |
| – Medium-term leases | **–** | 6,015 | **–** | 6,015 |
| Outside Hong Kong | | | | |
| – Medium-term leases | **316,790** | 305,198 | **–** | – |
| | **316,790** | 311,213 | **–** | 6,015 |
| Representing: | | | | |
| Buildings held for own use | **291,235** | 286,420 | **–** | 6,015 |
| Interests in leasehold land held for own use under operating leases | **25,555** | 24,793 | **–** | – |
| | **316,790** | 311,213 | **–** | 6,015 |

**(d)** At 31 July 2011 and 2010, certain fixed assets have been pledged as security for the bank loans (note 23(b)).

**(e)** The Group leases certain production plant and machinery under finance leases expiring in one year. At the end of the respective lease term, the Group has the option to purchase the equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

During the year, no additions to plant and machinery of the Group were financed by finance leases (2010: nil). At the end of the reporting period, the net book value of plant and machinery held under finance leases of the Group was $19,736,000 (2010: $20,941,000).

## 15 GOODWILL

| | The Group |
|---|---|
| | $'000 |
| **Cost and carrying amount:** | |
| At 31 July 2010 and 2011 | 2,172 |

The directors make an assessment on the recoverable amount of goodwill annually and considered that there was no impairment at 31 July 2011 (2010: $ nil).

## 16 INVESTMENTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| Unlisted shares, at cost | **424,843** | 423,644 |

Details of the subsidiaries at 31 July 2011 are set out below. All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's financial statements.

| | | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|---|
| Name of company | Place of incorporation | Place of operation | Particulars of issued and paid up capital | Group's effective interest | Held by the Company | Held by subsidiaries | Principal activity |
| V.S. International Industry Limited | BVI | Hong Kong | US$100 | 100% | 100% | – | Investment holding |
| V.S. Investment Holdings Limited | BVI | N/A | $54,000,025 | 100% | 100% | – | Dormant |
| V.S. Corporation (Hong Kong) Co. Limited ("VSHK") | Hong Kong | PRC | $75,000,002 (75,000,000 non-voting deferred shares of $1 each and 2 ordinary shares of $1 each (note (iv))) | 100% | – | 100% | Trading of electronic products, parts and components |
| VSI (Shenzhen) | PRC | PRC | $10,000,000 | 100% | – | 100% | Dormant |
| VS Zhuhai (note (i)) | PRC | PRC | US$36,820,000 | 100% | – | 100% | Manufacturing, assembling and selling of plastic moulded products and electronic products, parts and components |
| Haivs (note (i)) | PRC | PRC | RMB32,150,000 | 100% | – | 100% | Dormant |
| Qingdao GS (note (i)) | PRC | PRC | RMB73,980,000 | 100% | – | 100% | Manufacturing and selling of plastic moulded products and parts |
| Qingdao GP (note (ii)) | PRC | PRC | US$11,000,000 | 100% | – | 100% | Manufacturing and selling of plastic moulded products and parts |

(Expressed in Hong Kong dollars unless otherwise indicated)

## 16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

| Name of company | Place of incorporation | Place of operation | Particulars of issued and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by subsidiaries | Principal activity |
|---|---|---|---|---|---|---|---|
| Qingdao Mold (note (i)) | PRC | PRC | US$3,000,000 | 100% | – | 100% | Manufacturing and selling of plastic injection moulds |
| VSA Holding Hong Kong Co., Limited ("VSA(HK)") | Hong Kong | PRC | $15,600,000 | 81% | – | 81% | Assembling and selling of electronic products, parts and components |
| VSA Zhuhai (note (iii)) | PRC | PRC | US$12,000,000 | 100% | – | 100% | Assembling and selling of electronic products, parts and components |
| V.S. Capital Holdings Limited | Hong Kong | N/A | $2 | 100% | – | 100% | Dormant |
| V.S. Resources Holdings Limited | BVI | Hong Kong | US$100 | 100% | 100% | – | Investment holding |
| VSI Zhuhai (note (ii)) | PRC | PRC | US$9,540,000 | 100% | – | 100% | Manufacturing and selling of plastic moulded products and parts |
| V.S. Holding Vietnam Limited | BVI | Hong Kong | US$100 | 100% | 100% | – | Investment holding |
| V.S. Industry Holding Limited | Hong Kong | Hong Kong | $100 | 100% | 100% | – | Investment holding |
| VSE (Zhuhai) (note (ii)) | PRC | PRC | RMB7,250,000 | 100% | – | 100% | Assembling and selling of electronic products, parts and components |

Notes:

(i) These are wholly foreign owned enterprises established in the PRC.

(ii) These are a sino-foreign equity joint venture companies established in the PRC. The registered capital is held by two of the Company's wholly-owned subsidiaries.

(iii) This is a foreign equity joint venture company established in the PRC. The registered capital is held by three of the Company's subsidiaries.

(iv) In accordance with the articles of association of VSHK, a shareholder of non-voting deferred shares is not entitled to any dividend or any participation in the profits or assets of VSHK and is also not entitled to vote at any general meeting.

## 17 INTERESTS IN ASSOCIATES

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| Share of net assets | **18,526** | 18,483 |
| Goodwill | **8,521** | 8,521 |
| | **27,047** | 27,004 |

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

| | | | | | Proportion of ownership interest | | |
|---|---|---|---|---|---|---|---|
| Name of associate | Form of business structure | Place of incorporation | Place of operation | Particulars of capital | Group's effective interest | Held by subsidiaries | Principal activity |
| VS Industry Vietnam Joint Stock Company ("VS Vietnam") | Limited liability company | Vietnam | Vietnam | Legal capital of US$10,863,000 | 23.47% | 23.47% | 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 $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.

The Group disposed of its entire equity interests in VS-Usotor to an independent third party on 20 August 2011 at the consideration of $1.6 million, resulted in a gain on disposal of approximately $937,000.

## 17 INTERESTS IN ASSOCIATES (CONTINUED)

Summary financial information on associates:

| 2011 | Assets $'000 | Liabilities $'000 | Equity $'000 | Revenues $'000 | Profit $'000 |
|---|---|---|---|---|---|
| 100 per cent | **502,180** | **(385,176)** | **117,004** | **535,867** | **15,918** |
| Group's effective interest | **115,960** | **(88,913)** | **27,047** | **122,055** | **3,778** |

| 2010 | Assets $'000 | Liabilities $'000 | Equity $'000 | Revenues $'000 | Profit $'000 |
|---|---|---|---|---|---|
| 100 per cent | 437,788 | (321,670) | 116,118 | 391,771 | 19,687 |
| Group's effective interest | 101,150 | (74,146) | 27,004 | 89,539 | 4,735 |

## 18 INVENTORIES

**(a) Inventories in the consolidated statement of financial position comprise:**

| | The Group | |
|---|---|---|
| | **2011 $'000** | 2010 $'000 |
| Raw materials | **128,715** | 107,081 |
| Work-in-progress | **62,053** | 54,434 |
| Finished goods | **54,238** | 65,636 |
| | **245,006** | 227,151 |

**(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:**

| | The Group | |
|---|---|---|
| | **2011 $'000** | 2010 $'000 |
| Carrying amount of inventories sold | **1,485,846** | 1,331,309 |
| Write down of inventories | **4,095** | 1,623 |
| Reversal of write-down of inventories | **(740)** | (3,699) |
| | **1,489,201** | 1,329,233 |

The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value of certain goods as a result of a change in consumer preferences. Inventories are expected to be recovered within one year.

