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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 2020

HIGHLIGHTS

- Revenue decreased by 25.69% to RMB482.33 million;
- Loss for the year attributable to owners of the Company was RMB33.72 million;
- Basic loss per share was 1.46 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 2020, 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 2020 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 2020 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 2020

	Note	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue	2	482,327	649,092
Cost of sales		<u>(422,421)</u>	<u>(620,750)</u>
Gross profit		59,906	28,342
Other income	3	7,134	3,207
Other losses – net	3	(26,563)	(44,945)
Distribution costs		(9,728)	(16,327)
General and administrative expenses		<u>(53,875)</u>	<u>(77,704)</u>
Operating loss	4	<u>(23,126)</u>	<u>(107,427)</u>
Finance income		835	1,621
Finance costs		<u>(11,098)</u>	<u>(15,802)</u>
Finance costs – net	5	<u>(10,263)</u>	<u>(14,181)</u>
Loss before income tax		(33,389)	(121,608)
Income tax expense	6	<u>(335)</u>	<u>(554)</u>
Loss for the year attributable to owners of the Company		<u><u>(33,724)</u></u>	<u><u>(122,162)</u></u>
		2020 <i>RMB cent</i>	2019 <i>RMB cent</i>
Loss per share attributable to owners of the Company during the year			
Basic and diluted	8	<u><u>(1.46)</u></u>	<u><u>(5.29)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 July 2020

	<i>Note</i>	As at 31 July 2020 <i>RMB'000</i>	As at 31 July 2019 <i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		291,015	376,815
Land use rights		–	13,348
Right-of-use assets		32,321	–
Other receivables and prepayments	9	6,295	7,813
Financial asset at fair value through other comprehensive income		4,000	4,900
Deferred income tax assets		1,143	314
		<u>334,774</u>	<u>403,190</u>
Current assets			
Inventories		24,659	49,250
Contract assets		11,846	5,205
Trade and other receivables, deposits and prepayments	9	84,078	128,925
Amounts due from related parties		8,313	2,682
Restricted bank balances	10	61,240	66,582
Cash and cash equivalents		104,430	71,758
		<u>294,566</u>	<u>324,402</u>
Total assets		<u>629,340</u>	<u>727,592</u>
EQUITY			
Capital and reserves			
Share capital		105,013	105,013
Share premium		306,364	306,364
Other deficits		(54,663)	(20,039)
Total equity attributable to owners of the Company		<u>356,714</u>	<u>391,338</u>

		As at 31 July 2020 <i>RMB'000</i>	As at 31 July 2019 <i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Loans from a director		38,980	17,245
Lease liabilities		215	–
Finance lease liabilities		–	5,974
Deferred income tax liabilities		2,847	1,721
		<u>42,042</u>	<u>24,940</u>
Current liabilities			
Trade and other payables	11	94,185	121,234
Amounts due to related parties		1,992	1,913
Borrowings		128,554	176,393
Lease liabilities		5,759	–
Finance lease liabilities		–	11,300
Tax payables		94	474
		<u>230,584</u>	<u>311,314</u>
Total liabilities		<u>272,626</u>	<u>336,254</u>
Total equity and liabilities		<u>629,340</u>	<u>727,592</u>

Notes:

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 2019:

Standards	Subject of amendment
Amendments to annual improvements project	Annual improvements 2015-2017 Cycle
HKAS 19 (Amendments)	Plan amendment, curtailment or settlement
HKAS 28 (Amendments)	Long-term interests in associates or joint venture
HKFRS 9 (Amendments)	Prepayment features with negative compensation
HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over income tax treatments

Except as disclosed in “Changes in accounting policies” section below for the adoption of HKFRS16 “Leases” (“**HKFRS 16**”), the adoption of the above amendments to existing standards and interpretations does not have a material impact.

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

Certain new accounting standards, amendments to existing standards and interpretations which have been published but are not mandatory for 31 July 2020 reporting periods have not been early adopted by the Group.

