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V.S. INTERNATIONAL GROUP LIMITED

威 鉞 國 際 集 團 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(stock code: 1002)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 JULY 2019

HIGHLIGHTS

- Revenue decreased by 41.83% to RMB649.09 million;
- Loss for the year attributable to owners of the Company was RMB122.16 million;
- Basic loss per share was 5.29 Renminbi cent.

The Board (“**Board**”) of directors (“**Directors**”) of V.S. International Group Limited (“**Company**”) would like to announce the consolidated results of the Company and its subsidiaries (together, the “**Group**”) for the financial year ended 31 July 2019, prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”), together with comparative figures for the previous financial year. The figures in respect of the preliminary announcement of the Group’s results for the financial year ended 31 July 2019 have been compared by the Company’s auditor, PricewaterhouseCoopers, Certified Public Accountants, with the amounts set out in the Group’s audited consolidated financial statements for the year ended 31 July 2019 and the amounts were found to be in agreement. The work performed by PricewaterhouseCoopers in respect of this announcement was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditor on this announcement. In addition, this announcement (including the annual results) has been reviewed by the audit committee of the Company (“**Audit Committee**”).

CONSOLIDATED INCOME STATEMENT

For the year ended 31 July 2019

	<i>Note</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue	2	649,092	1,115,885
Cost of sales		<u>(620,750)</u>	<u>(966,302)</u>
Gross profit		28,342	149,583
Other income	3	3,207	8,716
Other (losses)/gains – net	3	(44,945)	2,901
Distribution costs		(16,327)	(45,907)
General and administrative expenses		<u>(77,704)</u>	<u>(97,576)</u>
Operating (loss)/profit	5	<u>(107,427)</u>	<u>17,717</u>
Finance income		1,621	881
Finance costs		<u>(15,802)</u>	<u>(13,847)</u>
Finance costs – net	6	<u>(14,181)</u>	<u>(12,966)</u>
Share of loss of an associate		<u>–</u>	<u>(17,274)</u>
Loss before income tax		(121,608)	(12,523)
Income tax (expense)/credit	7	<u>(554)</u>	<u>3,672</u>
Loss for the year attributable to owners of the Company		<u>(122,162)</u>	<u>(8,851)</u>
		2019 <i>RMB cent</i>	2018 <i>RMB cent</i>
Loss per share attributable to owners of the Company during the year			
Basic and diluted	9	<u>(5.29)</u>	<u>(0.39)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 July 2019

		As at 31 July 2019 RMB'000	As at 31 July 2018 RMB'000
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment		376,815	463,488
Land use rights		13,348	13,751
Interest in an associate		—	—
Prepayments	10	7,813	18,349
Available-for-sale investment		—	8,198
Financial asset at fair value through other comprehensive income		4,900	—
Deferred income tax assets		314	466
		<u>403,190</u>	<u>504,252</u>
Current assets			
Inventories		49,250	115,881
Contract assets		5,205	—
Trade and other receivables, deposits and prepayments	10	128,925	205,210
Amounts due from related parties		2,682	9,550
Restricted bank balances	11	66,582	68,024
Cash and cash equivalents		71,758	86,159
		<u>324,402</u>	<u>484,824</u>
Assets classified as held-for-sale	12	<u>—</u>	<u>22,664</u>
Total assets		<u>727,592</u>	<u>1,011,740</u>
EQUITY			
Capital and reserves			
Share capital		105,013	105,013
Share premium		306,364	306,364
Other (deficits)/reserves		<u>(20,039)</u>	<u>98,911</u>
Total equity attributable to owners of the Company		<u>391,338</u>	<u>510,288</u>

		As at 31 July 2019 RMB'000	As at 31 July 2018 RMB'000
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Loan from a director		17,245	—
Borrowings		—	5,880
Finance lease liabilities		5,974	4,683
Deferred income tax liabilities		1,721	1,782
		<u>24,940</u>	<u>12,345</u>
Current liabilities			
Trade and other payables	13	121,234	227,455
Amounts due to related parties		1,913	1,433
Borrowings		176,393	252,369
Finance lease liabilities		11,300	6,031
Tax payables		474	1,819
		<u>311,314</u>	<u>489,107</u>
Total liabilities		<u>336,254</u>	<u>501,452</u>
Total equity and liabilities		<u>727,592</u>	<u>1,011,740</u>

1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared on a historical cost basis, except for financial asset at fair value through other comprehensive income, which is measured at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

(a) New standards, amendments to existing standards and interpretations adopted by the Group

The Group has applied the following new standards, amendments to existing standards and interpretations for the first time for their annual reporting period commencing 1 August 2018:

Standards	Subject of amendment
Amendments to HKFRS 1 and HKAS 28	Annual Improvements 2014-2016 Cycle
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarifications to HKFRS 15
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

The impact of the adoption of HKFRS 9, “Financial Instruments” and HKFRS 15, “Revenue from Contracts with Customers” are disclosed in the note below.