## 19 TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Trade receivables | **309,278** | 346,488 | **–** | – |
| Bills receivable (note (i)) | **67,096** | 50,096 | **–** | – |
| Less: allowance for doubtful debts | **(7,729)** | (2,010) | **–** | – |
| | **368,645** | 394,574 | | – |
| Amounts due from subsidiaries | **–** | – | **53,194** | 53,544 |
| Other receivables, prepayments and deposits | **82,639** | 50,424 | **2** | 135 |
| Derivative financial instruments (note 4(iv)) | **1,391** | – | **–** | – |
| Deferred assets (note (d)) | **10,779** | 7,082 | **–** | – |
| | **463,454** | 452,080 | **53,196** | 53,679 |

All trade and other receivables, including amounts due from subsidiaries, are expected to be recovered or recognised as expenses within one year. Amounts due from subsidiaries are unsecured, interest free and repayable upon demand.

Note:

(i) As at 31 July 2011, certain bills receivables amounting to $6,053,000 (2010: $12,770,000) have been pledged to banks as security in connection with certain banking facilities (note 23(b)).

## 19 TRADE AND OTHER RECEIVABLES (CONTINUED)

### (a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| Current | **307,212** | 318,713 |
| Less than 1 month past due | **37,266** | 45,923 |
| 1 to 3 months past due | **13,953** | 17,983 |
| More than 3 months but less than 12 months past due | **10,214** | 11,955 |
| Amounts past due | **61,433** | 75,861 |
| | **368,645** | 394,574 |

Credit terms granted by the Group to customers generally range from 30 to 120 days. Further details on the Group's credit policy are set out in note 30(a).

### (b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors 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 debtors and bills receivable directly (see note 1(i)(i)).

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

| | **2011** | 2010 |
|---|---|---|
| | **$'000** | $'000 |
| At 1 August | **2,010** | 2,563 |
| Impairment loss recognised/(reversed) (note 6(b)) | **5,719** | (553) |
| At 31 July | **7,729** | 2,010 |

At 31 July 2011, the Group's trade debtors of $7,821,000 (2010: $2,105,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts totalling $7,729,000 have been recognised as at 31 July 2011 (2010: $2,010,000) after considering subsequent settlement and other relevant factors. The Group does not hold any collateral over these balances.

## 19 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:

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| Neither past due nor impaired | **307,212** | 318,713 |
| Less than 1 month past due | **37,266** | 45,900 |
| 1 to 3 months past due | **13,953** | 17,983 |
| More than 3 months but less than 12 months past due | **10,122** | 11,883 |
| | **61,341** | 75,766 |
| | **368,553** | 394,479 |

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.

### (d) Deferred assets

An analysis of current and non-current portion of deferred assets is as follows:

| | The Group | |
|---|---|---|
| | 2011<br>$'000 | 2010<br>$'000 |
| To be amortised within one year | **10,779** | 7,082 |
| To be amortised over one year | **6,602** | – |
| | **17,381** | 7,082 |

## 20 DEPOSITS WITH BANKS

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| Deposits with banks with original maturity date over three months | **121** | 115 |
| Pledged fixed deposits with banks | **60,612** | 74,416 |
| | **60,733** | 74,531 |

Pledged fixed deposits with banks have been pledged to banks as security for certain banking facilities, including trade finance, overdrafts and bank loans (note 23(b)).

## 21 CASH AND CASH EQUIVALENTS

### (a) Cash and cash equivalents comprise:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Cash at bank and in hand | **112,338** | 96,940 | **193** | 62 |
| Cash in transit | **2,994** | – | **–** | – |
| Cash and cash equivalents in the statement of financial position | **115,332** | 96,940 | **193** | 62 |
| Bank overdrafts (note 23(a)) | **(20,393)** | (26,685) | | |
| Cash and cash equivalents in the consolidated cash flow statement | **94,939** | 70,255 | | |

As at 31 July 2011, USD384,000 (equivalent to $2,994,000) of cash was being remitted to a subsidiary in the PRC through a financial institution. The cash was received by the subsidiary on 1 August 2011. Therefore, the cash being remitted was included in cash in transit as at 31 July 2011.

## 21 CASH AND CASH EQUIVALENTS (CONTINUED)

### (b) Reconciliation of profit before taxation to cash generated from operations:

| | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| Loss before taxation | | (39,030) | (10,302) |
| Adjustments for: | | | |
| – Finance costs | 6(a) | 39,806 | 34,158 |
| – Interest income | 4 | (1,872) | (1,346) |
| – Amortisation of interests in leasehold land held for own use under operating leases | 6(b) | 598 | 577 |
| – Depreciation | 6(b) | 101,065 | 100,499 |
| – Share of profits less losses of associates | | (3,778) | (4,735) |
| – Net (gain)/loss on disposal of fixed assets | 4 | (14,208) | 1,514 |
| – Equity settled share-based payment expenses | 5 | 2,596 | 2,911 |
| **Operating profit before changes in working capital** | | 85,177 | 123,276 |
| Increase in inventories | | (5,095) | (80,733) |
| Increase/(decrease) in trade and other receivables | | (9,863) | (148,157) |
| Increase in trade and other payables | | 20,242 | 151,685 |
| **Cash generated from operations** | | 90,461 | 46,071 |

## 22 TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 |
| Amounts due to subsidiaries | – | – | 131,205 | 167,734 |
| Trade payables | 320,057 | 286,011 | | – |
| Bills payable | 3,605 | 36,650 | | – |
| Deferred income (note 22(a)) | – | – | 11,699 | 11,699 |
| Payables for the purchase of fixed assets (note 22(c)) | 57,255 | 61,528 | – | – |
| Accrued expenses and other payables | 144,119 | 104,555 | 467 | 716 |
| | 525,036 | 488,744 | 143,371 | 180,149 |

Except for the other payables mentioned in note 22(a) and (c), all of the trade and other payables, including amounts due to subsidiaries, are expected to be settled or recognised as income within one year. Amounts due to subsidiaries are unsecured, interest free and repayable upon demand.