Standards	Subject of amendment	Effective for annual periods beginning on or after
Conceptual framework for financial reporting 2018	Revised conceptual framework for financial reporting	1 January 2020
HKFRS 3 (Amendments)	Definition of business	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Interest rate benchmark reform	1 January 2020
HKAS 1 and HKAS 8 (Amendments)	Definition of material	1 January 2020
HKFRS 16 (Amendments)	COVID-19 related rent concessions	1 June 2020
Amendments to annual improvements project	Annual improvement 2018-2020 cycle	1 January 2022
HKAS 16 (Amendments)	Proceeds before intended use	1 January 2022
HKAS 37 (Amendments)	Cost of fulfilling a contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the conceptual framework	1 January 2022
HKFRS 17	Insurance contracts	1 January 2023
HKAS 1 (Amendments)	Presentation of financial statements on classification of liabilities	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The above new and amendments to existing standards do not expect to have a material impact on the consolidated financial statements of the Group. The Group will adopt the new and amendments to existing standards when they become effective.

(c) Changes in accounting policies

The following explains the impact of the adoption of HKFRS 16 “Leases” on the Group’s consolidated financial statements and also discloses the new accounting policy that has been applied from 1 August 2019, where they are different to those applied in prior periods.

(i) Impact on consolidated financial statements

The Group has adopted HKFRS 16 “Leases” from 1 August 2019, but has not restated comparative for the 2019 reporting period, as permitted under the specific transition approach in the standard. The reclassifications and the adjustment arising from HKFRS 16 are therefore recognised in the opening consolidated statement of financial position on 1 August 2019.

For leases previously classified as operating leases, all operating leases are related to short-term lease and will be recognised on a straight-line basis as expenses in profit or loss. There was no impact on the Group’s operating leases as at 1 August 2019 on adoption of HKFRS 16.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease assets and finance lease liabilities immediately before transition as the carrying amount of the right-of-use assets and the lease liabilities at the date of initial application. Land use rights previously presented as separate item on the consolidated statement of financial position is also grouped as part of right-of-use assets with effect from 1 August 2019 on adoption of HKFRS 16.

The following table reconciles the operating lease commitments as disclosed as at 31 July 2019 to the opening balance for lease liabilities recognised as at 1 August 2019:

	<i>RMB'000</i>
Operating lease commitments disclosed as at 31 July 2019	2,455
Less: Short-term lease recognised on a straight-line basis as expenses	<u>(2,455)</u>
	–
Add: Finance lease liabilities recognised as at 31 July 2019	<u>17,274</u>
Lease liabilities recognised as at 1 August 2019	<u><u>17,274</u></u>
Of which are:	
Current lease liabilities	11,300
Non-current lease liabilities	<u>5,974</u>
	<u><u>17,274</u></u>

For the property, plant and equipment acquired under finance leases, they were depreciated over the underlying assets' useful life if there is reasonable certainty that the Group will obtain ownership at the end of the lease term.

The following table shows the adjustments recognised for each individual line item upon the adoption of HKFRS 16. Line items that were not affected by the changes have not been included.

Consolidated statement of financial position (extract)	As at 31 July 2019 As originally presented <i>RMB'000</i>	Effects of adoption of HKFRS16 <i>RMB'000</i>	As at 1 August 2019 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	376,815	(36,049)	340,766
Land use rights	13,348	(13,348)	–
Right-of-use assets	–	49,397	49,397
Current liabilities			
Lease liabilities	–	11,300	11,300
Finance lease liabilities	11,300	(11,300)	–
Non-current liabilities			
Lease liabilities	–	5,974	5,974
Finance lease liabilities	<u>5,974</u>	<u>(5,974)</u>	<u>–</u>

There was no impact on the Group's segment disclosure as well as net loss after tax for the year ended 31 July 2020 as a result of adoption of HKFRS16.

(ii) *Practical expedients applied*

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 August 2019 as short-term leases;
- the exclusion initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HKFRIC 4 “Determining whether an Arrangement contains a Lease”.

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 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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue		
Plastic injection and moulding	158,115	356,006
Assembling of electronic products	301,160	250,503
Mould design and fabrication	23,052	42,583
	<u>482,327</u>	<u>649,092</u>

The Group's customer base is diversified but includes three (2019: four) customers with whom transactions have individually exceeded 10% of the Group's aggregate revenue for the year ended 31 July 2020.

