



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)

Annual Report

2015/16





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Corporate Profile

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

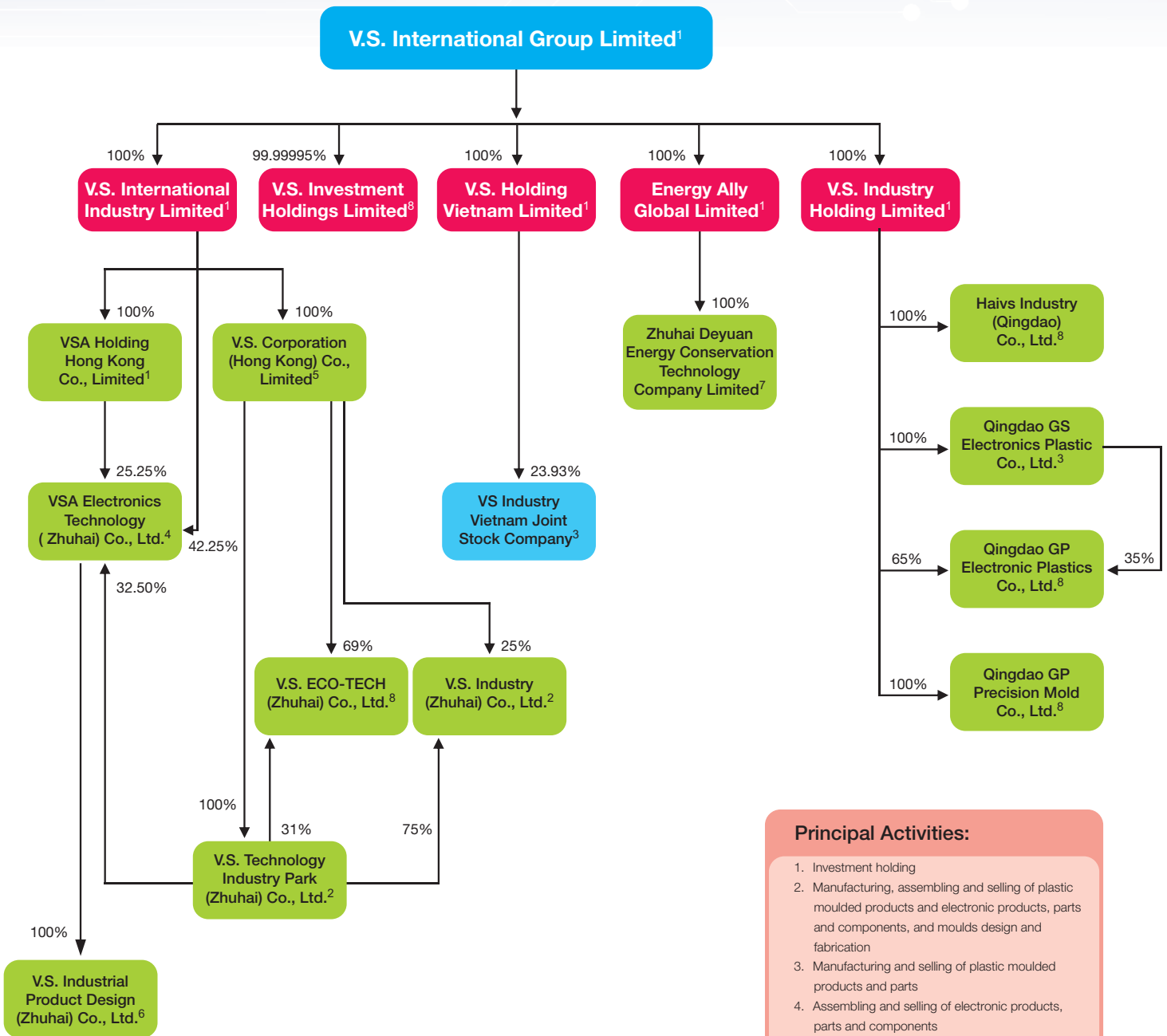
The Group commenced its business in 1997 in Shenzhen, the People’s Republic of China (“PRC”) and was listed on the Main Board of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) in February 2002. The Company is a subsidiary of V.S. Industry Berhad, a company incorporated in Malaysia with limited liability, the shares of which are listed on the Main Market of Bursa Malaysia Securities Berhad.

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

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

Corporate Structure

As of 27 September 2016



Principal Activities:

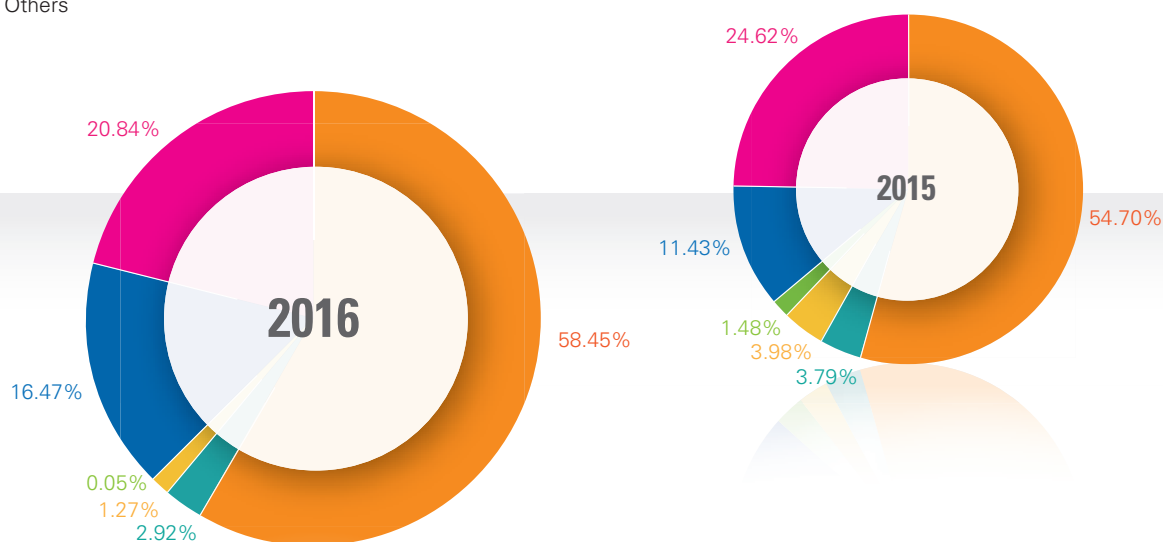
1. Investment holding
2. Manufacturing, assembling and selling of plastic moulded products and electronic products, parts and components, and moulds design and fabrication
3. Manufacturing and selling of plastic moulded products and parts
4. Assembling and selling of electronic products, parts and components
5. Trading of electronic products, parts and components, and investment holding
6. Product design and trading of electronic products, parts and components
7. Operation and management of rooftop solar plant
8. Dormant

Financial Highlights

| Key Financial Data | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|----------------|---------|---------|---------|-----------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total equity | 399,892 | 428,100 | 325,756 | 329,644 | 327,461 |
| Total assets | 894,853 | 944,747 | 986,564 | 954,965 | 1,120,443 |
| Net borrowings | 191,612 | 187,577 | 267,173 | 265,901 | 363,678 |
| Capital expenditure | 89,395 | 35,882 | 16,756 | 9,687 | 25,412 |
| Gearing ratio (net) (%) | 21.41% | 19.85% | 27.08% | 27.84% | 32.46% |
| Finance costs over turnover (%) | 1.37% | 1.48% | 1.62% | 1.89% | 2.37% |
| Inventory turnover days | 47 | 47 | 53 | 41 | 38 |
| Trade and bills receivable turnover days | 81 | 79 | 81 | 77 | 74 |
| Trade and bills payable turnover days | 81 | 75 | 76 | 76 | 64 |