## 22 TRADE AND OTHER PAYABLES (CONTINUED)

### (a) Deferred income

Aggregate fair values of guarantees issued by the Company to certain suppliers and banks in respect of certain credit and banking facilities utilised by its subsidiaries are recognised as deferred income. The deferred income is amortised in the income statement over the respective terms of the guarantees. The analysis of the unamortised deferred income is as follows:

| | The Company | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| Financial guarantees issued | **20,949** | 31,449 |
| To be amortised within one year | **(11,699)** | (11,699) |
| To be amortised after one year | **9,250** | 19,750 |

### (b) Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the end of the reporting period:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| Due within 1 month or on demand | **202,736** | 248,843 |
| Due after 1 month but within 3 months | **106,509** | 64,791 |
| Due after 3 months but within 6 months | **14,417** | 9,027 |
| | **323,662** | 322,661 |

## 22 TRADE AND OTHER PAYABLES (CONTINUED)

### (c) Payables for the purchase of fixed assets

The Group acquired certain fixed assets from suppliers, of which various payment terms were offered. An analysis of current and non-current portion of the amounts due to fixed assets suppliers is as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| **Current:** | | |
| Within 1 year or on demand (note (i)) | **57,255** | 61,528 |
| **Non-current:** | | |
| After 1 year but within 2 years (note (i)&(ii)) | **6,303** | 29,794 |
| | **63,558** | 91,322 |

Notes:

(i) Amounts due to suppliers of $32,782,000 (2010: $25,860,000) are repayable under instalment terms ranging from 24 months to 30 months. The current portion is included in payables for the purchase of fixed assets. Amounts due to suppliers under instalment terms are unsecured and bear interest at 4.3%-7.5% (2010: 7.5%-9.7%) per annum.

(ii) An amount due to a supplier of $6,303,000 (2010: $19,101,000) is repayable on 31 July 2012. The amount is interest free and unsecured.

## 23 INTEREST-BEARING BORROWINGS

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| **Current:** | | |
| Within 1 year or on demand | **454,886** | 411,433 |
| **Non-current:** | | |
| After 1 year but within 2 years | **248,814** | 72,000 |
| After 2 years but within 5 years | **–** | 250,621 |
| | **248,814** | 322,621 |
| | **703,700** | 734,054 |

## 23 INTEREST-BEARING BORROWINGS (CONTINUED)

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| **Current:** | | |
| Overdrafts | | |
| – secured (note 21) | **20,393** | 26,685 |
| Bank loans | | |
| – secured | **254,570** | 218,664 |
| – unsecured | **179,923** | 166,084 |
| | **434,493** | 384,748 |
| | **454,886** | 411,433 |
| **Non-current:** | | |
| Bank loans | | |
| – secured | **248,814** | 322,621 |
| | **703,700** | 734,054 |

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

## 23 INTEREST-BEARING BORROWINGS (CONTINUED)

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Bills receivable (note 19) | **6,053** | 12,770 | **–** | – |
| Fixed deposits (note 20) | **60,612** | 74,416 | **–** | – |
| Buildings held for own use with aggregate carrying value (note 14(d)) | **285,181** | 283,065 | **–** | 6,015 |
| Plant and machinery with aggregate carrying value (note 14(d)) | **41,143** | 45,221 | **–** | – |
| Interests in leasehold land held for own use under operating leases with aggregate carrying value (note 14(d)) | **25,555** | 24,793 | **–** | – |
| | **418,544** | 440,265 | **–** | 6,015 |

The above-mentioned secured banking facilities, including trade finance, overdrafts and bank loans, totalling $619,453,000 (2010: $719,286,000), were utilised to the extent of $523,777,000 (2010: $604,620,000) at 31 July 2011. The Group's banking facilities also included certain unsecured banking facilities, totalling $328,161,000 (2010: $167,354,000), which were utilised to the extent of $179,923,000 (2010: $166,084,000) at 31 July 2011.

(c) Three (2010: 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. Further details of the Group's management of liquidity risk are set out in note 30(b). As at 31 July 2011 and 31 July 2010, none of the covenants relating to drawn down facilities had been breached.

## 24 OBLIGATIONS UNDER FINANCE LEASES

At 31 July 2011, the Group had obligations under finance leases repayable as follows:

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | **2011** | | | 2010 | | |
| | **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 | **7,962** | **213** | **8,175** | 10,051 | 1,190 | 11,241 |
| After one year but within two years | **–** | **–** | **–** | 6,700 | 247 | 6,947 |
| After two years but within five years | **–** | **–** | **–** | – | – | – |
| | **–** | **–** | **–** | 6,700 | 247 | 6,947 |
| | **7,962** | **213** | **8,175** | 16,751 | 1,437 | 18,188 |

## 25 SHARE OPTION SCHEME

The Company has a share option scheme (the "Share Option Scheme") which was approved by the shareholders on 20 January 2002 whereby the directors of the Company are authorised, at their discretion, to invite eligible participants, including directors of any company in the Group, to subscribe for shares in the Company.

Pursuant to the resolution duly passed at the annual general meeting ("AGM") held on 21 December 2010, 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 20 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 173,395,200 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 ("Options") under the rules of the Share Option Scheme. The number of share options granted was adjusted to 92,322,000 as a result of the rights issue completed on 16 March 2011 (note 27(a)(ii)).

## 25 SHARE OPTION SCHEME (CONTINUED)

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 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 Exercise Price per share was adjusted to $0.169 as a result of the rights issue completed on 16 March 2011 (note 27(a)(ii)). 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.

For acceptance of Options granted by the Company, an eligible participant is required to remit $1 to the Company at the principal place of business of the Company in Hong Kong within 21 days from the date of receiving the offer of the Options. As at 24 February 2010, 66 eligible participants accepted the offer of Options granted by the Company. No further Options have been granted since that date.

The Options' fair value of $6,736,000 was measured at grant date using the binomial option pricing model (Note 25(c)). The total estimated fair value of the Options is spread over the vesting period, taking into account the probability that the Options will vest. For the year ended 31 July 2011, $2,596,000 (2010: $2,911,000) is recognised as an employee cost with a corresponding increase in a capital reserve within equity.

**(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:**

| Date granted | Vesting period | Exercise period | Options granted Directors | Employees | Total |
|---|---|---|---|---|---|
| | | | '000 | '000 | '000 |
| 3 February 2010 | 3 February 2010 to 31 July 2010 | 1 August 2010 to 31 July 2013 | 15,467 | 10,281 | 25,748 |
| | 3 February 2010 to 31 July 2011 | 1 August 2011 to 31 July 2013 | 15,467 | 10,281 | 25,748 |
| | 3 February 2010 to 31 July 2012 | 1 August 2012 to 31 July 2013 | 20,623 | 13,588 | 34,211 |
| | | | 51,557 | 34,150 | 85,707 |

Pursuant to the rules of the Share Option Scheme, Options will lapse when the grantee ceases to be an employee of the Group for reasons other than death, ill-health or retirement.