(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 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 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 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 2020 and 2019 is set out below:

	Plastic injection and moulding		Assembling of electronic products		Mould design and fabrication		Consolidated	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Revenue from external customers	<u>158,115</u>	<u>356,006</u>	<u>301,160</u>	<u>250,503</u>	<u>23,052</u>	<u>42,583</u>	<u>482,327</u>	<u>649,092</u>
Reportable segment result	<u>6,851</u>	<u>(4,726)</u>	<u>28,122</u>	<u>(32,588)</u>	<u>(2,529)</u>	<u>(8,754)</u>	<u>32,444</u>	<u>(46,068)</u>
Other segment information								
Year ended 31 July								
Depreciation and amortisation for the year	16,812	29,299	5,884	14,543	1,099	2,370	23,795	46,212
Impairment on property, plant and equipment	12,997	-	2,500	29,903	917	6,590	16,414	36,493
Impairment on right-of-use assets	9,666	-	759	-	93	-	10,518	-
Provision/(reversal) for impairment of inventories	5,202	(98)	7,687	8,048	(3,492)	4,581	9,397	12,531
Addition to non-current segment assets during the year	1,822	12,240	5,172	2,912	351	5,885	7,345	21,037
As at 31 July								
Reportable segment assets	<u>220,838</u>	<u>323,777</u>	<u>60,110</u>	<u>74,561</u>	<u>22,421</u>	<u>31,544</u>	<u>303,369</u>	<u>429,882</u>
Reportable segment liabilities	<u>32,479</u>	<u>47,101</u>	<u>48,353</u>	<u>62,438</u>	<u>1,313</u>	<u>4,387</u>	<u>82,145</u>	<u>113,926</u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue		
Reportable segment revenue	<u>482,327</u>	<u>649,092</u>
Consolidated revenue	<u><u>482,327</u></u>	<u><u>649,092</u></u>
Profit or loss		
Reportable segment profit/(loss)	32,444	(46,068)
Finance income	835	1,621
Finance costs	(11,098)	(15,802)
Unallocated depreciation and amortisation	(5,543)	(9,310)
Unallocated head office and corporate expenses	<u>(50,027)</u>	<u>(52,049)</u>
Consolidated loss before income tax	<u><u>(33,389)</u></u>	<u><u>(121,608)</u></u>
Assets		
Reportable segment assets	303,369	429,882
Deferred income tax assets	1,143	314
Financial asset at fair value through other comprehensive income	4,000	4,900
Unallocated head office and corporate assets	<u>320,828</u>	<u>292,496</u>
Consolidated total assets	<u><u>629,340</u></u>	<u><u>727,592</u></u>
Liabilities		
Reportable segment liabilities	82,145	113,926
Deferred income tax liabilities	2,847	1,721
Unallocated head office and corporate liabilities	<u>187,634</u>	<u>220,607</u>
Consolidated total liabilities	<u><u>272,626</u></u>	<u><u>336,254</u></u>

The Group's business is operated in five (2019: five) major economic environments.

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
United States of America	224,857	241,898
Mainland China	159,090	283,576
Europe	56,671	81,895
Hong Kong	22,940	15,881
South East Asia	15,296	20,321
Others	<u>3,473</u>	<u>5,521</u>
	<u><u>482,327</u></u>	<u><u>649,092</u></u>

3. Other income and other losses – net

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Other income		
Sales of scrap materials	1,909	898
Government grants and sundry income	5,225	2,309
	<u>7,134</u>	<u>3,207</u>
Other losses – net		
Impairment on property, plant and equipment	(16,414)	(36,493)
Impairment on right-of-use assets	(10,518)	–
Net foreign exchange losses	(1,740)	(527)
Net gain/(loss) on disposal of property, plant and equipment and right-of-use assets	2,109	(11,977)
Gain on disposal of a subsidiary	–	4,052
	<u>(26,563)</u>	<u>(44,945)</u>

4. Operating loss

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Amortisation of land use rights	–	403
Auditors' remuneration		
– Audit services	1,720	1,743
– Non-audit services	209	243
Cost of sales (<i>Note</i>)	422,421	620,750
Depreciation on property, plant and equipment	25,654	55,119
Depreciation on right-of-use assets	3,684	–
Expenses relating to short-term leases	5,114	6,732
(Reversal of loss allowance)/loss allowance on trade receivables	(3)	997
Loss allowance on contract assets	4	–
Provision for impairment of inventories	9,397	12,531
Staff costs	116,133	170,611

Note: Cost of sales included staff costs, depreciation, provision for impairment of inventories and expenses relating to short-term leases, amounting to RMB117,680,000 (2019: RMB186,121,000) in aggregate, which are also included in the respective total amounts disclosed separately above for each type of the expenses.