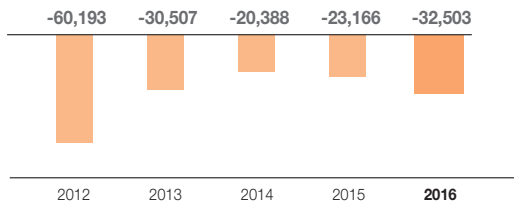
Sales Breakdown by Geographical Locations

- Mainland China
- Hong Kong
- South East Asia
- Europe
- United States of America
- Others



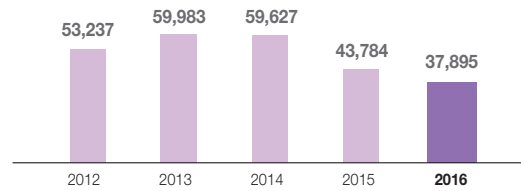
Financial Highlights

Loss Attributable to Owners (RMB'000)

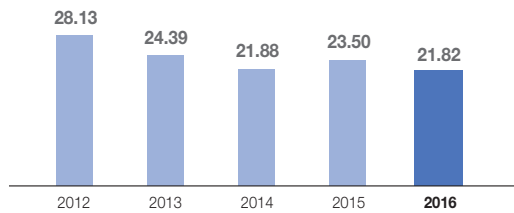


EBITDA (RMB'000)

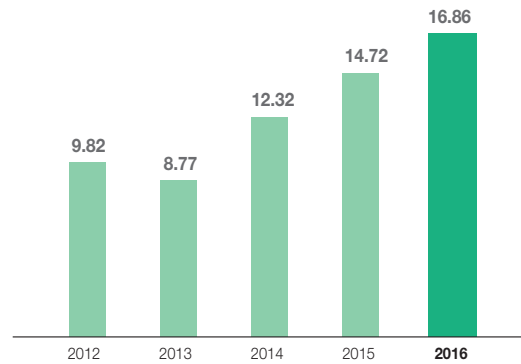
(Earnings before interest, tax, depreciation and amortisation)



Net Tangible Assets Per Share (RMB cents)

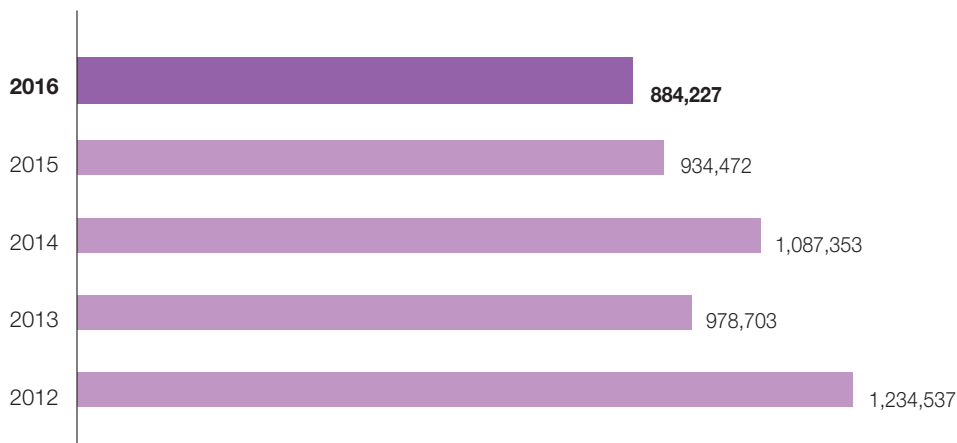


Gross Profit Margin (%)



Sales Breakdown by Business Segments

(RMB'000)



| (RMB'000) | 2016 | 2015 | 2014 | 2013 | 2012 |
|-------------------------------------|---------|---------|---------|---------|---------|
| ■ Plastic injection and moulding | 503,483 | 546,881 | 620,558 | 585,158 | 753,988 |
| ■ Assembling of electronic products | 319,151 | 319,596 | 398,389 | 345,499 | 398,921 |
| ■ Mould design and fabrication | 61,593 | 67,995 | 68,406 | 48,046 | 81,628 |

Chairman's Statement

Dear Shareholders

On behalf of the board ("Board") of directors ("Directors"), I hereby present the Company's annual report ("Annual Report") together with the consolidated financial statements of the Group for the financial year ended 31 July 2016.

BUSINESS REVIEW

In the past several years, the Group has been implementing its business strategy to focus at higher value-added products. In particular, the Group has launched its own original design manufacturer ("ODM") products in prior year which has contributed significantly to the improvement in gross profit margin.

During the year, the Group generated RMB44.99 million cash flow from operations. The net cash inflow has enabled the Group to further reduce the bank borrowings by RMB15.27 million from RMB265.46 million as at 31 July 2015 to RMB250.19 million as at 31 July 2016.



FINANCIAL HIGHLIGHTS

The Group's turnover for the financial year was RMB884.23 million as compared to RMB934.47 million in the previous financial year, representing a decrease of 5.38%. However, the Group's gross profit margin increased from 14.72% to 16.86% and the Group's gross profit increased from RMB137.52 million to RMB149.07 million. Loss attributable to owners of the Company increased to RMB32.50 million as compared RMB23.17 million in the previous financial year due to provision for impairment of deposits paid of RMB34.00 million in relation to a proposed acquisition of a 20% equity interest of a company involved in a solar energy project in Inner Mongolia was made.

DIVIDENDS

The Board does not recommend any payment of dividend for the financial year ended 31 July 2016 (2015: nil) at the forthcoming annual general meeting of the Company.

CORPORATE DEVELOPMENT

On 30 December 2015, Energy Ally Global Limited ("Energy Ally"), a wholly-owned subsidiary of the Company, acquired 100% equity interest of Zhuhai Deyuan Energy Conservation Technology Company Limited* (珠海德源節能科技有限公司) ("Zhuhai Deyuan"), which owns and operates a roof-top solar power plant located in our manufactory plant in Zhuhai, the PRC. The solar plant is now fully operational.

* for identification purposes only

Chairman's Statement

FUTURE PROSPECTS AND CHALLENGES

The Group will continue to focus on improving its production efficiency and productivity as well as realignment of its product lines to improve its profitability. In addition, the Group will continue to develop and increase its own ODM products and customer base which are expected to contribute positively to the performance of the Group.



On 4 August 2016, the Group entered into an agreement with an existing customer pursuant to which purchase orders of RMB400,000,000 have been placed to the Group. The agreement is expected to enhance the Group's performance in the financial year ending 31 July 2017.

ACKNOWLEDGEMENT AND APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation and gratitude to the Company's shareholders ("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

Management Discussion and Analysis of Results of Operations

INDUSTRY OVERVIEW

During the financial year, the Group continued to improve its profit margin with its strategy to focus on higher value-added products.

FINANCIAL REVIEW

Turnover, Gross Profit and Segment Results

During the financial year, the Group recorded a turnover of RMB884.23 million, representing a decrease of RMB50.24 million or 5.38% from RMB934.47 million in the previous year. The major contributor of the Group's turnover was still its plastic injection and moulding division which accounted for 56.94% (2015: 58.52%) of the Group's turnover, and the remaining from assembling of electronic products and mould design and fabrication divisions which accounted for 36.09% (2015: 34.20%) and 6.97% (2015: 7.28%) of the Group's turnover respectively.