## 25 SHARE OPTION SCHEME (CONTINUED)

### (b) The number and weighted average exercise prices of share options are as follows:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Weighted average exercise price** | **Number of Options '000** | Weighted average exercise price | Number of Options '000 |
| Outstanding at the beginning of the year(note (i)) | **$0.180** | **86,680** | – | – |
| Granted during the year | **–** | **–** | $0.180 | 86,680 |
| Adjusted during the year (note (i)) | **$0.169** | **5,642** | – | – |
| | **$0.169** | **92,322** | $0.180 | 86,680 |
| Lapsed during the year (note (ii)) | **$0.169** | **(6,615)** | – | – |
| Outstanding at the end of the year | **$0.169** | **85,707** | $0.180 | 86,680 |
| Exercisable at the end of the year | **$0.169** | **25,748** | – | – |

(i) The number of share options granted and the Exercise Price per share were adjusted to 92,322,000 and $0.169 respectively as a result of the rights issue completed on 16 March 2011 (note 27 (a)(ii)).

(ii) For the year ended 31 July 2011, 6,615,000 share options were lapsed as certain directors and employees ceased to be employees of the Group for reasons other than death, ill-health or retirement.

The Options outstanding at 31 July 2011 had an exercise price of $0.169 (2010: $0.180) and a weighted average remaining contracted life of two years (2010: three years).

## 25 SHARE OPTION SCHEME (CONTINUED)

### (c) Fair value of options and assumptions

The fair value of services received in return for Options granted is measured by reference to the fair value of Options granted. The estimate of the fair value of the Options granted is measured based on a binomial option pricing model to reflect the impact of vesting period, exit rate and exercise pattern on the Option value.

Fair value of Options and assumptions

| | |
|---|---|
| Fair value at measurement date (weighted average) | $6,736,000 |
| Share price | $0.176 |
| Exercise price | $0.169 |
| Expected volatility (expressed as weighted average volatility used in the modelling under the binomial model) | 85.48% |
| Option life (expressed as weighted average life used in the modelling under the binomial model) | 3.5 years |
| Expected dividends | 0% |
| Risk-free interest rate (based on Hong Kong Exchange Fund Notes) | 1.2195% |

The expected volatility is based on the historic volatility (the Company's share price over one year prior to the grant date and in contrast to companies with similar businesses), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the Option grants.

## 26 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

### (a) Current taxation in the statement of financial position represents:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| Balance of income tax provision relating to prior years | **9,387** | 8,144 |
| Provision for PRC income tax for the year | **7,404** | 10,159 |
| Provision for withholding tax for dividends paid by a subsidiary in the PRC | **–** | 1,271 |
| Under-provision in respect of prior years | **67** | – |
| Tax paid | **(9,339)** | (10,187) |
| PRC income tax payable | **7,519** | 9,387 |

### (b) Deferred tax assets/(liabilities) recognised:

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movement during the year are as follows:

| | The Group | | |
|---|---|---|---|
| | **Deferred tax on accumulated losses of PRC subsidiaries** | **Withholding tax on future dividend income from PRC subsidiaries (Note 7(a))** | **Total** |
| | $'000 | $'000 | $'000 |
| Deferred tax arising from: | | | |
| At 1 August 2009 | 6,499 | (1,398) | 5,101 |
| Credited/(charged) to profit or loss | 8,175 | (364) | 7,811 |
| At 31 July 2010 | 14,674 | (1,762) | 12,912 |
| At 1 August 2010 | 14,674 | (1,762) | 12,912 |
| Credited/(charged) to profit or loss | (14,674) | 17 | (14,657) |
| At 31 July 2011 | – | (1,745) | (1,745) |

## 26 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (CONTINUED)

### (b) Deferred tax assets/(liabilities) recognised: (continued)

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| Net deferred tax asset recognised in the statement of financial position | – | 14,674 |
| Net deferred tax liability recognised in the statement of financial position | (1,745) | (1,762) |
| | (1,745) | 12,912 |

### (c) Deferred tax assets not recognised:

No deferred tax assets in respect of cumulative tax losses of $123,110,000 (2010: $4,719,000) have been recognised as it is not probable that the future taxable profits against which the losses can be utilised will be generated. The tax losses incurred by subsidiaries incorporated in the PRC expire five years after they are incurred. In addition, other deferred tax assets or liabilities have not been recognised as all the deductible or temporary differences are not material.

## 27 SHARE CAPITAL

### (a) Share capital

(i) Authorised and issued share capital

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | 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 1 August | 866,976 | 43,349 | 866,976 | 43,349 |
| Shares issued by rights issue (note 27(a)(ii)) | 288,992 | 14,449 | – | – |
| At 31 July | 1,155,968 | 57,798 | 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.

## 27 SHARE CAPITAL (CONTINUED)

### (a) Share capital (continued)

(ii) Rights issue with bonus warrants

On 16 March 2011, 288,992,000 ordinary shares were issued at the subscription price of $0.12 each by way of rights issue. The gross proceeds received by the Company from the rights issue were approximately $34,679,000, among which $14,449,000 was credited to the share capital account and the balance of $18,199,000 (net of professional fees of $2,031,000) was credited to the share premium account.

Upon completion of and in connection with the rights issue, an aggregate of 144,496,000 bonus warrants were issued to the subscribers on the basis of one bonus warrant for every two rights shares taken up, whereby options were issued to the subscribers to subscribe for ordinary shares at an exercise price of $0.12 per share for the period from 16 March 2011 to 15 March 2014.

(iii) Terms of unexpired and unexercised share options at the end of the reporting period

| **Exercise period** | **Exercise price $** | **Number of options 2011 '000** | Exercise price $ | Number of options 2010 '000 |
|---|---|---|---|---|
| 1 August 2010 to 31 July 2013 | **0.169** | **25,748** | 0.18 | 26,040 |
| 1 August 2011 to 31 July 2013 | **0.169** | **25,748** | 0.18 | 26,040 |
| 1 August 2012 to 31 July 2013 | **0.169** | **34,211** | 0.18 | 34,600 |
| | | **85,707** | | 86,680 |

Each share option entitles the holder to subscribe for one ordinary share in the Company. Further details of these share options are set out in note 25 to these financial statements.