5. Finance costs – net

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Finance income		
Bank interest income	(835)	(1,621)
Finance costs		
Interest on bank borrowings	7,792	12,542
Interest on loans from a director	1,445	–
Interest expenses on lease liabilities	1,598	–
Finance charges on obligation under finance lease	–	2,101
Less: borrowing costs capitalised as construction in progress (<i>Note</i>)	(238)	(433)
	<u>10,597</u>	<u>14,210</u>
Other finance charges	501	1,592
	<u>11,098</u>	<u>15,802</u>
Finance costs – net	<u>10,263</u>	<u>14,181</u>

Note: During the year ended 31 July 2020, borrowing costs had been capitalised at the Group's weighted average effective interest rate of 4.8% per annum (2019: 5.4% per annum) for construction in progress.

6. Income tax expense

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current income tax		
Current the People's Republic of China (“PRC”) corporate income tax	(38)	(1,104)
Adjustment to provision in respect of prior years	–	641
	<u>(38)</u>	<u>(463)</u>
Deferred income tax		
Origination and reversal of temporary differences	(297)	(91)
	<u>(335)</u>	<u>(554)</u>

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 2020 and 2019.

The Group's subsidiaries established in the PRC are subject to a corporate income tax rate of 25%, except for two subsidiaries. One of which 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. The other one subsidiary was certified as a High and New Technology Enterprise and was entitled to a concessionary tax rate of 15% from 1 January 2018 to 31 December 2020, which is 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.

7. Dividends

No dividend has been paid or declared by the Company for the years ended 31 July 2020 and 2019.

8. Loss per share

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company of RMB33,724,000 (2019: RMB122,162,000) and the weighted average number of ordinary shares in issue during the year as follows:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Loss attributable to owners of the Company	<u>(33,724)</u>	<u>(122,162)</u>
	2020	2019
Weighted average number of ordinary shares in issue (<i>'000</i>)	<u>2,307,513</u>	<u>2,307,513</u>
Basic and diluted loss per share (<i>RMB cents</i>)	<u>(1.46)</u>	<u>(5.29)</u>

For the years ended 31 July 2020 and 2019, diluted loss per share equals to basic loss per share as there were no potential dilutive ordinary shares outstanding during the year.

9. Trade and other receivables, deposits and prepayments

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	63,260	102,810
Bills receivables	<u>3,710</u>	<u>7,345</u>
Trade and bills receivables – gross	66,970	110,155
Less: Loss allowance	<u>(1,516)</u>	<u>(1,754)</u>
Trade and bills receivables – net	<u>65,454</u>	<u>108,401</u>
Other receivables, deposits and prepayments	58,919	62,337
Less: Loss allowance (<i>Note a</i>)	<u>(34,000)</u>	<u>(34,000)</u>
Other receivables, deposits and prepayments – net (<i>Note b</i>)	<u>24,919</u>	<u>28,337</u>
Less: Other receivables and prepayments (non-current)	<u>(6,295)</u>	<u>(7,813)</u>
Total trade and other receivables, deposits and prepayments (current)	<u><u>84,078</u></u>	<u><u>128,925</u></u>

Note:

- (a) Included in “other receivables, deposits and prepayments” 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 2020 and 2019. The Group is under a legal proceeding against the Vendor regarding the full refund of Deposits and the relevant interests and such case will be put on trial on 16 November 2021.

- (b) Other receivables, deposits and prepayments primarily included value-added tax recoverables, prepayments for inventories and property, plant and equipment.

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

	2020 RMB'000	2019 <i>RMB'000</i>
Up to 3 months	64,632	102,610
3 to 6 months	766	6,975
Over 6 months	<u>1,572</u>	<u>570</u>
	<u>66,970</u>	<u>110,155</u>

10. Restricted bank balances

	2020 RMB'000	2019 <i>RMB'000</i>
Pledged deposits with banks (<i>Note</i>)	61,240	64,905
Other restricted bank balance	<u>–</u>	<u>1,677</u>
	<u>61,240</u>	<u>66,582</u>

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

11. Trade and other payables

	2020 RMB'000	2019 <i>RMB'000</i>
Trade payables	58,107	68,707
Accrued expenses and other payables (<i>Note a</i>)	26,488	33,091
Payables for the purchase of property, plant and equipment	2,340	7,277
Contract liabilities (<i>Note b</i>)	7,125	10,779
Deposit received	<u>125</u>	<u>1,380</u>
Trade and other payables	<u>94,185</u>	<u>121,234</u>

Note:

- (a) The accrued expenses and other payables primarily included accrued staff costs, accrued transportation costs, interest payables and value-add tax payables.
- (b) Contract liabilities include receipts in advance from customers. All of the contract liabilities are expected to be recognised as revenue within one year.