In line with the Group's two-pronged strategy of focusing on higher value-added products and developing its own ODM products, gross profit increased by RMB11.55 million and recorded at RMB149.07 million representing 16.86% of its turnover during the financial year as compared to gross profit of RMB137.52 million representing 14.72% of its turnover in the previous year.



Plastic Injection and Moulding

The decline in sales orders from certain major customers during the financial year has directly impacted the business of plastic injection and moulding, which recorded a turnover of RMB503.48 million, representing a decrease of RMB43.40 million or 7.94% from RMB546.88 million in the previous year.

The Group's operation in Zhuhai was still the main contributor and has contributed a turnover of RMB277.79 million as compared to RMB310.31 million in the previous year. Meanwhile, the Group's operation in Qingdao recorded a turnover of RMB225.69 million during the financial year, which represented a decrease of 4.60% from RMB236.57 million in the previous financial year.

Assembling of Electronic Products

During the financial year, the Group's assembling of electronic products business recorded a turnover of RMB319.15 million, representing a slight decrease of 0.14% from RMB319.60 million in the previous financial year.



Management Discussion and Analysis of Results of Operations



Mould Design and Fabrication

During the financial year, the mould design and fabrication segment recorded a turnover of RMB61.60 million, representing a decrease of 9.40% from RMB67.99 million in the previous financial year.

Other Losses – Net

During the financial year, the Group incurred other net loss of RMB38.83 million (2015: RMB7.56 million), which comprised net loss on disposal of property, plant and equipment of RMB1.18 million, net foreign exchange loss of RMB3.20 million and net loss on forward foreign exchange contracts of RMB0.45 million. In addition, a provision for impairment of the Deposits paid of RMB34.00 million in relation to a proposed acquisition of a 20% equity interest of a company involved in a solar energy project in Inner Mongolia was made.

Distribution Costs

Distribution costs for the financial year amounted to RMB53.00 million, representing a decrease of RMB0.89 million or 1.65% from RMB53.89 million in the previous financial year. The decrease was in line with the decrease in the turnover of the Group for the financial year.

General and Administrative Expenses

General and administrative expenses for the financial year amounted to RMB76.77 million, representing a slight decrease of RMB0.55 million or 0.71% from RMB77.32 million in the previous financial year.

Finance Costs – Net

The net finance costs for the year reduced by 10.44% to RMB11.75 million (2015: RMB13.12 million). The decrease was primarily due to lower interest-bearing borrowings during the financial year.

Share of Profit/(Loss) of an Associate

The Group's share of profit of an associate of RMB2.53 million (2015: loss of RMB2.68 million) was solely attributed to profit recorded from 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 and bank borrowings. As at 31 July 2016, the Group had cash and bank deposits of RMB58.57 million (2015: RMB77.88 million), of which RMB12.99 million (2015: RMB17.82 million) was pledged to banks for the facilities granted to the Group. 54.50%, 44.70% and 0.77% of cash and bank deposits are denominated in United States dollars ("USD"), RMB and Hong Kong dollars ("HK\$"), respectively.

Management Discussion and Analysis of Results of Operations

As at 31 July 2016, the Group had outstanding interest-bearing bank borrowings of RMB250.19 million (2015: RMB265.46 million). The total borrowings were denominated in USD (75.09%), RMB (17.91%), and HK\$ (7.00%), and the maturity profile is as follows:

| Repayable | As at 31 July 2016 | | As at 31 July 2015 | |
|---------------------------------------|--------------------|---------------|--------------------|--------|
| | RMB million | % | RMB million | % |
| Within one year | 164.79 | 65.87 | 148.32 | 55.87 |
| After one year but within two years | 39.84 | 15.92 | 37.26 | 14.04 |
| After two years but within five years | 45.56 | 18.21 | 79.88 | 30.09 |
| Total borrowings | 250.19 | 100.00 | 265.46 | 100.00 |
| Cash and bank deposits | (58.57) | | (77.88) | |
| Net borrowings | 191.62 | | 187.58 | |

The total net interest-bearing borrowings of the Group recorded at RMB191.62 million (2015: RMB187.58 million) representing 21.41% (2015: 19.85%) of total assets and 47.92% (2015: 43.82%) 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 less cash and bank deposits. Total capital is calculated as total equity attributable to owners of the Company plus net borrowings. The gearing ratio of the Group was 32.39% as at 31 July 2016 (2015: 30.47%).



As at 31 July 2016, the Group's net current liabilities were RMB15.70 million (2015: net current assets of RMB13.52 million). As at 31 July 2016, the Group has undrawn bank facilities of RMB98.43 million for working capital purposes.

CAPITAL STRUCTURE

As at 31 July 2016, the Group's equity stood at RMB399.89 million (2015: RMB428.10 million). Total assets of the Group amounted to RMB894.85 million (2015: RMB944.75 million), 52.93% (2015: 46.78%) of which comprised property, plant, equipment and land use rights.

Management Discussion and Analysis of Results of Operations

CHARGES ON GROUP ASSETS

As at 31 July 2016, the Group's secured banking facilities, including trade finance, overdrafts and bank loans, totaling RMB266.11 million (2015: RMB301.77 million) were secured by (i) bill receivables of the Group of RMB4.21 million (2015: Nil); (ii) bank deposits of the Group of RMB12.99 million (2015: RMB17.82 million); (iii) the buildings of the Group, net book value of which amounted to RMB184.55 million (2015: RMB190.79 million); (iv) plant and machinery of the Group, net book value of which amounted to RMB31.37 million (2015: RMB38.06 million); and (v) land use rights of the Group, net book value of which amounted to RMB15.52 million (2015: RMB15.95 million).



MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the financial year, Energy Ally, a wholly-owned subsidiary of the Company, acquired 100% equity interest of Zhuhai Deyuan, which owns and operates a roof-top solar power plant located in our manufactory plant in Zhuhai, the PRC. Except for the acquisition mentioned above, the Group had no significant investments, mergers and acquisitions during the financial year. Please refer to the announcements of the Company dated 16 April

2015, 6 July 2015, 30 October 2015 and 30 December 2015 for information.

SIGNIFICANT INVESTMENTS HELD

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

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group does not have any concrete plan for material investments or capital assets for the coming year.

CONTINGENT LIABILITY

The Group does not have material contingent liabilities as at 31 July 2016.

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 currency giving rise to the risk was primarily USD.

During the financial year, the Group has made net foreign exchange losses of RMB3.65 million (2015: net foreign exchange gains of RMB0.28 million) mainly due to the realised loss on forward foreign exchange contracts of RMB0.45 million and unrealised and realised foreign exchange loss of RMB3.20 million.

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.

As at 31 July 2016, there were no outstanding forward foreign exchange contracts (2015: USD2.00 million). Management will continue to monitor the Group's foreign currency risk exposure and to ensure that it is kept at an acceptable level.

Management Discussion and Analysis of Results of Operations

EMPLOYEES AND REMUNERATION POLICY

As at 31 July 2016, the Group had a total of 2,687 employees (2015: 2,962). 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 RMB162.68 million (2015: RMB159.15 million). The increase in human resources expenses was mainly due to the rise in remuneration paid as a result of the increase in minimum wages imposed by local authorities of the PRC 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.

PRINCIPAL RISKS AND UNCERTAINTIES

(i) Economic climate and individual market performance

The impact of economic conditions on consumer confidence and buying habits would affect sales and results of the Group. The economic growth or decline in our geographical markets that affected consumer spending on our products would also affect our business. The Group continues to implement its strategies to develop and strengthen penetration of different geographical markets thereby reducing its dependency on specific markets.