### (b) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing borrowings, trade and other payables, obligations under finance leases and loan from a substantial shareholder), less cash and cash equivalents and deposits with banks. Adjusted capital comprises all components of equity.

## 27 SHARE CAPITAL (CONTINUED)

### (b) Capital management (continued)

The Group's strategy is to maintain the net debt-to-adjusted capital ratio below 200%. During the year ended 31 July 2011, the Group's net debt-to-adjusted capital ratio was 227%. In order to maintain the ratio at a reasonable level in the future, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The net debt-to-adjusted capital ratio at 31 July 2011 and 2010 was as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| **Current liabilities:** | | |
| Trade and other payables (note 22) | **525,036** | 488,744 |
| Interest-bearing borrowings (note 23) | **454,886** | 411,433 |
| Obligations under finance leases (note 24) | **7,962** | 10,051 |
| Loan from a substantial shareholder (note 33(c)) | **4,894** | 6,539 |
| | **992,778** | 916,767 |
| **Non-current liabilities:** | | |
| Other payables (note 22(c)) | **6,303** | 29,794 |
| Interest-bearing borrowings (note 23) | **248,814** | 322,621 |
| Obligations under finance leases (note 24) | **–** | 6,700 |
| Loan from a substantial shareholder (note 33(c)) | **–** | 4,877 |
| Total debt | **1,247,895** | 1,280,759 |
| Less: Deposits with banks (note 20) | **(60,733)** | (74,531) |
| Cash and cash equivalents (note 21) | **(115,332)** | (96,940) |
| **Net debt** | **1,071,830** | 1,109,288 |
| **Adjusted capital** | **471,206** | 457,619 |
| **Net debt-to-adjusted capital ratio** | **227%** | 242% |

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 28 RESERVES

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

| | Share premium $'000 (Note 28 (b)(i)) | Contributed surplus $'000 (Note 28 (b)(i)) | Employee share-based capital reserve $'000 (Note 28 (b)(iv)) | Retained profits $'000 | Total $'000 |
|---|---|---|---|---|---|
| **At 1 August 2009** | 72,006 | 138,706 | – | 30,687 | 241,399 |
| **Changes in equity for 2010:** | | | | | |
| Total comprehensive loss for the year | | | | (4,157) | (4,157) |
| Equity settled share-based transactions (Note 25) | – | – | 2,911 | – | 2,911 |
| **At 31 July 2010** | 72,006 | 138,706 | 2,911 | 26,530 | 240,153 |
| **At 1 August 2010** | 72,006 | 138,706 | 2,911 | 26,530 | 240,153 |
| **Changes in equity for 2011:** | | | | | |
| Total comprehensive income for the year | | | | 6,865 | 6,865 |
| Issuance of shares by rights issue (Note 27 (a)(ii)) | 18,199 | – | – | – | 18,199 |
| Equity settled share-based transactions (Note 25) | – | – | 2,596 | – | 2,596 |
| **At 31 July 2011** | 90,205 | 138,706 | 5,507 | 33,395 | 267,813 |

### (b) Nature and purpose of reserves

(i) Share premium and contributed surplus

(a) Under the Companies Law of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(b) Pursuant to a reorganisation, the Company became the holding company of the Group on 20 January 2002. The excess of the consolidated net assets represented by the shares acquired over the nominal value of shares issued by the Company in exchange under the reorganisation was transferred to contributed surplus. In the consolidated financial statements, capital reserves represents the difference between (a) the nominal value of shares of the subsidiaries acquired; and (b) the nominal value of the shares issued by the Company in exchange under the reorganisation of the Group on 20 January 2002.

## 28 RESERVES (CONTINUED)

### (b) Nature and purpose of reserves (continued)

(ii) Foreign exchange translation reserve

The foreign exchange translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy as set out in note 1(s).

(iii) Statutory reserve fund

According the articles of association of the subsidiaries of the Company in the PRC, the subsidiaries are required to transfer at least 10% of their net profit, as determined in accordance with the PRC accounting rules and regulations applicable to enterprises with foreign investment, to the statutory reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to the Company.

The statutory reserve fund can be used to make good previous years' losses, if any, and may be converted into share capital.

(iv) Employee share-based capital reserve

Employee share-based capital reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group in accordance with the accounting policy adopted for share-based payments in note 1(o)(ii).

(v) Distributable reserves

As 31 July 2011, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to $262,306,000 (2010: $237,242,000) subject to the restrictions stated above.

## 29 ACQUISITION OF NON-CONTROLLING INTEREST

In March 2010, the Group acquired a 10% equity interest in VSA(HK) for a cash consideration of $1,385,000. Through the acquisition, the Group increased its effective equity interest in VSA(HK) from 71% to 81%. The carrying amount of VSA(HK)'s net assets in the consolidated financial statements on the date of the acquisition was $12,330,000. The Group recognised a decrease in non-controlling interests of $1,234,000 and a decrease in retained earnings of $151,000.

The following table summarises the effect of changes in the Group's equity interest in VSA(HK) for the year ended 31 July 2010:

| | $'000 |
|---|---|
| Equity interest in VSA(HK) at beginning of the year | 8,767 |
| Effect of increase in VSA(HK)'s equity interest | 1,234 |
| Share of comprehensive income during the year ended 31 July 2010 | 1,681 |
| Equity interest in VSA(HK) at the end of period | 11,682 |

## 30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payment when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 120 days from the date of billing. Debtors with balances that are more than 12 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of the reporting period, the Group has a certain concentration of credit risk as 6% (2010: 7%) and 25% (2010: 28%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. Except for the financial guarantees given by the Company as set out in note 32, the Group or the Company does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 32.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

## 30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

### (b) Liquidity risk (continued)

The following table show the remaining contractual maturities at the end of the reporting period of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay:

The Group

| | 2011 | | | | | 2010 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount $'000 | Total contractual undiscounted cash flows $'000 | Within 1 year or on demand $'000 | More than 1 year but less than 2 years $'000 | More than 2 years but less than 5 years $'000 | Carrying amount $'000 | Total contractual undiscounted cash flows $'000 | Within 1 year or on demand $'000 | More than 1 year but less than 2 years $'000 | More than 2 years but less than 5 years $'000 |
| Trade and other payables | 531,339 | 531,985 | 525,618 | 6,367 | - | 518,538 | 520,398 | 490,187 | 30,211 | – |
| Interest-bearing borrowings | 703,700 | 734,113 | 476,318 | 74,599 | 183,196 | 734,054 | 742,612 | 429,642 | 25,280 | 287,690 |
| Obligations under finance leases | 7,962 | 8,175 | 8,175 | - | - | 16,751 | 18,188 | 11,241 | 6,947 | – |
| Loans from a substantial shareholder | 4,894 | 5,079 | 5,079 | - | - | 11,416 | 12,341 | 7,280 | 5,061 | – |
| | 1,247,895 | 1,279,352 | 1,015,190 | 80,966 | 183,196 | 1,280,759 | 1,293,539 | 938,350 | 67,499 | 287,690 |