Apart from aforementioned HKFRS 9 and HKFRS 15, there are no other new standards, amendments to existing standards or interpretations that are effective for the first time for this reporting period that could be expected to have a material impact on the Group.

(b) New standards, amendments to existing standards and interpretations not yet adopted

Standards	Subject of amendment	Effective for annual periods beginning on or after
Amendments to Annual Improvements Project	Annual Improvements 2015-2017 Cycle	1 August 2019
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 August 2019
Amendments to HKAS 28	Long-term Interests in Associates or Joint Venture	1 August 2019
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 August 2019
HKFRS 16	Leases	1 August 2019
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 August 2019
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 August 2020
Amendments to HKFRS 3	Definition of a Business	1 August 2020
HKFRS 17	Insurance Contracts	1 August 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group's assessment of the impact of these new standards, amendments to existing standards and interpretations is set out below.

HKFRS 16, "Leases"

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB2,455,000. All are related to short-term lease and will be recognised on a straightline basis as expense in profit or loss.

For leases previously classified as "finance leases", the Group will reclassify these leased assets of RMB36,049,000 included in property, plant and equipment and its corresponding finance lease liabilities of RMB17,274,000 as right-of-use assets and lease liabilities, respectively as at 1 August 2019 (date of initial application).

The land use rights of RMB13,348,000 will also be reclassified as right-of-use assets as at 1 August 2019.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the consolidated financial statements. However, some additional disclosures will be required from next year.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 August 2019. The Group intends to apply the simplified transition approach which means that the comparatives for the 2019 reporting period will not be restated.

The right-of-use assets will be measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid rental expenses relating to that lease recognised in the consolidated statement of financial position as at 1 August 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Except for HKFRS16 as discussed above, there are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

The following explains the impact of the adoption of HKFRS 9, "Financial Instruments" and HKFRS 15, "Revenue from Contracts with Customers" on the Group's consolidated financial statements and also discloses the new accounting policies that have been applied from 1 August 2018, where they are different to those applied in prior periods.

The Group elected to adopt HKFRS 9 and HKFRS 15 without restating comparatives. The reclassifications and the adjustments arising from adoption of HKFRS 9 and HKFRS 15 are therefore not reflected in the consolidated statement of financial position as at 31 July 2018, but are recognised in the opening consolidated statement of financial position on 1 August 2018.

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Consolidated statement of financial position (extract)	As at 31 July 2018 As originally presented RMB'000	Effect of adoption of HKFRS 9 RMB'000	Effect of adoption of HKFRS 15 RMB'000	As at 1 August 2018 Restated RMB'000
Non-current assets				
Available-for-sale investment	8,198	(8,198)	–	–
Financial asset at fair value through other comprehensive income	–	8,198	–	8,198
Current assets				
Contract assets	–	–	33,411	33,411
Inventories	115,881	–	(34,839)	81,042
Current liabilities				
Receipts in advance, included in trade and other payables	12,295	–	(12,295)	–
Contract liabilities, included in trade and other payables	–	–	4,357	4,357
Equity				
Retained earnings, included in reserves	<u>12,876</u>	<u>–</u>	<u>6,510</u>	<u>19,386</u>

HKFRS 9 “Financial Instruments” – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 “Financial Instruments” from 1 August 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

(i) Classification and measurements

On 1 August 2018 (the date of initial application of HKFRS 9), the Group’s management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this classification are as follows:

Equity investment previously classified as available-for-sale investment

The Group elected to present changes in the fair value of its equity investment previously classified as available-for-sale financial asset in other comprehensive income (“OCI”). As a result, assets with a fair value of RMB8,198,000 were reclassified from available-for-sale financial asset to FVOCI on 1 August 2018.

The Group subsequently measures its equity investment at fair values. Where the Group’s management has elected to present fair value gains and losses on equity investment in OCI, there is no subsequent reclassification of fair value gains and losses to consolidated income statement following the derecognition of the investment. Dividends from such investments continue to be recognised in consolidated income statement as other income when the Group’s right to receive payments is established.

Other than that, there were no changes to the classification and measurement of financial instruments.

(ii) Impairment of financial assets and contract assets

Besides of contract assets, the Group has two types of financial assets as at 1 August 2018 that are subject to HKFRS 9’s new expected credit loss model:

- trade receivables; and
- other financial assets measured at amortised costs (including cash and cash equivalents, restricted bank balance, bank deposits, other receivables and amounts due from related parties)

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology is as follows:

Trade receivables and contract assets

The Group applies the simplified approach to measuring expected credit losses prescribed by HKFRS 9 which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

The impairment loss for financial assets are based on assumptions about risk of default and expect loss rates. The Group use judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the customers’ past settlement pattern, existing market condition as well as forward looking estimates at the end of each reporting period.

As at the date of adoption on 1 August 2018 and during the year ended 31 July 2017, the Group has assessed the expected credit loss model applied and the change in impairment methodologies has no significant impact to the Group’s allowance for impairment.