(ii) Loss of key individuals or the inability to attract and retain talent

Lack of appropriately skilled and experienced resource could result in a delay in achieving the Group's strategic goals. The risk of the loss of key personnel is mitigated by regular reviews of recruitment and retention practices, remuneration packages and succession planning within the management team.

(iii) Financial risks

The Group is subject to foreign exchange risk, credit risk, liquidity risk, cash flow and fair value interest-rate risk. Details of the financial risks of the Group during the financial year are set out in note 3 to the consolidated financial statements of the Group.

Management Discussion and Analysis of Results of Operations

EVENTS AFTER THE REPORTING DATE

On 31 August 2016, Energy Ally entered into a settlement agreement with a third party vendor, pursuant to which the parties thereto agreed to terminate the obligations relating to or arising out of the acquisition agreement of acquiring 20% equity interest of a company involved in a solar energy project in Inner Mongolia by Energy Ally, and the vendor thereto shall repay in full, to Energy Ally, the deposit in an aggregate principal amount of HK\$42,500,000 (equivalent to approximately RMB34,000,000) and the interest thereon at 5% per annum by 30 November 2016. Details of the transactions are set out in the announcements of the Company dated 5 February 2015, 23 March 2015, 3 August 2015, 2 November 2015 and 31 August 2016.

Save as disclosed above, there is no important event affecting the Group which has occurred since the end of the financial year.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. BEH Kim Ling, aged 58, is the chairman of the Company. Mr. Beh started his career in 1976 as a plastic moulding technician in Singapore. Three years later, Mr. Beh established VS Industry Pte Ltd. which was principally involved in the manufacturing of cassettes and video tapes parts in Singapore. In 1982, Mr. Beh, together with his wife, relocated the entire business operations of VS Industry Pte Ltd. from Singapore to Johor Bahru, Malaysia and set up V.S. Industry Berhad ("VS Berhad") in Johor Bahru, Malaysia. Mr. Beh has been the executive chairman of VS Berhad since then. With the vast experience in the plastic moulding injection business gained in Singapore and Malaysia, Mr. Beh founded the Group's business in the PRC in 1997. Mr. Beh has been appointed as an executive Director since 5 November 2001.

In November 2003, Mr. Beh received Honorary Doctorate from the Honolulu University in Hawaii, the United States of America. In recognition of his efforts and dedication, His Excellency, the Governor of Malacca conferred the Darjah Putra Seri Melaka ("DPSM") to him which carries the prestigious title of "Datuk" in December 2012. Currently, Mr. Beh focuses mainly on business development and formulation of the overall business strategy of the Group.

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

Mr. GAN Sem Yam, aged 60, is the managing Director. After completing his secondary education in 1975, Mr. Gan joined one of the shipyards in Singapore as an electrician. Mr. Gan joined VS Berhad in 1982 and was promoted to general manager and director of VS Berhad in February 1988. Mr. Gan was appointed as an executive Director on 16 July 2001.

In December 2012, in recognition of his efforts and dedication, he was conferred the DPSM which carries the prestigious title of "Datuk" by His Excellency, the Governor of Malacca. Mr. Gan is mainly responsible for the operations and daily management of the Group.

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

Madam GAN Chu Cheng, aged 62, is the finance Director. Madam Gan, together with her husband, Mr. Beh Kim Ling, established VS Berhad in 1982. Madam Gan has accumulated more than 30 years experience in the plastic injection and moulding business. Madam Gan was appointed as an executive Director on 5 November 2001 and she is an executive director of VS Berhad. Madam Gan has headed several departments including production planning, procurement and finance departments in both VS Berhad and the Group.

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

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

Directors and Senior Management Profile

Mr. ZHANG Pei Yu, aged 78, has been with the Group since October 2000 and has been appointed as an executive Director since 5 November 2001. Prior to joining the Group, Mr. Zhang held various managerial positions with a number of large state-owned enterprises and government bureau in the PRC, including Shenyang Auto Mobile Manufacturing Factory, Shenyang Light Industry Bureau, Planning Economy Committee of Shenyang and Shenyang Jinbei Company. Mr. Zhang has gained substantial experience in corporate management and business development in the PRC.

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

Mr. BEH Chern Wei, aged 30, was appointed as an alternate Director to Madam Gan Chu Cheng on 21 March 2015 and redesignated from an alternative Director to Madam Gan Chu Cheng to an executive Director on 16 December 2015. Mr. Beh graduated with a Bachelor of Science degree in Industrial Engineering from the State University of New York at Buffalo in 2006. Upon graduation, Mr. Beh served for a year in the business development division of VS Berhad, the parent company of the Company, whose subsidiaries are principally engaged in the manufacturing, assembly and sale of plastic moulded components and parts, and electrical products. After joining the Group, Mr. Beh served as a project manager and a business system manager in the Group's production facilities in Zhuhai, the PRC, whereby he took part in activities relating to management enterprise resource planning system, business development, sales and marketing, supply chain management, operational management and project and product development.

Mr. Beh currently serves as the head of information technology and supply chain management of the Group.

Mr. Beh Chern Wei is the son of Mr. Beh Kim Ling and Madam Gan Chu Cheng, both being executive Directors, and the nephew of Mr. Gan Tiong Sia, a non-executive Director, and Mr. Gam Sem Yam, an executive Director.

NON-EXECUTIVE DIRECTOR

Mr. GAN Tiong Sia, aged 56, has been a member of the Board since 5 November 2001. After graduation from secondary school, Mr. Gan joined VS Berhad as a management trainee. Mr. Gan was subsequently promoted as the marketing manager of VS Berhad in 1986 and became a director of VS Berhad in February 1988.

In May 2014, in recognition of his efforts and dedication, he was conferred the Darjah Indera Mahkota Pahang which carries the prestigious title of "Dato" by His Excellency, the Sultan of Pahang.

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

Directors and Senior Management Profile

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. DIONG Tai Pew, aged 65, was appointed as an independent non-executive Director on 31 August 2002. Mr. Diong graduated with a Diploma in Commerce from Tunku Abdul Rahman College, Malaysia in 1976. Mr. Diong is a Chartered Accountant of Singapore and Malaysia. He is also a fellow member of the Chartered Tax Institute of Malaysia.

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

Mr. TANG Sim Cheow, aged 57, was appointed as an independent non-executive Director on 30 September 2004. Mr. Tang graduated from the University of Malaya with a Bachelor of Accounting degree in 1984. He is a member of the Malaysian Institute of Accountants and Malaysian Institute of Certified Public Accountants, and a fellow member of the Chartered Tax Institute of Malaysia. Mr. Tang joined KPMG Kuala Lumpur upon graduation and was promoted to tax manager in 1988. In 1992, Mr. Tang was seconded to KPMG Johor Bahru to head the tax practice of the Johor Bahru Branch and was promoted to tax director in 1995. Since 2000, Mr. Tang operates his own accounting firm S C Tang & Associates, in Malaysia which provides assurance, tax and consultancy services.

Mr. Tang is currently an independent non-executive director of VS Berhad, holding company of the Company which is listed on the Main Market of Bursa Malaysia.

Ms. FU Xiao Nan, aged 46, was appointed as an independent non-executive Director on 12 June 2015. Ms. Fu holds a master's degree in finance and has over 15 years of investment banking experience in the capital markets of the PRC. She is a sponsor representative registered with China Securities Regulatory Commission.