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

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Less than 1 month	13,209	26,282
1 to 3 months	32,055	30,417
More than 3 months	12,843	12,008
	58,107	68,707

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 RMB482.33 million, representing a decrease of RMB166.76 million or 25.69% from RMB649.09 million in the previous year. The major contributor of the Group's revenue was assembling of electronic products division which accounted for 62.44% (2019: 38.59%) of the Group's revenue, and the remaining from plastic injection and moulding division, and mould design and fabrication division which accounted for 32.78% (2019: 54.85%) and 4.78% (2019: 6.56%) of the Group's revenue respectively.

Gross profit increased by RMB31.57 million and recorded at RMB59.91 million, representing 12.42% of its revenue during the financial year as compared to gross profit of RMB28.34 million, representing 4.37% of its revenue in the previous year.

Plastic Injection and Moulding

The Group recorded a revenue of RMB158.12 million for this segment as compared to RMB356.01 million for the corresponding financial year in 2019, representing a significant decrease of RMB197.89 million or 55.59%. The decrease was mainly due to a decrease in the sales orders caused by current cautious business and economic environment.

Assembling of Electronic Products

This segment recorded a revenue of RMB301.16 million, representing an increase of RMB50.66 million or 20.22% from RMB250.50 million for the corresponding financial year in 2019. The increase was mainly due to the increase in the sales orders placed by two existing customers.

Mould Design and Fabrication

The mould design and fabrication segment recorded a revenue of RMB23.05 million, representing a decrease of RMB19.53 million or 45.87% as compared to RMB42.58 million for the corresponding financial year in 2019, as some customers have delayed in launching their new models as a result of global market uncertainty.

Other Losses – Net

During the financial year, the Group recorded other net losses of RMB26.56 million as compared to RMB44.95 million for the corresponding financial year in 2019, which comprised mainly net gain on disposal of property, plant and equipment and right-of-use assets of RMB2.11 million, which was offset by a provision of impairment of RMB16.41 million on property, plant and equipment, a provision of impairment of RMB10.52 million on right-of-use assets and net foreign exchange losses of RMB1.74 million.

The trade war between the United States and China has created uncertainty in the business environment in China. In light of that, the management of the Group has decided to cease operation of certain manufacturing lines. As identified by the management of the Group, certain machinery and equipment (included in property, plant and equipment and right-of-use assets) with a carrying amount of RMB59,037,000 were not expected to be used in production in the future. The management of the Group obtained third party quotations for second-hand market value (less costs of disposal) of these property, plant and equipment and right-of-use assets as reference of their fair value less costs of disposal in determining the recoverable amount of RMB32,105,000. For the year ended 31 July 2020, impairment losses of property, plant and equipment and right-of-use assets of RMB16,414,000 and RMB10,518,000 were recognised in the consolidated income statement in accordance with the impairment assessment, respectively (2019: Impairment on property, plant and equipment of RMB36,493,000). The reasons for higher impairment loss on property, plant and equipment for the year ended 31 July 2019 was primarily due to the cessation of operation of certain manufacturing lines in May 2019, which lead to substantial impairment loss recognised on property, plant and equipment which were not expected to be used in the future with a carrying amount of approximately RMB43.30 million.

Distribution Costs

Distribution costs for the financial year amounted to RMB9.73 million, representing a decrease of RMB6.60 million or 40.42% from RMB16.33 million in the previous financial year. The decrease in distribution costs was mainly due to the decrease in distribution staff costs.

General and Administrative Expenses

General and administrative expenses amounted to RMB53.88 million for the financial year, representing a decrease of RMB23.82 million or 30.66% as compared to RMB77.70 million for the corresponding financial year in 2019. The decrease was primarily due to lower human resources expenses of RMB11.93 million and research and development expenses of RMB3.64 million during the financial year.