Other financial assets measured at amortised cost

Other financial assets at amortised cost mainly include other receivables and amounts due from related parties. The Group has applied the expected credit loss model to other receivables and amounts due from related parties as at 1 August 2018 and the change in impairment methodologies did not have any material impact on the Group’s consolidated financial statements and the opening loss allowance is not restated in this respect. While cash and cash equivalents, restricted bank balance and bank deposits are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

HKFRS 15 “Revenue from Contracts with Customers” – Impact of adoption

HKFRS 15 replaces HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. Under the new standard, revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The impacts of the adoption of HKFRS 15 are as follows:

Timing of revenue recognition

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.

Under HKFRS 15, revenue is recognised when or as the control of the products is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the products may be transferred over time or at a point in time.

For sales of mould, revenue is recognised over time if:

- the customer concurrently receives and consumes the benefits provided by the Group’s performance;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group’s performance creates or enhances an asset that has no alternative use to the Group and the Group has a right to payment for performance completed to date.

Under the above criterion, the customer would at least compensate the costs incurred by the Group in satisfying the performance obligation completed to date plus a reasonable profit margin.

For plastic injection and assembling of electronic products, revenue is recognised either at point in time or over time. If the Group has a right to payment for performance completed to date and those products are unique if the Group is contractually or practically not able to sell these products to other customers. Revenue will be recognised over time. Otherwise, all other revenue will be recognised at point in time.

Presentation of contract liabilities and contract assets

Certain “receipts in advance from customers” which were previously included in trade and other payables amounting to RMB12,295,000 as at 1 August 2018, are now included under contract liabilities as included in trade and other payables to reflect the terminology of HKFRS 15.

Contract assets of RMB41,808,000 are also recognised in the consolidated financial statements to reflect the terminology of HKFRS15.

Contract assets and contract liabilities amounting to RMB8,397,000 were offset for same contracts as at 1 August 2018 after reclassification disclosed above.

Reclassification of shipping expenses

Shipping costs constituted the separate performance obligation and is classified in cost of sales under HKFRS 15. Since the Group elected to adopt HKFRS 15 without restating comparatives, no reclassification of shipping costs has been performed for the year ended 31 July 2018. For the year ended 31 July 2019, shipping costs of RMB23,077,000 were reclassified from distribution costs to cost of sales to reflect the terminology of HKFRS 15.

Financial impacts under HKFRS 15

The impact on Group's retained earnings as at 1 August 2018 are as follows:

At 1 August 2018	<i>RMB '000</i>
Retained earnings – before HKFRS 15 assessment	12,876
Recognition of revenue and cost of sales over time	<u>6,510</u>
Retained earnings – after HKFRS 15 restatement	<u><u>19,386</u></u>

The following tables summarise the estimated impact on adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 July 2019, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2019 instead of HKFRS 15. These tables show only those line items impacted by adoption of HKFRS 15.

	Amounts reported in accordance with HKFRS 15 <i>RMB '000</i>	Hypothetical amounts under HKAS 18 and HKAS 11 <i>RMB '000</i>	Estimated impact of adoption of HKFRS 15 in 2019 <i>RMB '000</i>
Consolidated income statement			
For the year ended 31 July 2019 (extract)			
Revenue	649,092	674,670	(25,578)
Cost of sales	(620,750)	(620,635)	(115)
Gross profit	28,342	54,035	(25,693)
Distribution costs	(16,327)	(39,404)	23,077
Loss for the year attributable to owners of the Company	(122,162)	(119,546)	(2,616)
Loss per share attributable to owners of the Company for the year			
Basic and diluted loss per share	RMB(5.29) cent	RMB(5.18) cent	–
Total comprehensive loss for the year attributable to owners of the Company	(125,460)	(122,844)	(2,616)

Consolidated statement of financial position As at 31 July 2019 (extract)	Amounts reported in accordance with HKFRS 15 RMB'000	Hypothetical amounts under HKAS 18 and HKAS 11 RMB'000	Estimated impact of adoption of HKFRS 15 in 2019 RMB'000
Current assets			
Contract assets	5,205	–	5,205
Inventories	49,250	61,150	(11,900)
Current liabilities			
Receipts in advance, included in trade and other payables	–	20,090	(20,090)
Contract liabilities, include in trade and other payables	10,779	–	10,779
Equity			
Retained earnings, included in reserves	89,942	92,558	(2,616)

2. Segment information

The chief operating decision-maker (“**CODM**”) has been identified as the most senior executive management of the Company. The CODM reviews the Group’s internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The CODM assesses the performance of the single operating segment based on a measure of profit/loss before share of results of an associate, finance income, finance costs and income tax expense. The CODM assesses the performance of the following three reportable segments and regards them being the 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

Revenue for the year consists of the following:

	2019 RMB'000	2018 <i>RMB'000</i>
Revenue		
Plastic injection and moulding	356,006	504,558
Assembling of electronic products	250,503	546,063
Mould design and fabrication	42,583	65,264
	649,092	1,115,885
Timing of revenue recognition		
At a point in time	299,838	625,797
Over time	349,254	490,088
	649,092	1,115,885