Ms. Fu is currently a member of the senior management of Huatai United Securities Co., Ltd. a company established in the PRC principally engaged in securities underwriting, sponsorship and financial advisory to securities investment and trading related activities. Prior to joining Huatai United Securities Co., Ltd., Ms. Fu held senior management positions in various investment banks. From June 2008 to March 2010, Ms. Fu acted as an independent non-executive director of Blue Star Cleaning Co., Ltd. (now known as Chengdu Xingrong Environment Co., Ltd.), a company listed on the Shenzhen Stock Exchange (stock code: 000598). Since December 2012, Ms. Fu has also served as an independent non-executive director of the United Laboratories International Holdings Limited, a company listed on the Main Board of Stock Exchange (stock code: 3933).

Directors and Senior Management Profile

SENIOR MANAGEMENT OF THE GROUP

Mr. HSU Chi Chuan, aged 48, is the general manager of V.S Technology Industry Park (Zhuhai) Co., Ltd. Prior to joining the Group in September 2010, Mr. Hsu has gained more than 20 years experience in engineering, tooling and operations of EMS industry in Taiwan and China including holding a position as a general manager for 10 years in a world leading EMS company in China.

Mr. LO Boon Wah, aged 47, is the general manager of Haivs Industry (Qingdao) Co., Ltd. ("Haivs Qingdao"), Qingdao GS Electronics Plastic Co., Ltd. ("Qingdao GS") and Qingdao GP Electronic Plastics Co., Ltd. ("Qingdao GPI"). Mr. Lo, who joined the Group in July 2001, holds a Bachelor of Business Administration degree from the University of Utara Malaysia in Malaysia and has over 15 years experience in the administrative functions of operation management.

Mr. LEE Keng Eng, aged 43, is the operation finance controller of the Group. Mr. Lee joined the Group as the finance manager of Haivs Qingdao and Qingdao GS, Qingdao GPI and Qingdao GP Precision Mold Co., Ltd. since year 2004 and was promoted to the present position in April 2009. Mr. Lee has gained over 15 years of experiences in relation to accounting, financing and taxation in the PRC.

Mr. CHONG Chin Siang, aged 49, is the corporate finance controller of the Group. Mr. Chong graduated from the University Science of Malaysia with a Bachelor of Management (majoring in finance and accounting) in year 1992. Prior to joining the Group in January 2009, Mr. Chong has gained more than 15 years experience in internal audit, corporate finance and financial management in a number of public listed companies in Malaysia.

Mr. SOH Cheah Tuck, aged 45, is the general manager of V.S. Industry (Zhuhai) Co., Ltd.. Mr. Soh joined the Group in September 2004 as an assistant quality and engineering manager and was promoted to current position in 2009. He has more than 15 years of experience in the administrative functions of operation management.

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

During the financial year, the Company had complied with the Code Provisions, except for below.

According to Code Provision A.2.1 under the CG Code, 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 the 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. Going forward, the Board will periodically review the effectiveness of this arrangement.

DIRECTORS’ SECURITIES TRANSACTIONS

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

The Company has made specific enquiry on all Directors regarding the dealings of securities of the Company and the Directors have confirmed that they have complied with the SD Code and Appendix 10 to the Listing Rules throughout the financial year ended 31 July 2016.

Corporate Governance Report

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group's overall strategic policies. The management is delegated the authority and responsibility by the Board for the management of the Group. The Board is currently composed of five executive Directors namely Mr. Beh Kim Ling as the chairman, Mr. Gan Sem Yam, Madam Gan Chu Cheng, Mr. Zhang Pei Yu and Mr. Beh Chern Wei; one non-executive Director, namely Mr. Gan Tiong Sia; and three independent non-executive Directors, namely Mr. Diong Tai Pew, Mr. Tang Sim Cheow and Ms. Fu Xiao Nan. The biographical details of the Directors are set out under the section headed "Directors and Senior Management Profile" of this Annual Report. All Directors are subject to retirement by rotation and may offer themselves for re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

The Board meets regularly to review and determine the corporate strategies and overall strategic policies. Each of the members of the Board has full access to relevant information at the meetings. During the financial year ended 31 July 2016, the Board has convened seven meetings at which, among other things, the following activities were conducted:

- (1) approved the annual report for the financial year ended 31 July 2015 and matters to be considered at the 2015 annual general meeting;
- (2) reviewed and approved corporate strategies of the Group for the financial year ending 31 July 2017;
- (3) approved the interim results for the six months ended 31 January 2016;
- (4) approved the announcements of the Company in relation to, among others, certain unaudited financial information of the Group provided to V.S. Industry Berhad for the compilation of its quarterly report for the three months ended 31 October 2015 and for the nine months ended 30 April 2016 respectively; and
- (5) approved continuing connected transactions of the Group.

The Board is also responsible for determining the Company's corporate governance policies and performing corporate governance duties set out under the CG Code. Its corporate governance duties include, among others, (i) to develop and review the Company's policies and practices on corporate governance; (ii) to review and monitor the training and continuous professional development of Directors and senior management; (iii) to review and monitor the Company's policies and practices on compliance with legal or regulatory requirements; (iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and (v) to review the Company's disclosure in the Corporate Governance Report.



Corporate Governance Report

During the financial year, the Board has not held any meeting in relation to its corporate governance functions.

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

Details of the Directors' attendance records at the board meetings during the financial year ended 31 July 2016 are as follows:

Attendance

Executive Directors

| | |
|--|-----|
| Mr. Beh Kim Ling (<i>chairman</i>) | 7/7 |
| Mr. Gan Sem Yam | 7/7 |
| Madam Gan Chu Cheng | 7/7 |
| Mr. Zhang Pei Yu | 7/7 |
| Mr. Beh Chern Wei (<i>redesignated from an alternate Director to Madam Gan Chu Cheng to an executive Director on 16 December 2015</i>) | 7/7 |

Non-executive Director

| | |
|-------------------|-----|
| Mr. Gan Tiong Sia | 7/7 |
|-------------------|-----|

Independent non-executive Directors

| | |
|--------------------|-----|
| Mr. Diong Tai Pew | 7/7 |
| Mr. Tang Sim Cheow | 7/7 |
| Ms. Fu Xiao Nan | 6/7 |

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

Corporate Governance Report

Details of the Directors' attendance records at the annual general meeting of the Company, being the only general meeting held during the financial year ended 31 July 2016, are as follows:

| | Attendance |
|--|-------------------|
| Executive Directors | |
| Mr. Beh Kim Ling (<i>chairman</i>) | 1/1 |
| Mr. Gan Sem Yam | 1/1 |
| Madam Gan Chu Cheng | 1/1 |
| Mr. Zhang Pei Yu | 1/1 |
| Mr. Beh Chern Wei (<i>redesignated from an alternate Director to Madam Gan Chu Cheng to an executive Director on 16 December 2015</i>) | 1/1 |
| Non-executive Director | |
| Mr. Gan Tiong Sia | 1/1 |
| Independent non-executive Directors | |
| Mr. Diong Tai Pew | 1/1 |
| Mr. Tang Sim Cheow | 1/1 |
| Ms. Fu Xiao Nan | 1/1 |

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

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



Corporate Governance Report

INSURANCE ARRANGEMENT

According to Code Provision A.1.8 of the CG Code, an issuer shall arrange appropriate insurance cover in respect of any legal action against its directors. During the financial year ended 31 July 2016, the Company has arranged liability insurance for its Directors and senior management.

DIRECTORS' TRAINING

Pursuant to Code Provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. The Company shall be responsible for arranging suitable training for all Directors at the Company's expense.