The Company

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Carrying amount $'000 | Total contractual undiscounted cash flows $'000 | Within 1 year or on demand $'000 | Carrying amount $'000 | Total contractual undiscounted cash flows $'000 | Within 1 year or on demand $'000 |
| Other payables | 5,924 | 5,924 | 5,924 | 716 | 716 | 716 |
| Amounts due to subsidiaries | 131,205 | 131,205 | 131,205 | 167,734 | 167,734 | 167,734 |
| | 137,129 | 137,129 | 137,129 | 168,450 | 168,450 | 168,450 |

As shown in the above analysis, bank loans of the Group amounting to $476,318,000 were due to be repaid during the year ended 31 July 2011. The short-term liquidity risk inherent in this contractual maturity date will be addressed after the end of the reporting period by renewing the current bank loans upon expiry as mentioned in note 1(b).

## 30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

### (c) Interest rate risk

The Group's interest rate risk arises primarily from borrowings issued at variable rates. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group adopts a policy of ensuring that between 10% and 20% of its net borrowings are effectively on a fixed rate basis through the contractual terms of the interest-bearing financial liabilities. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest bearing borrowings at the end of the reporting period.

| | The Group | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| | **Effective interest rates %** | **Amount $'000** | Effective interest rates % | Amount $'000 |
| *Fixed rate borrowings:* | | | | |
| Other payables | | **32,782** | 7.9% | 25,860 |
| Loans from a substantial shareholder | **5.0%** | **4,894** | 5.0% | 11,416 |
| Bank loans | **6.0%** | **110,171** | 5.1% | 81,385 |
| | | **147,847** | | 118,661 |
| *Variable rate borrowings:* | | | | |
| Bank overdrafts | **7.2%** | **20,393** | 7.1% | 26,685 |
| Bank loans | **4.0%** | **573,136** | 4.2% | 625,984 |
| Obligations under finance leases | **8.1%** | **7,962** | 8.1% | 16,751 |
| | | **601,491** | | 669,420 |
| Total net borrowings | | **749,338** | | 788,081 |
| Fixed rate borrowings as a percentage of total net borrowings | | **19.7%** | | 15.1% |

## 30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

### (c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 July 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variable held constant, would have increased/decreased the Group's loss after taxation by approximately $4,444,000 (2010: $5,300,000) and would have decreased/increased retained profits by approximately $4,444,000 (2010: $5,300,000).

The sensitivity analysis above indicates the instantaneous change in the Group's loss after taxation (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's loss after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis for 2010.

### (d) Currency risk

(i) Forecast transactions

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Hong Kong dollars ("HKD"), United States dollars ("USD"), Japanese Yen and Renminbi ("RMB").

RMB is not freely convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China ("PBOC"). With the authorisation from the PRC government, the PBOC announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies on 21 July 2005. However, it does not imply convertibility of RMB into other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other institutions authorised to buy and sell foreign currencies. Approval of foreign currency payments, including remittances of dividends, by the PBOC or other institutions requires submitting a payment application form together with relevant supporting documents.

## 30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

### (d) Currency risk (continued)

(i) Forecast transactions (continued)

As the HKD is pegged to the USD, the Group does not expect any significant currency risk of Hong Kong dollar position. Some of the Group's sales transactions are denominated in USD. In view of the appreciation of RMB against USD during the year ended 31 July 2011, the Group was exposed to foreign currency risk in respect of certain trade receivables denominated in USD. In view of the foreign currency risk exposure, the Group entered into certain forward exchange contracts with aggregate notional contract amounts of USD44,800,000 during the year ended 31 July 2011 (2010: Nil) to hedge against the trade receivables denominated in USD. A net realised gain of $1,391,000 on settlement of forward exchange contracts entered into during the year ended 31 July 2011 (2010: Nil) is included in "Net loss on forward exchange contracts" in note 4 to the financial statements.

The Group does not adopt hedge accounting as the management considers that the adoption of hedge accounting would require an assessment of the effectiveness of the hedge on an ongoing basis and, therefore, involve expense and delay out of proportion to the value to the shareholders of the Company.

(ii) Recognised assets and liabilities

In respect of other trade receivables and payables held in currencies other than USD or the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The Group's borrowings are mainly denominated in USD, HKD and RMB. In view of the appreciation of RMB against the USD/HKD, the Group adopts a policy to increase the portion of USD/HKD denominated borrowings as compared to RMB denominated borrowings gradually. The balance of USD/HKD and RMB denominated borrowings as at 31 July 2011 amounted to $539,051,000 (2010: $577,297,000) and $164,649,000 (2010: $156,757,000) respectively.

## 30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

### (d) Currency risk (continued)

(iii) Exposure to currency risk

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | USD | | HKD | | RMB | | Japanese Yen | |
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Trade and other receivables | **181,122** | 77,874 | **61,053** | 14,954 | **1,469** | 82,009 | **–** | – |
| Deposits with bank | **11,495** | 11,385 | **–** | – | **–** | 38,552 | **–** | – |
| Cash and cash equivalents | **54,137** | 10,831 | **243** | 614 | **–** | 8,785 | **–** | – |
| Trade and other payables | **(197,138)** | (39,085) | **(10,972)** | (17,005) | **–** | (162,481) | **(43,572)** | (50,883) |
| Interest-bearing borrowings | **(269,114)** | (124,533) | **(254,437)** | (287,600) | **–** | (75,211) | **–** | – |
| Overall net exposure | **(219,498)** | (63,528) | **(204,113)** | (289,037) | **1,469** | (108,346) | **(43,572)** | (50,883) |

## 30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

### (d) Currency risk (continued)

(iv) Sensitivity analysis

The following table indicates the instantaneous change in the Group's loss after taxation (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

| | **2011** | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Increase in foreign exchange rates %** | **Effect on loss after taxation $'000** | **Effect on retained earnings $'000** | Increase in foreign exchange rates % | Effect on loss after taxation $'000 | Effect on retained earnings $'000 |
| USD | **1%** | **1,747** | **(1,747)** | 5% | 28,107 | (28,107) |
| RMB | **5%** | **(70)** | **70** | 8% | 6,363 | (6,363) |
| Japanese Yen | **10%** | **3,945** | **(3,945)** | 5% | 228 | (228) |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss after taxation and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes. The same degree of weakening of the foreign exchange rates at 31 July would have had the equal but opposite effect by the amounts shown above.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis has been performed on the same basis for 2010.