The Group's customer base is diversified but includes four (2018: three) customers with whom transactions have individually exceeded 10% of the Group's aggregate revenue for the year ended 31 July 2019.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's CODM monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible and current assets other than interest in an associate, financial asset at fair value through other comprehensive income, deferred income tax assets and other corporate assets. Segment liabilities include trade payables, accruals, bills payables and finance lease liabilities 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/loss 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 regarding "segment result", CODM is provided with other segment information in relation to revenue (including inter-segment sales), 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 CODM for the purposes of resource allocation and assessment of segment performance for the years ended 31 July 2019 and 2018 is set out below:

	Plastic injection and moulding		Assembling of electronic products		Mould design and fabrication		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from external customers	356,006	504,558	250,503	546,063	42,583	65,264	649,092	1,115,885
Reportable segment result	(4,726)	22,119	(32,588)	49,199	(8,754)	8,264	(46,068)	79,582
Other segment information								
Year ended 31 July								
Depreciation and amortisation for the year	29,299	23,354	14,543	13,003	2,370	4,144	46,212	40,501
Impairment on property, plant and equipment	–	–	29,903	–	6,590	–	36,493	–
Addition to non-current segment assets during the year	12,240	42,199	2,912	21,275	5,885	4,409	21,037	67,883
As at 31 July								
Reportable segment assets	323,777	470,246	74,561	184,607	31,544	55,437	429,882	710,290
Reportable segment liabilities	47,101	115,751	62,438	85,484	4,387	5,577	113,926	206,812

(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities

	2019 RMB'000	2018 RMB'000
Revenue		
Reportable segment revenue	<u>649,092</u>	<u>1,115,885</u>
Consolidated revenue	<u><u>649,092</u></u>	<u><u>1,115,885</u></u>
Profit or loss		
Reportable segment (loss)/profit	(46,068)	79,582
Finance income	1,621	881
Finance costs	(15,802)	(13,847)
Unallocated depreciation and amortisation	(9,310)	(9,469)
Unallocated head office and corporate expenses	(52,049)	(52,396)
Share of loss of an associate	<u>–</u>	<u>(17,274)</u>
Consolidated loss before income tax	<u><u>(121,608)</u></u>	<u><u>(12,523)</u></u>
Assets		
Reportable segment assets	429,882	710,290
Deferred income tax assets	314	466
Available-for-sale investment	–	8,198
Financial asset at fair value through other comprehensive income	4,900	–
Unallocated head office and corporate assets	<u>292,496</u>	<u>292,786</u>
Consolidated total assets	<u><u>727,592</u></u>	<u><u>1,011,740</u></u>
Liabilities		
Reportable segment liabilities	113,926	206,812
Deferred income tax liabilities	1,721	1,782
Unallocated head office and corporate liabilities	<u>220,607</u>	<u>292,858</u>
Consolidated total liabilities	<u><u>336,254</u></u>	<u><u>501,452</u></u>

The Group's business is operated in five (2018: five) major economic environments.

Revenue from external customers by economic environments is analysed as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Mainland China	283,576	708,522
United States of America	241,898	155,604
Europe	81,895	155,128
South East Asia	20,321	15,158
Hong Kong	15,881	81,468
Others	5,521	5
	<u>649,092</u>	<u>1,115,885</u>

3. Other income and other (losses)/gains – net

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Other income		
Rental income	11	507
Sales of scrap materials	898	1,815
Government grants and sundry income	2,298	6,394
	<u>3,207</u>	<u>8,716</u>
Other (losses)/gains – net		
Impairment on property, plant and equipment	(36,493)	–
Net foreign exchange (losses)/gains	(527)	2,983
Net loss on disposal of property, plant and equipment	(11,977)	(1,467)
Gain on disposal of a subsidiary (<i>Note 4</i>)	4,052	1,385
	<u>(44,945)</u>	<u>2,901</u>

4. Gain on disposal of a subsidiary

During the year ended 31 July 2019, the Group disposed of its entire equity interest in Qingdao GP Electronic Plastics Co., Ltd. (“**Qingdao GP**”) for a total cash consideration of RMB27,000,000. Qingdao GP was principally engaged in the provision of manufacturing and selling of plastic moulded products and parts in the People’s Republic of China (“**PRC**”) and became dormant since 2015. As a result of the disposal, a gain of approximately RMB4,052,000 has been recognised in the consolidated income statement. The effect of the disposal is summarised as follows:

	<i>RMB’000</i>
Sales proceeds	27,000
Less:	
Net assets disposed of	
– Plant and buildings	(19,755)
– Land use right	(2,909)
Tax and other expenses attributable to the disposal	(284)
Net gain on disposal	<u>4,052</u>
Net proceeds on disposal of a subsidiary is as follows:	
Total consideration received by cash	27,000
Less:	
Tax and other expenses attributable to the disposal	(284)
Net proceeds on disposal of a subsidiary	<u>26,716</u>