Finance Costs – Net

The net finance costs for the year decreased by 27.64% to RMB10.26 million (2019: RMB14.18 million). The decrease was mainly due to lower interest-bearing borrowings during the financial year.

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, loans from a director and lease liabilities. As at 31 July 2020, the Group had cash and cash equivalents and restricted bank balances of RMB165.67 million (2019: RMB138.34 million), of which RMB61.24 million (2019: RMB64.91 million) was pledged to banks for the facilities granted to the Group. 59.91%, 39.98% and 0.10% 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 2020, the Group had outstanding interest-bearing borrowings including lease liabilities and loans from a director of RMB173.51 million (2019: RMB210.91 million). The total borrowings including lease liabilities and loans from a director were denominated in USD (20.99%), RMB (62.72%) and HK\$ (16.29%), and the maturity profile is as follows:

Repayable	As at 31 July 2020		As at 31 July 2019	
	RMB million	%	RMB million	%
Within one year	134.31	77.41	187.69	89.00
After one year but within two years	39.20	22.59	23.01	10.91
After two years but within five years	–	–	0.21	0.09
Total borrowings including lease liabilities and loans from a director	<u>173.51</u>	<u>100.00</u>	<u>210.91</u>	<u>100.00</u>
Cash and cash equivalents and restricted bank balances	<u>(165.67)</u>		<u>(138.34)</u>	
Net borrowings including lease liabilities and loans from a director	<u>7.84</u>		<u>72.57</u>	

The total net interest-bearing borrowings including lease liabilities and loans from a director of the Group recorded at RMB7.84 million (2019: RMB72.57 million), representing 1.25% (2019: 9.97%) of total assets and 2.20% (2019: 18.54%) 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 lease liabilities and loans 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 lease liabilities and loans from a director. The gearing ratio of the Group was 2.15% as at 31 July 2020 (2019: 15.64%).

As at 31 July 2020, the Group's net current assets were RMB63.98 million (2019: RMB13.09 million). As at 31 July 2020, the Group has undrawn bank facilities of RMB176.68 million for working capital purposes.

CAPITAL STRUCTURE

As at 31 July 2020, the Group's total equity attributable to owners of the Company was RMB356.71 million (2019: RMB391.34 million). Total assets of the Group amounted to RMB629.34 million (2019: RMB727.59 million), 51.38% (2019: 53.62%) of which comprised property, plant, equipment and right-of-use assets.

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

The Group did not conduct any significant investments, material acquisitions or disposals. The Group has been streamlining its operation over the years with an aim to improve the Group's financial position by adopting a light asset operation and lower geared structure and higher liquidity. 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 2020.

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 RMB1.74 million (2019: RMB0.53 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 trade receivables and cash and cash equivalents 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 2020, the Group had a total of 935 employees (2019: 1,706). 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) for the financial year amounted to RMB108.30 million (2019: RMB161.02 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 2020 (2019: nil).

FUTURE PROSPECTS AND CHALLENGES

The global economy is facing with unprecedented situation due to the outbreak of COVID-19 pandemic in early January 2020 resulting in restrictions on travelling imposed by various countries and reduction in economic activities. The pandemic has hit various industries and created significant uncertainty in the global business environment.

The Group will continue to streamline its operation and formulate 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, reduce its debts and minimise the adverse impact on the business operation. In addition, the Group will continue to focus on realignment its US-based sales to non-US-based sales due to the continuing trade war between the United States (“US”) and China.

THE COVID-19 PANDEMIC’S IMPACT

The outbreak of COVID-19 has expanded globally and the prevention and control measures to combat the disease have continued to be implemented by different countries. As at the date of this announcement, there was no material negative impact on export and sales of product for the Group due to the outbreak of COVID-19.

The Directors will continue to closely monitor the development of the COVID-19 and assess its impact on the financial position, and operational results of the Group. At present, the Group does not foresee any material change in its exposures to credit risk and liquidity risk. The Group has remained to be financially stable as at 31 July 2020 and experienced no material recovery problem.

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 2020 requiring disclosure in this results announcement.

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

During the year ended 31 July 2020, 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 2020 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 2020.

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
24 September 2020

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

Executive Directors:

Mr. Beh Kim Ling
Mr. Gan Sem Yam
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