## 30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

### (e) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which an significant input is not based on observable market data

At 31 July 2011, the financial instruments carried at fair value were as follows:

| | **Level 1** | |
|---|---|---|
| The Group | **2011**<br>**$'000** | 2010<br>$'000 |
| **Assets** | | |
| Derivative financial instruments | | |
| – Forward exchange contracts (note 19) | **1,391** | – |

(ii) Fair values of financial instruments carried at other than fair value

All financial instruments are carried at amounts not materially different from their fair values as at 31 July 2011 and 2010.

## 30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

### (f) Estimation of fair value

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

(i) Derivatives

Foreign exchange forward contracts are marked to market using listed market prices.

(ii) Interest-bearing loans and borrowings and finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(iii) Financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantees are made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

(iv) Interest rate used for determining fair value

The market interest rates adopted are as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| Other payables | **7.5%-9.7%** | 7.5%-9.7% |
| Loans and borrowings | **2.2%-7.9%** | 3.4%-7.1% |
| Loan from a substantial shareholder | **5.0%-5.6%** | 5.0%-5.6% |
| Finance lease liabilities | **6.6%-8.6%** | 6.6%-8.6% |

## 31 COMMITMENTS

### (a) Capital commitments

Capital commitments outstanding at 31 July 2011 not provided for in the financial statements are as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| Contracted for | **606** | – |

## 31 COMMITMENTS (CONTINUED)

### (b) Operating lease commitments

The Group leases a number of properties under operating leases. The leases typically run for periods from within one year with an option to renew the lease upon expiry when all terms are renegotiated. Lease charges in respect of these operating leases amounted to $10,423,000 (2010: $9,959,000) were recognised as expenses in the consolidated income statement. None of the leases includes contingent rentals.

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| Within one year | **456** | 524 |

Significant leasing arrangements in respect of machinery classified as being held under finance leases and land held under operating lease are described in notes 14 and 24.

## 32 CONTINGENT LIABILITIES

The contingent liabilities of the Company as at 31 July 2011 and 31 July 2010 were as follows:

| | The Company | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| Guarantees given to banks by the Company in respect of banking facilities utilised by certain subsidiaries | **486,620** | 544,884 |
| Guarantees given to suppliers of credit facilities utilised by certain subsidiaries | **9,788** | 8,589 |
| | **496,408** | 553,473 |

As at the end of the reporting period, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. Deferred income in respect of the guarantees issued is disclosed in note 22.

## 33 MATERIAL RELATED PARTY TRANSACTIONS

**(a) In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:**

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| Sales to a substantial shareholder | **2,710** | 935 |
| Sales to an associate | **10,124** | 9 |
| Sales to a minority shareholder of VSA(HK) | **–** | 9,770 |
| | **12,834** | 10,714 |
| Interest paid and payable to a substantial shareholder (note 33(c)) | **309** | 555 |
| Operating lease charges paid and payable to a company controlled by a director | **9,323** | 8,989 |
| Purchase of raw materials from an associate | **6,576** | 3,712 |
| Purchase of raw materials from an minority shareholder of VSA (HK) | **–** | 3,146 |
| Purchase moulds fabricated and certain moulded productions and parts from a company controlled by the family member of a director | **711** | 2,558 |
| Management fee paid and payable to a company controlled by a director | **673** | 649 |
| Sub-contracting fee paid and payable to a company controlled by the family member of a director | **3,729** | 5,713 |
| Repair and maintenance services paid and payable to a company controlled by the family member of a director | **938** | 2,053 |

## 33 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

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

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| Amount due from a company controlled by a director | **4,821** | 6,739 |
| Amount due from associates | **10,329** | 53 |
| Amount due from a substantial shareholder | **1,660** | 876 |
| Amount due to a company controlled by the family member of a director | **817** | – |
| | **17,627** | 7,668 |

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

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

| | The Group | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| | **Trade and other payables $'000** | **Loan from a substantial shareholder* $'000** | Trade and other payables $'000 | Loan from a substantial shareholder* $'000 |
| Amount due to directors | 300 | – | 300 | – |
| Amount due to a company controlled by a director | 1,013 | – | 1,643 | – |
| Amount due to a company controlled by the family member of a director | 1,937 | – | 1,951 | – |
| Amount due to associates | 501 | – | 2,524 | – |
| Amount due to a substantial shareholder* | | | | |
| – current portion | 123 | 4,894 | 1,750 | 6,539 |
| – non-current portion | – | – | – | 4,877 |
| | 3,874 | 4,894 | 8,168 | 11,416 |

* Pursuant to the loan agreement entered into between the Group and the substantial shareholder dated 20 January 2002, the loan, which amounted to USD6,279,000 (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 (2010: 5%) on the outstanding balance. Interest paid and payable to the substantial shareholder, amounted to $309,000 (2010: $555,000) for the year ended 31 July 2011.

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 repayment.

## 33 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

### (d) Key management personnel remuneration

The Group has not identified any person, other than the directors of the Company, having the authority and responsibility for planning, directing and controlling the activities of the Group. Details of the remuneration of the directors of the Company are set out in note 8.

## 34 ACCOUNTING ESTIMATES AND JUDGEMENTS

Note 30 contain information about the assumptions and their risk factors relating to the fair value of financial instruments. The Group believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the financial statements:

### (a) Going concern basis of preparation

As disclosed in note 1(b), the financial statements have been prepared on a going concern basis. The appropriateness of the going concern basis is assessed after taking into consideration all relevant available information about the future of the Group, including business forecasts and cash flow projections for the year ending 31 July 2011. Such forecasts and projections about the future inherently involve uncertainties. Actual results could differ significantly and hence render the adoption of the going concern basis not appropriate.

### (b) Depreciation

Property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets, taking into account upgrading and improvement work performed, and anticipated technological changes. The depreciation for future periods is adjusted if there are significant changes from previous estimates.

### (c) Provision for inventories

As explained in note 1(j), the Group's inventories are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the inventories, the Group makes estimates of the selling prices, the costs to be incurred in selling the inventories and the costs of completion in case for work in progress. Uncertainty exists in these estimations.

### (d) Impairment losses for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing of the trade receivable balance, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimates.