5. Operating (loss)/profit

The Group’s operating (loss)/profit is arrived at after charging/(crediting) the following:

	2019	2018
	<i>RMB’000</i>	<i>RMB’000</i>
Amortisation of land use rights	403	484
Auditors’ remuneration		
– Audit services	1,743	1,811
– Non-audit services	243	867
Cost of sales (<i>Note</i>)	620,750	966,302
Depreciation	55,119	49,486
Operating lease charges in respect of land and buildings		
– factory and hostel rentals	6,732	8,532
Loss allowance/(reversal of loss allowance) on trade receivables	997	(434)
Provision for impairment of inventories	12,531	8,928
Staff costs	170,611	232,749

Note: Cost of sales included staff costs, depreciation, provision for impairment of inventories and operating lease charges, amounting to RMB186,121,000 (2018: RMB192,491,000) in aggregate, which are also included in the respective total amounts disclosed separately above for each type of expense.

6. Finance costs – net

	2019 RMB'000	2018 RMB'000
Finance income		
Bank interest income	(1,621)	(881)
Finance costs		
Interest on bank borrowings	12,542	11,765
Finance charges on obligation under finance lease	2,101	1,349
Less: borrowing costs capitalised as construction in progress (<i>Note</i>)	(433)	(1,336)
	14,210	11,778
Other finance charges	1,592	2,069
	15,802	13,847
Finance costs – net	14,181	12,966

Note: During the year ended 31 July 2019, borrowing costs had been capitalised at the Group's weighted average effective interest rate of 5.4% per annum (2018: 5.3% per annum) for construction in progress.

7. Income tax (expense)/credit

	2019 RMB'000	2018 RMB'000
Current income tax		
Current PRC corporate income tax	(1,104)	(290)
Adjustment to provision in respect of prior years (<i>Note</i>)	641	5,943
	(463)	5,653
Deferred income tax		
Origination and reversal of temporary differences	(91)	(1,981)
	(554)	3,672

No provision has been made for Hong Kong profits tax as the Group did not earn income which is subject to Hong Kong profits tax during the years ended 31 July 2019 and 2018.

The Group's subsidiaries established in the PRC are subject to a corporate income tax rate of 25%, except for three subsidiaries, which one subsidiary is fully exempt from corporate income tax for the first three years starting from 1 January 2015 to 31 December 2017 after obtaining the concession, followed by a 50% tax exemption for the next three years and two subsidiaries were certified as High and New Technology Enterprises and are entitled to a concessionary tax rate of 15% from 1 January 2015 to 31 December 2017 and 1 January 2017 to 31 December 2019, respectively. They are entitled to re-apply for the preferential tax treatment when the preferential tax period expires.

Pursuant to the relevant corporate income tax rules and regulations, withholding tax is imposed on dividends declared in respect of profits earned by the Company's PRC subsidiaries from 1 January 2008 onwards.

The Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Note:

On 28 November 2008, the Group undertook certain group restructuring transactions, the transfer of equity interests is subject to withholding tax in the PRC at the rate of 10% made on the terms equivalent to those that prevail on an arm's length basis. As a result, the Group had recognised a provision for withholding tax of RMB6,600,000, with the corresponding charge to income tax, for the year ended 31 July 2009 in respect of these group restructuring transactions. During the year ended 31 July 2018, the Group disposed of its 90% equity interest in Qingdao GS Electronics Plastic Co., Ltd. ("**Qingdao GS**") and accordingly, the relevant provision amount in respect of Qingdao GS of RMB5,943,000 was reversed.

During the year ended 31 July 2019, the Group disposed of its entire equity interest in Qingdao GP and accordingly, the relevant provision amount in respect of Qingdao GP of RMB641,000 was reversed.

8. Dividends

No dividend has been paid or declared by the Company for the years ended 31 July 2019 and 2018.

9. Loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of RMB122,162,000 (2018: RMB8,851,000) and the weighted average number of ordinary shares in issue during the year as follows:

	2019 RMB'000	2018 <i>RMB'000</i>
Loss attributable to owners of the Company	(122,162)	(8,851)
	2019	2018
Weighted average number of ordinary shares in issue ('000)	2,307,513	2,253,081
Basic and diluted loss per share (<i>RMB cent</i>)	(5.29)	(0.39)

For the year ended 31 July 2019, diluted loss per share equals to basic loss per share as there were no potential dilutive ordinary shares outstanding during the year.

For the year ended 31 July 2018, diluted loss per share equals to basic loss per share as the exercise of the outstanding share options would be anti-dilutive.