During the financial year, the Company has organised a training session conducted by qualified professionals in relation to Directors Duties and Responsibilities and Update on the listing requirement to ensure that the directors fully understand their roles, functions and duties as Directors under the Listing Rules and other applicable laws and regulations. Each of Mr. Beh Kim Ling, Mr. Gan Sem Yam, Madam Gan Chu Cheng, Mr. Beh Chern Wei, Mr. Gan Tiong Sia and Mr. Tang Sim Cheow attended such training session. Mr. Zhang Pei Yu, Mr. Diong Tai Pew and Ms. Fu Xiao Nan attended other professional training sessions separately.

NOMINATION COMMITTEE

The nomination committee of the Company ("Nomination Committee") currently consists of three members, comprising two independent non-executive Directors, namely Mr. Tang Sim Cheow (chairman) and Mr. Diong Tai Pew, and one executive Director, namely Madam Gan Chu Cheng. It was established by the Board with effect from 24 March 2012 and its duties are clearly defined in its terms of reference which have been prepared and adopted according to the Code Provisions.

The Nomination Committee reviews regularly the structure, size and composition of the Board and may make recommendations to the Board on the nominees for appointment as directors for their consideration and approval. To enhance the quality of the performance of the Board and to achieve diversity on the Board, the Board adopted on 30 August 2013 its board diversity policy ("Board Diversity Policy"), pursuant to which (i) differences in the skills, regional and industry experience, background, race, gender and other qualities of Directors will be taken into account in determining the optimum composition of the Board; and (ii) all Board appointments will be based on merit while taking into account diversity (including gender diversity). For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

Corporate Governance Report

- (A) at least 40% of the members of the Board shall be non-executive directors or independent non-executive directors;
- (B) at least one-third of the members of the Board shall be independent non-executive directors;
- (C) at least two of the members of the Board shall have obtained accounting or other professional qualifications;
- (D) at least 75% of the members of the Board shall have more than seven years of experience in the industry he/she is specialised in; and
- (E) at least two of the members of the Board shall have China-related work experience.

During the financial year ended 31 July 2016, the Nomination Committee has met twice to review the structure, size and composition of the Board and review performance of each Director who is subject to retirement by rotation.

Details of attendance of each member of the Nomination Committee during the financial year ended 31 July 2016 are as follows:

| | Attendance |
|--|-------------------|
| Mr. Tang Sim Cheow (<i>chairman</i>) | 2/2 |
| Mr. Diong Tai Pew | 2/2 |
| Madam Gan Chu Cheng | 2/2 |

REMUNERATION COMMITTEE

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

During the financial year ended 31 July 2016, the Remuneration Committee has met thrice to review and approve the remuneration structure of the Directors and senior management of the Company as well as discretionary bonus of the executive Directors for the financial year ended 31 July 2015.

Corporate Governance Report

Remuneration of Directors and Senior Management

Pursuant to Code Provision B1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 July 2016 is set out below:

| Remuneration band (HK\$) | Number of individuals |
|--------------------------|-----------------------|
| Nil to 1,000,000 | 2 |
| 1,000,001 – 1,500,000 | 2 |
| 1,500,001 – 2,000,000 | – |
| 2,000,001 – 2,500,000 | – |
| 2,500,001 – 3,000,000 | – |
| 3,000,001 – 3,500,000 | 1 |

Further particulars regarding Directors' emoluments and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 11 and 12 to the consolidated financial statements of the Group.

Details of attendance of each member of the Remuneration Committee during the financial year ended 31 July 2016 are as follows:

| | Attendance |
|-------------------------------------|------------|
| Ms. Fu Xiao Nan (<i>chairman</i>) | 3/3 |
| Mr. Diong Tai Pew | 3/3 |
| Mr. Beh Kim Ling | 3/3 |

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") currently comprises three independent non-executive Directors, namely Mr. Diong Tai Pew (chairman), Mr. Tang Sim Cheow and Ms. Fu Xiao Nan. It was established by the Board with effect from 20 January 2002 and its duties are clearly defined in its terms of reference which have been prepared and adopted according to the Code Provisions.

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

Corporate Governance Report

During the financial year, the Audit Committee has convened four meetings and conducted the following activities:

- (1) reviewed the first and third quarterly results of the Company;
- (2) reviewed the interim and annual report of the Company;
- (3) reviewed the report of internal audit department, internal controls system and financial matters of the Group in pursuance of the terms of reference;
- (4) reviewed the audit findings of the external auditors of the Company;
- (5) made recommendation to the Board on the re-appointment of the external auditors; and
- (6) reviewed all ongoing continuing connected transactions of the Group.

Details of attendance of each member of the Audit Committee during the financial year ended 31 July 2016 are as follows:

| | Attendance |
|---------------------------------------|-------------------|
| Mr. Diong Tai Pew (<i>chairman</i>) | 4/4 |
| Mr. Tang Sim Cheow | 4/4 |
| Ms. Fu Xiao Nan | 4/4 |

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



Corporate Governance Report

AUDITORS' REMUNERATION

During the financial year ended 31 July 2016, audit and non-audit services were provided to the Group by PricewaterhouseCoopers, the auditor of the Company, and other external auditors of the Company's subsidiaries in the PRC:

| Services Provided | Amounts |
|--|----------------|
| | RMB |
| Annual audit | |
| Audit fee for the consolidated financial statements of the Group for the year ended 31 July 2016 | 1,489,000 |
| Audit fee for the statutory audit of the financial statements of the Company's subsidiaries in the PRC for the year ended 31 December 2015 | 357,000 |
| Non-audit services | |
| Fee for tax consultancy services of the Company's subsidiaries in the PRC and other non-audit services | 148,000 |
| | 1,994,000 |

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group. In preparing the financial statements for the financial year ended 31 July 2016, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

The statement of the external auditors about their reporting responsibilities on the financial statements are set out in the Independent Auditor's Report to the Shareholders on pages 50 to 51 of this Annual Report.

Corporate Governance Report

INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective system of internal control. During the financial year, the Board has reviewed the effectiveness of the internal control system of the Group through the Audit Committee. There was no significant incidence of failure in connection with the financial, operational and compliance control during the financial year ended 31 July 2016.

During the financial year, the Board has considered through the Audit Committee the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to convene an extraordinary general meeting

The following procedures for the Shareholders to convene an extraordinary general meeting ("EGM") of the Company are prepared in accordance with Article 64 of the articles of association of the Company:

- (1) One or more Shareholders ("Requisitionist(s)") holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings shall have the right, by written notice, to require an EGM to be called by the Directors for the transaction of any business specified in such requisition.
- (2) Such requisition shall be made in writing to the Board or the company secretary of the Company at the following:

Head office and principal place of business of the Company in Hong Kong

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

Email: corporate@vs-ig.com

Attention: the Board of Directors/Company Secretary

Registered office of the Company

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

Attention: the Board of Directors/Company Secretary

- (3) The EGM shall be held within two months after the deposit of such requisition.
- (4) If the Directors fail to proceed to convene such meeting within twenty-one (21) days of such deposit, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the Requisitionist(s) by the Company.