(Expressed in Hong Kong dollars unless otherwise indicated)

## 35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 JULY 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and interpretations and one new standard which are not yet effective for the year ended 31 July 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| Amendments to HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards – Severe hyperinflation and removal of fixed dates for first-time adopters* | 1 July 2011 |
| Amendments to HKFRS 7, *Financial instruments: Disclosures-Transfers of financial assets* | 1 July 2011 |
| Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets* | 1 January 2012 |
| Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income* | 1 July 2012 |
| HKFRS 9, *Financial instruments (2009)* | 1 January 2013 |
| HKFRS 9, *Financial instruments (2010)* | 1 January 2013 |
| HKFRS 10, *Consolidated financial statements* | 1 January 2013 |
| HKFRS 11, *Joint arrangements* | 1 January 2013 |
| HKFRS 12, *Disclosure of interests in other entities* | 1 January 2013 |
| HKFRS 13, *Fair value measurement* | 1 January 2013 |
| HKAS 27, *Separate financial statements (2011)* | 1 January 2013 |
| HKAS 28, *Investments in associates and joint ventures (2011)* | 1 January 2013 |
| Revised HKAS 19, *Employee benefits* | 1 January 2013 |

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

## 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
Lee Soo Gee
Tang Sim Cheow

## AUDIT COMMITTEE OF THE BOARD

Diong Tai Pew *(Chairman of the Audit Committee)*
Lee Soo Gee
Tang Sim Cheow

## REMUNERATION COMMITTEE OF THE BOARD

Lee Soo Gee
*(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

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Trustee (Cayman) Limited
PO 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
The Bank of East Asia (China) Limited
Industrial & Commercial Bank of China Ltd.
Agricultural Bank of China

## 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

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VSA Holding Hong Kong Co., Limited
V.S. Capital Holdings Limited
V.S. Industry Holding Limited
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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
The People's Republic of China
Tel. No: (86) 756 6295 888
Fax No: (86) 756 3385 691/681

Qingdao GS Electronics Plastic Co., Ltd.
Haivs Industry (Qingdao) Co., Ltd.
Qianwangang Road South
Haier International Industrial Park
Qingdao Economic and Technology Development Zone
Huangdao District
266510 Qingdao
Shandong Province
The People's Republic of China
Tel. No: (86) 532 8676 2188
Fax No: (86) 532 8676 2233

Qingdao GP Electronic Plastics Co., Ltd.
Qingdao GP Precision Mold Co., Ltd.
Hetao Export Processing Zone
Chengyang District
266113 Qingdao
Shangdong Province
The People's Republic of China
Tel. No: (86) 532 8792 3666
Fax No: (86) 532 8792 3660

## ASSOCIATED COMPANY

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

## 1 MAJOR PROPERTY UNDER DEVELOPMENT

| Location | Intended use | Expected date of completion | Site area (sq.m.) | Group interest (%) |
|---|---|---|---|---|
| **Outside Hong Kong** | | | | |
| Vacant land situated at Beisha Village<br>Tangjia Wan Town<br>Xiangzhou District<br>Zhuhai<br>Guangdong Province<br>The People's Republic of China | Industrial | July 2012 | 39,600 | 100 |

## 2 MAJOR PROPERTIES HELD FOR OWN USE

| Location | Existing use | Term of lease | Group's interest (%) |
|---|---|---|---|
| **Outside Hong Kong** | | | |
| Phase I, II, III, IV, V and VI of an industrial complex situated at Beisha Village<br>Tangjia Wan Town<br>Xiangzhou District<br>Zhuhai<br>Guangdong Province<br>The People's Republic of China | Industrial | Medium | 100 |
| An industrial complex situated at Qianwangang Road South<br>Haier International Industrial Park<br>Qingdao Economic and Technology Development Zone<br>Huangdao District<br>Qingdao<br>Shandong Province<br>The People's Republic of China | Industrial | Medium | 100 |
| An industrial complex situated at Hetao Export Processing Zone<br>Qingdao City, Chengyang District<br>Qingdao<br>Shandong Province<br>The People's Republic of China | Industrial | Medium | 100 |

# Five Years Summary

*(Expressed in Hong Kong dollars)*

| | | 2011 $'000 | 2010 $'000 | 2009 $'000 | 2008 $'000 | 2007 $'000 |
|---|---|---|---|---|---|---|
| **Results** | | | | | | |
| Turnover | | **1,629,534** | 1,496,888 | 1,198,829 | 1,374,223 | 1,495,291 |
| (Loss)/profit from operations | | **(3,002)** | 19,121 | (17,857) | 58,228 | 118,049 |
| Finance costs | | **(39,806)** | (34,158) | (47,296) | (47,650) | (54,961) |
| Share of profits less losses of associates | | **3,778** | 4,735 | 844 | 1,903 | (4,782) |
| Gain on disposal of associates | | **–** | – | – | 5,286 | – |
| (Loss)/profit before taxation | | **(39,030)** | (10,302) | (64,309) | 17,767 | 58,306 |
| Income tax | | **(22,128)** | (3,619) | (4,558) | (6,625) | (8,615) |
| (Loss)/profit for the year | | **(61,158)** | (13,921) | (68,867) | 11,142 | 49,691 |
| Attributable to: | | | | | | |
| Equity shareholders of the Company | | **(61,047)** | (14,315) | (68,685) | 11,464 | 50,137 |
| Non-controlling interests | | **(111)** | 394 | (182) | (322) | (446) |
| (Loss)/profit for the year | | **(61,158)** | (13,921) | (68,867) | 11,142 | 49,691 |
| **Assets and liabilities** | | | | | | |
| Non-current assets | | **843,840** | 898,825 | 912,936 | 870,664 | 822,391 |
| Current assets | | **884,525** | 850,702 | 603,095 | 682,436 | 678,072 |
| Total assets | | **1,728,365** | 1,749,527 | 1,516,031 | 1,553,100 | 1,500,463 |
| Current liabilities | | **(1,000,297)** | (926,154) | (702,458) | (682,899) | (826,802) |
| Non-current liabilities | | **(256,862)** | (365,754) | (349,252) | (335,356) | (213,230) |
| **NET ASSETS** | | **471,206** | 457,619 | 464,321 | 534,845 | 460,431 |
| Share capital | | **57,798** | 43,349 | 43,349 | 43,349 | 43,349 |
| Reserves | | **410,778** | 411,529 | 417,391 | 487,733 | 412,997 |
| Non-controlling interests | | **2,630** | 2,741 | 3,581 | 3,763 | 4,085 |
| **TOTAL EQUITY** | | **471,206** | 457,619 | 464,321 | 534,845 | 460,431 |
| **(Loss)/earnings per share** | | | | | | |
| Basic | | **(6.22) cents** | (1.65) cents | (7.92) cents | 1.32 cents | 5.87 cents |
| Diluted | Note | **(6.22) cents** | (1.65) cents | (7.92) cents | 1.32 cents | 5.83 cents |

Note:

The calculation of diluted earnings per share for the years ended 31 July 2007 was based on the profit attributable to ordinary shareholders of $50,137,000 and weighted average number of ordinary shares of 859,502,362, 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 years ended 31 July 2008, 2009 and 2010. During the year ended 31 July 2011, the effects of share options and bonus warrants are antidilutive.