10. Trade and other receivables, deposits and prepayments

	2019 RMB'000	2018 RMB'000
Trade receivables	102,810	168,387
Bills receivables	7,345	3,550
Trade and bills receivables – gross	110,155	171,937
Less: Loss allowance	(1,754)	(757)
Trade and bills receivables – net	108,401	171,180
Other receivables, deposits and prepayments	62,337	86,379
Less: Loss allowance (<i>Note</i>)	(34,000)	(34,000)
Other receivables, deposits and prepayments – net	28,337	52,379
Less: Prepayments (non-current)	(7,813)	(18,349)
Total trade and other receivables, deposits and prepayments (current)	128,925	205,210

Note:

Included in “other receivables, prepayments and deposits” were deposits of RMB34,000,000 (“**Deposits**”) in relation to a conditional acquisition agreement (as supplemented) (“**Agreement**”) entered into with a third party vendor (“**Vendor**”) on 5 February 2015 to acquire from the Vendor 20% equity interest of a company involved in a solar energy project in Inner Mongolia, the PRC, for a consideration of RMB44,000,000 subject to fulfilment of certain conditions set out therein. In addition, under the Agreement, upon completion of the acquisition of the 20% equity interest, the Group would be entitled to an option for an exercisable period of 3 months to acquire the remaining 80% equity interest of the target company at its sole discretion.

On 1 November 2015, the Agreement lapsed as certain conditions as set out in the Agreement had not been fulfilled. The Group has been in discussions with the Vendor regarding the full refund of the Deposits of RMB34,000,000. On 31 August 2016, a settlement agreement (“**Settlement Agreement**”) was entered into between the Group and the Vendor, pursuant to which the Vendor shall repay the Deposits and the interest thereon at 5% per annum by 30 November 2016.

Up to the date of these consolidated financial statements, the Deposits have not yet been refunded to the Group. In view of the lapse of the Agreement and Settlement Agreement, and there is no collateral or guarantee provided by the Vendor to the Group on the refund of the Deposits, a provision for impairment was made on the entire amount of the Deposits as at 31 July 2019 and 2018. The Group has taken up a legal proceeding against the Vendor to claim for the full refund of the Deposits and the relevant interests.

The ageing analysis of the Group's trade and bills receivables by invoice date is as follows:

	2019 RMB'000	2018 <i>RMB'000</i>
Up to 3 months	102,610	166,405
3 to 6 months	6,975	4,495
Over 6 months	570	1,037
	110,155	171,937

11. Restricted bank balances

	2019 RMB'000	2018 <i>RMB'000</i>
Pledged deposits with banks (<i>Note</i>)	64,905	68,024
Other restricted bank balance	1,677	—
	66,582	68,024

Note:

The deposits are pledged to banks as security for certain banking facilities, including trade finances, overdrafts and bank loans.

12. Assets classified as held-for-sale

(i) Description

On 19 July 2018, the Group entered into a sale and purchase agreement to dispose of its entire equity interest in Qingdao GP, a wholly-owned subsidiary, for a total cash consideration of RMB27,000,000. The associated assets were consequently presented as assets classified as held-for-sale as at 31 July 2018.

(ii) The following assets were reclassified as held-for-sale as at 31 July 2018:

	2018 RMB'000
Assets classified as held-for-sale	
Plant and buildings	19,755
Land use right	2,909
	22,664

13. Trade and other payables

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade payables	68,707	134,150
Accrued expenses and other payables	33,091	64,606
Payables for the purchase of property, plant and equipment	7,277	15,802
Receipts in advance (<i>Note</i>)	–	12,295
Contract liabilities (<i>Note</i>)	10,779	–
Deposit received	1,380	602
	<hr/>	<hr/>
Trade and other payables	121,234	227,455
	<hr/>	<hr/>

Note: Contract liabilities include receipts in advance from customers. All of the contract liabilities as at 1 August 2018 was recognised as revenue in the current reporting period.

The ageing analysis of trade payables based on invoice date is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Less than 1 month	26,282	41,708
1 to 3 months	30,417	70,722
More than 3 months	12,008	21,720
	<hr/>	<hr/>
	68,707	134,150
	<hr/>	<hr/>

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

INDUSTRY OVERVIEW

During the financial year, the Group continued to implement its strategies to focus on higher value-added products.

FINANCIAL REVIEW

Revenue, Gross Profit and Segment Results

During the financial year, the Group recorded a revenue of RMB649.09 million, representing a decrease of RMB466.79 million or 41.83% from RMB1,115.88 million in the previous year. The major contributor of the Group's revenue was plastic injection and moulding division which accounted for 54.85% (2018: 45.22%) of the Group's revenue, and the remaining from assembling of electronic products division and mould design and fabrication division which accounted for 38.59% (2018: 48.93%) and 6.56% (2018: 5.85%) of the Group's revenue respectively.

Gross profit decreased by RMB121.24 million and recorded at RMB28.34 million, representing 4.37% of its revenue during the financial year as compared to gross profit of RMB149.58 million, representing 13.40% of its revenue in the previous year.

Plastic Injection and Moulding

The Group recorded a revenue of RMB356.01 million for this segment as compared to RMB504.56 million for the corresponding financial year in 2018, representing a decrease of RMB148.55 million or 29.44%. The decrease was mainly due to the deconsolidation of financial results of Qingdao GS from January 2018 upon the disposal of 90% equity interest in Qingdao GS. The amount of revenue contribution of Qingdao GS to the Group for the year ended 31 July 2018 was about RMB120 million.