Corporate Governance Report

Procedures for Shareholders to direct enquiries to the Company

For matters in relation to the Board, the Shareholders can contact the Company at the following:

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

Email: corporate@vs-ig.com

Tel: (86)-756-3392338-1238

Fax: (86)-756-3385681/3385691

Attention: the Board of Directors/Company Secretary

For share registration related matters, such as share transfer and registration, change of name or address, loss of share certificates or dividend warrants, the registered Shareholders can contact:

Hong Kong branch share registrar and transfer office of the Company

Computershare Hong Kong Investor Services Limited

Address: Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Email: hkinfo@computershare.com.hk

Tel: (852) 2862 8555

Fax: (852) 2529 6087

Procedures for Shareholders to put forward proposals at Shareholders' meetings

To put forward proposals at a general meeting of the Company, a Shareholder should lodge a written notice of his/her proposal ("Proposal") with his/her detailed contact information at the Company's principal place of business at 40th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong.

The request will be verified with the Company's branch share registrar in Hong Kong and upon their confirmation that the request is proper and in order, the Board will be asked to include the Proposal in the agenda for the general meeting.

The notice period to be given to all the Shareholders for consideration of the Proposal raised by the Shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

- (a) At least 14 days' notice in writing if the Proposal requires approval by way of an ordinary resolution of the Company.
- (b) At least 21 days' notice in writing if the Proposal requires approval by way of a special resolution of the Company in an extraordinary general meeting of the Company or an ordinary resolution of the Company in an annual general meeting of the Company.

INVESTOR RELATIONS

There was no significant change in the Company's constitutional documents during the year ended 31 July 2016.

Report of the Directors

The Directors have pleasure in submitting the Annual Report together with the consolidated financial statements of the Group for the financial year ended 31 July 2016.

PRINCIPAL ACTIVITIES

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

An analysis of the principal activities and geographical locations of the operations of the Group during the financial year is set out in note 5 to the consolidated financial statements of the Group.

BUSINESS REVIEW

The review of the business of the Group during the year and the discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis of Results of Operations", and the description of principal risks and uncertainties facing the Group and key financial performance indicators are set out in the section headed "Management Discussion and Analysis of Results of Operations". The financial risk management objectives and policies of the Group are set out in note 3 to the consolidated financial statements. Except as disclosed in the sub-section headed "Events after the Reporting Date" under the section headed "Management Discussion and Analysis of Results of Operations", no important event affecting the Group that has occurred since the end of the financial year ended 31 July 2016 and up to the date of this Annual Report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

We believe that our business also depends on our ability to meet our customers' requirements in respect of safety, quality and environmental aspects. To meet our customers' requirements on safety, quality and environmental aspects, we have established safety, quality and environmental management systems. Through the systematic and effective control of our operations, compliance with safety, quality and environmental requirements can be further assured.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group has adopted internal control and risk management policies to monitor the on-going compliance with relevant laws and regulations. As far as the Board is concerned, the Group has complied in material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group is in good relationship with its employees and some policies have been carried out to make sure the employees can acquire competitive remuneration, good welfare and continuous professional training. The Group also maintains a good relationship with its customers and suppliers, without whom the production and operation success will not be guaranteed.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

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

| | Percentage of the Group's total | |
|-------------------------------------|------------------------------------|-----------|
| | Sales | Purchases |
| The largest customer | 22% | – |
| Five largest customers in aggregate | 68% | – |
| The largest supplier | – | 8% |
| Five largest suppliers in aggregate | – | 26% |

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

FINANCIAL STATEMENTS

The results of the Group for the financial year ended 31 July 2016 and the state of the Company's and the Group's affairs as at 31 July 2016 are set out in the consolidated financial statements of the Group on pages 52 to 114 of this Annual Report.

DIVIDENDS

The Board does not recommend the payment of a final dividend in respect of the financial year ended 31 July 2016 (2015: Nil).

FIXED ASSETS

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

SHARE CAPITAL

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

RESERVES

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

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31 July 2016, the Company's reserves available for distribution calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands amounted to RMB206,383,000 (2015: RMB255,931,000). These reserves may be distributed provided that immediately following the date on which the distribution is proposed to be made, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

DIRECTORS

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

Executive Directors

Beh Kim Ling

Gan Sem Yam

Gan Chu Cheng

Zhang Pei Yu

Beh Chern Wei

Non-executive Director

Gan Tiong Sia

Independent non-executive Directors

Diong Tai Pew

Tang Sim Cheow

Fu Xiao Nan

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

Mr. Beh Chern Wei was appointed as an executive Director on 16 December 2015. Pursuant to article 112 of the Company's articles of association, Mr. Beh Chern Wei should hold office only until the forthcoming annual general meeting and, being eligible, offers himself for re-election at such meeting.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

As at 31 July 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance ("SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have taken under such provisions of the SFO) or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein or pursuant to the SD Code, to be notified to the Company and the Stock Exchange were as follows:

| Name of Director (Note 1) | The Company/name of associated corporation | Capacity | Number and class of securities (Note 2) | Approximate percentage of interest |
|-------------------------------------|--|------------------|---|---|
| Beh Kim Ling | The Company | Beneficial owner | 79,962,027 Shares (L) (Notes 3 and 9) | 4.36% |
| | V.S. Corporation (Hong Kong) Co., Limited ("VSHK") | Beneficial owner | 3,750,000 non-voting deferred shares of HK\$1 each (L) | 5.00% |
| | V.S. Investment Holdings Limited ("VS Investment") | Beneficial owner | 5 ordinary shares of HK\$1 each (L) | Nominal |
| | VS Berhad | Beneficial owner | 146,313,493 ordinary shares of RM0.20 each (L) (Note 10) | 12.44% |

Report of the Directors

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

| Name of Director (Note 1) | The Company/name of associated corporation | Capacity | Number and class of securities (Note 2) | Approximate percentage of interest |
|-------------------------------------|---|------------------|---|---|
| Gan Sem Yam | The Company | Beneficial owner | 45,337,117 Shares (L) (Notes 3 and 9) | 2.47% |
| | VSHK | Beneficial owner | 3,750,000 non-voting deferred shares of HK\$1 each (L) | 5.00% |
| | VS Investment | Beneficial owner | 5 ordinary shares of HK\$1 each (L) | Nominal |
| | VS Berhad | Beneficial owner | 89,203,583 ordinary shares of RM0.20 each (L) (Note 11) | 7.59% |
| Gan Chu Cheng | The Company | Beneficial owner | 30,668,704 Shares (L) (Notes 4 and 9) | 1.67% |
| | VSHK | Beneficial owner | 3,750,000 non-voting deferred shares of HK\$1 each (L) | 5.00% |
| | VS Investment | Beneficial owner | 5 ordinary shares of HK\$1 each (L) | Nominal |
| | VS Berhad | Beneficial owner | 100,713,849 ordinary shares of RM0.20 each (L) (Note 12) | 8.57% |
| Zhang Pei Yu | The Company | Beneficial owner | 7,382,000 Shares (L) (Notes 5 and 9) | 0.40% |



Report of the Directors

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

| Name of Director (Note 1) | The Company/name of associated corporation | Capacity | Number and class of securities (Note 2) | Approximate percentage of interest |
|-------------------------------------|---|------------------|--|---|
| Beh Chern Wei | The Company | Beneficial owner | 25,600,000 Shares (L) (Notes 6 and 9) | 1.40% |
| | VS Berhad | Beneficial owner | 20,530,000 ordinary shares of RM0.20 each (L) (Note 13) | 1.75% |
| Gan Tiong Sia | The Company | Beneficial owner | 19,715,074 Shares (L) (Notes 7 and 9) | 1.08% |
| | VSHK | Beneficial owner | 3,750,000 non-voting deferred shares of HK\$1 each (L) | 5.00% |
| | VS Berhad | Beneficial owner | 30,523,037 ordinary shares of RM0.20 each (L) (Note 14) | 2.60% |
| Diong Tai Pew | The Company | Beneficial owner | 2,613,129 Shares (L) (Notes 8 and 9) | 0.14% |
| Tang Sim Cheow | The Company | Beneficial owner | 1,839,130 Shares (L) (Notes 8 and 9) | 0.10% |
| | VS Berhad | Beneficial owner | 400,000 ordinary shares of RM0.20 each (L) (Note 15) | 0.03% |

Notes:

- Mr. Beh Kim Ling is the husband of Madam Gan Chu Cheng, and the brother-in-law of Messrs. Gan Sem Yam and Gan Tiong Sia. Madam Gan Chu Cheng is the sister of Messrs. Gan Sem Yam and Gan Tiong Sia. Mr. Beh Chern Wei is the son of Mr. Beh Kim Ling and Madam Gan Chu Cheng, and the nephew of Mr. Gan Tiong Sia and Mr. Gan Sem Yam.
- The letter "L" represents the Director's long position interest in the shares and underlying shares of the Company or its associated corporations.