Assembling of Electronic Products

This segment recorded a revenue of RMB250.50 million, representing a decrease of RMB295.56 million or 54.13% from RMB546.06 million for the corresponding financial year in 2018. The significant drop in revenue was mainly due to the amount of orders placed by three existing customers declined by about RMB250 million for the year ended 31 July 2019 when compared to the year ended 31 July 2018.

Mould Design and Fabrication

The mould design and fabrication segment recorded a revenue of RMB42.58 million, representing a decrease of RMB22.68 million or 34.75% as compared to RMB65.26 million for the corresponding financial year in 2018.

Other (Losses)/Gains – Net

During the financial year, the Group recorded other net losses of RMB44.95 million as compared to net gains of RMB2.90 million for the corresponding financial year in 2018, which comprised mainly net gains on disposal of a subsidiary of RMB4.05 million, which were offset by an increase in provision of impairment of RMB36.49 million on property, plant and equipment, net loss on disposal of property, plant and equipment of RMB11.98 million and net foreign exchange losses of RMB0.53 million.

Distribution Costs

Distribution costs for the financial year amounted to RMB16.33 million, representing a decrease of RMB29.58 million or 64.43% from RMB45.91 million in the previous financial year. The decrease was mainly due to reclassification of shipping costs RMB23.08 million from distribution costs to cost of sales during the financial year.

General and Administrative Expenses

General and administrative expenses amounted to RMB77.70 million for the financial year, representing a decrease of RMB19.88 million or 20.37% as compared to RMB97.58 million for the corresponding financial year in 2018. The decrease was primarily due to lower human resources expenses of RMB7.33 million arising from reduction in the number of employees, the decrease in equity settled share-based payment expenses of RMB4.34 million and research and development expenses of RMB8.43 million during the financial year.

Finance Costs – Net

The net finance costs for the year increased by 9.33% to RMB14.18 million (2018: RMB12.97 million). The increase was mainly due to higher interest rate during the financial year.

Share of Loss of an Associate

The Group's share of loss of an associate of RMB17.27 million during the financial year in 2018 was solely attributed to loss incurred by its associate in Vietnam.

LIQUIDITY AND FINANCIAL RESOURCES

During the financial year, the Group financed its operations and investing activities mainly by means of internally generated operating cash flow, bank borrowings and finance lease liabilities. As at 31 July 2019, the Group had cash and cash equivalents and restricted bank balances of RMB138.34 million (2018: RMB154.18 million), of which RMB64.91 million (2018: RMB68.02 million) was pledged to banks for the facilities granted to the Group. 40.70%, 59.17% and 0.12% of cash and cash equivalents and restricted bank balances are denominated in United States dollars (“USD”), Renminbi (“RMB”) and Hong Kong dollars (“HK\$”), respectively.

As at 31 July 2019, the Group had outstanding interest-bearing borrowings including finance lease liabilities and loan from a director of RMB210.91 million (2018: RMB268.96 million). The total borrowings including finance lease liabilities and loan from a director were denominated in USD (23.03%), RMB (69.17%) and HK\$ (7.80%), and the maturity profile is as follows:

Repayable	As at 31 July 2019		As at 31 July 2018	
	<i>RMB million</i>	%	<i>RMB million</i>	%
Within one year	187.69	89.00	258.40	96.07
After one year but within two years	23.01	10.91	10.56	3.93
After two years but within five years	0.21	0.09	—	—
Total borrowings including finance lease liabilities and loan from a director	210.91	100.00	268.96	100.00
Cash and cash equivalents and restricted bank balances	(138.34)		(154.18)	
Net borrowings including finance lease liabilities and loan from a director	72.57		114.78	

The total net interest-bearing borrowings including finance liabilities and loan from a director of the Group recorded at RMB72.57 million (2018: RMB114.78 million), representing 9.97% (2018: 11.34%) of total assets and 18.54% (2018: 22.49%) of total equity.

The Group monitors its capital on the basis of its gearing ratio. The gearing ratio is calculated as the Group's net borrowings at the end of the financial year divided by total capital at the end of the financial year. Net borrowings of the Group is calculated as its total borrowings including finance lease liabilities and loan from a director less cash and cash equivalents and restricted bank balances. Total capital is calculated as total equity attributable to owners of the Company plus net borrowings including finance lease liabilities and loan from a director. The gearing ratio of the Group was 15.64% as at 31 July 2019 (2018: 18.36%).

As at 31 July 2019, the Group's net current assets were RMB13.09 million (2018: RMB18.38 million). As at 31 July 2019, the Group has undrawn bank facilities of RMB281.33 million for working capital purposes.

CAPITAL STRUCTURE

As at 31 July 2019, the Group's total equity attributable to owners of the Company was RMB391.34 million (2018: RMB510.29 million). Total assets of the Group amounted to RMB727.59 million (2018: RMB1,011.74 million), 53.62% (2018: 47.17%) of which comprised property, plant, equipment and land use rights.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

During the financial year, the Group disposed of its entire equity interest in Qingdao GP to an independent third party at a total cash consideration of RMB27.00 million. Qingdao GP was principally engaged in the provision of manufacturing and selling of plastic molded products and parts in the PRC and became dormant since 2015. Qingdao GP ceased to be a subsidiary of the Company upon completion of the disposal. Please refer to the announcements of the Company dated 19 July 2018 and 22 October 2018 for more details.

Save as disclosed above, the Group did not conduct any significant investments, material acquisitions or disposals. As at the date of this results announcement, the Group does not have any concrete plan for material investments or capital assets.

SIGNIFICANT INVESTMENTS HELD

During the financial year, the Group did not hold any significant investment in equity interest in any other company.

CONTINGENT LIABILITY

The Group does not have material contingent liability as at 31 July 2019.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign currency risk primarily through sales, purchases and borrowings that are denominated in currencies other than the functional currency of individual group entities. The currencies giving rise to the risk was primarily USD.

During the financial year, the Group has made net foreign exchange losses of RMB0.53 million (2018: net gains of RMB2.98 million) mainly due to fluctuation of USD against RMB.

Most of the Group's sales transactions are denominated in RMB and USD and certain payments of the Group were made in RMB and USD. In view of fluctuation of the RMB against the USD during the financial year, the Group was exposed to foreign currency risk primarily in respect of bank borrowing denominated in USD.

The Group did not use any financial instruments to hedge its exposure to foreign currency risk during the financial year and the management of the Group will continue to monitor the Group's foreign currency risk exposure and to ensure that it is kept at an acceptable level.

EMPLOYEES AND REMUNERATION POLICY

As at 31 July 2019, the Group had a total of 1,706 employees (2018: 2,688). During the financial year, the Group did not make significant changes to the Group's remuneration policies. Human resources expenses of the Group (excluding the Directors' remuneration and equity settled share-based payment expenses) for the financial year amounted to RMB161.03 million (2018: RMB217.35 million). The decrease in human resources expenses was mainly due to the decrease in the number of employees during the financial year. The Group's remuneration package is updated on an annual basis and appropriate adjustments are made with reference to prevailing conditions of the human resources market and the general outlook of the economy. The Group's employees are rewarded in tandem with their performance and experience. The Group recognises that the improvement of employees' technical knowledge, welfare and wellbeing is essential to attract and retain quality and dedicated employees in support of 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 (Chapter 485 of the Laws of Hong Kong). The Group is contributing mandatory government pension scheme for its employees in the PRC.

As a publicly listed entity, the Group has adopted a share option scheme to provide incentives to eligible directors and employees to participate in the Group's success.

DIVIDENDS

The Board does not recommend any dividend payment for the financial year ended 31 July 2019 (2018: nil).

FUTURE PROSPECTS AND CHALLENGES

The prolonged trade war and tariff negotiations between the United States ("US") and China has created significant uncertainty in the business environment in China. The global economy is facing with (i) cautious and risk averting business environment; and (ii) potential relocation of the production facilities globally arising from the Sino-American trade war. At the moment, the management is unable to assess the impact of the uncertainties in the business environment to the Group's operation. In order to minimise the impact of the trade war, the Group will focus on realignment its US-based sales to non-US-based sales. In addition, the Group has been streamlining its operation and formulating a stronger financial position with a light asset operation and lower geared structure and higher liquidity. By way of adopting a light assets and cost model, the Group should be able to improve its operational flexibility, strengthen and stabilize its financial position and minimise any adverse impact on the business operation.

EVENTS AFTER THE REPORTING DATE

There were no other significant events affecting the Company nor any of its subsidiaries after the reporting date as at 31 July 2019 requiring disclosure in this results announcement.

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

During the year ended 31 July 2019, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's annual financial results for the year ended 31 July 2019 and is of the opinion that such statements comply with the applicable accounting standards, the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") and the requirements of applicable laws, codes and regulations and that adequate disclosure pursuant thereto have been made.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions ("**Code Provisions**") of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the financial year except for the following provision.

According to Code Provision A.2.1, the roles of chairman and chief executive 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. 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.

COMPLIANCE WITH APPENDIX 10 TO THE LISTING RULES

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

The Company, having made specific enquiry on all Directors, is not aware of any non-compliance by any Director during the year with the SD Code or Appendix 10 to the Listing Rules throughout the financial year ended 31 July 2019.

APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation and gratitude to the Company's 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 the challenges encountered during the year.

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

Johor Bahru, Malaysia
25 September 2019

List of all Directors as at the date of this announcement:

Executive Directors:

Mr. Beh Kim Ling
Mr. Gan Sem Yam
Madam Gan Chu Cheng
Mr. Zhang Pei Yu
Mr. Beh Chern Wei

Independent non-executive Directors:

Mr. Diong Tai Pew
Mr. Tang Sim Cheow
Ms. Fu Xiao Nan

Non-executive Director:

Mr. Gan Tiong Sia