Report of the Directors

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

Notes: (continued)

3. 9,600,000 of these Shares would be allotted and issued upon exercise in full of the outstanding share options granted to each of the executive Directors, namely Mr. Beh Kim Ling and Mr. Gan Sem Yam, respectively by the Company under its share option scheme, details of which are set out in note 9 below, as at 31 July 2016.
4. 6,400,000 of these Shares would be allotted and issued upon exercise in full of the outstanding share options granted to the executive Director, namely Madam Gan Chu Cheng, by the Company under its share option scheme, details of which are set out in note 9 below, as at 31 July 2016.
5. 7,088,000 of these Shares would be allotted and issued upon exercise in full of the outstanding share options granted to the executive Director, namely Mr. Zhang Pei Yu, by the Company under its share option scheme, details of which are set out in note 9 below, as at 31 July 2016.
6. 3,600,000 of these Shares would be allotted and issued upon exercise in full of the outstanding share options granted to the executive Director, namely Mr. Beh Chern Wei, by the Company under its share option scheme, details of which are set out in note 9 below, as at 31 July 2016.
7. 2,500,000 of these Shares would be allotted and issued upon exercise in full of the outstanding share options granted to the non-executive Director, namely Mr. Gan Tiong Sia, by the Company under its share option scheme, details of which are set out in note 9 below, as at 31 July 2016.
8. 1,200,000 of these Shares would be allotted and issued upon exercise in full of the outstanding share options granted to each of the independent non-executive Directors, namely Mr. Diong Tai Pew and Mr. Tang Sim Cheow, respectively by the Company under its share option scheme, details of which are set out in note 9 below, as at 31 July 2016.
9. On 16 December 2013, share options were granted by the Company under its share option scheme, which was adopted on 21 September 2012 and will be valid until 20 September 2022, to, among other eligible participants, the Directors. These share options, all of which remained outstanding as at 31 July 2016, are exercisable at a price of HK\$0.308 per Share during the exercise periods. Details of these share options are disclosed in the paragraph headed "Share Option Scheme" on pages 39 to 42 of this Annual Report.
10. 3,400,000 of these shares would be allotted and issued upon exercise in full of the outstanding share options granted by VS Berhad at the exercise price of RM0.70 per share during a period of 5 years from 12 May 2015. 28,582,698 of these shares would be allotted and issued upon exercise in full the warrants granted by VS Berhad at an initial exercise price of RM1.65 per share (subject to adjustments) during a period of 3 years from 7 January 2016.
11. 3,400,000 of these shares would be allotted and issued upon exercise in full of the outstanding share options granted by VS Berhad at the exercise price of RM0.70 per share during a period of 5 years from 12 May 2015. 17,160,893 of these shares would be allotted and issued upon exercise in full the warrants granted by VS Berhad at an initial exercise price of RM1.65 per share (subject to adjustments) during a period of 3 years from 7 January 2016.
12. 3,400,000 of these shares would be allotted and issued upon exercise in full of the outstanding share options granted by VS Berhad at the exercise price of RM0.70 per share during a period of 5 years from 12 May 2015. 19,463,149 of these shares would be allotted and issued upon exercise in full the warrants granted by VS Berhad at an initial exercise price of RM1.65 per share (subject to adjustments) during a period of 3 years from 7 January 2016.
13. 800,000 of these shares would be allotted and issued upon exercise in full of the outstanding share options granted by VS Berhad at the exercise price of RM0.70 per share during a period of 5 years from 12 May 2015. 3,900,000 of these shares would be allotted and issued upon exercise in full the warrants granted by VS Berhad at an initial exercise price of RM1.65 per share (subject to adjustments) during a period of 3 years from 7 January 2016.
14. 3,400,000 of these shares would be allotted and issued upon exercise in full of the outstanding share options granted by VS Berhad at the exercise price of RM0.70 per share during a period of 5 years from 12 May 2015. 5,424,607 of these shares would be allotted and issued upon exercise in full the warrants granted by VS Berhad at an initial exercise price of RM1.65 per share (subject to adjustments) during a period of 3 years from 7 January 2016.
15. All of these shares would be allotted and issued upon exercise in full of the outstanding share options granted by VS Berhad at the exercise price of RM0.70 per share during a period of 5 years from 12 May 2015.

Report of the Directors

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the financial year ended 31 July 2016 was the Company, any of its subsidiaries or fellow subsidiaries was a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Apart from the related party transactions as disclosed in note 31 to the consolidated financial statements of the Group, no transaction, arrangement and contract of significance to which the Company, any of its subsidiaries or fellow subsidiaries was a party, in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

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

As at 31 July 2016, the following entity, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

| Name of Shareholder | Number of Shares (Note 1) | Nature of interest/capacity | Approximate percentage of Interest |
|---------------------|---------------------------------|--------------------------------|--|
| VS Berhad | 800,087,971 (L) | Beneficial owner | 43.66% |

Note:

- The letter "L" represents the shareholder's long position interest in the shares of the Company.

Report of the Directors

CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

Apart from the related party transaction between the Company and VS Berhad as disclosed in note 31 to the consolidated financial statements of the Group and in the sub-section headed "Connected Transactions and Related Party Transactions" on pages 44 to 47 of this Annual Report, no contract of significance had been entered into between the Company or any of its subsidiaries and the controlling shareholder or any of its subsidiaries for the year ended 31 July 2016.

SHARE OPTION SCHEME

The Company operates a share option scheme ("Share Option Scheme"), which was adopted on 21 September 2012, for the purpose of providing incentives or rewards to selected eligible participants for their contribution to the Group. The Share Option Scheme became effective on 21 September 2012 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. As at the date of this Annual Report, the Share Option Scheme had a remaining life of approximately six years. Details of the Share Option Scheme are set out in note 25 to the consolidated financial statements of the Group.

Eligible participants of the Share Option Scheme include the following:

- (i) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any Subsidiary or any Invested Entity;
- (ii) any non-executive directors (including independent non-executive directors) of the Group or any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of any member of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;



Report of the Directors

SHARE OPTION SCHEME (CONTINUED)

- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and
- (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group.

As at the date of this report, the total number of share options available for issue, save for those granted but yet to be exercised, under the Share Option Scheme is 176,322,154, which represent approximately 9.62% of the issued share capital of the Company as at date of this report. The maximum number of Shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

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

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

Report of the Directors

SHARE OPTION SCHEME (CONTINUED)

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

- (i) the closing price of Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the grant, which must be a business day;
- (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant; and
- (iii) the nominal value of the Shares.

The following table discloses details of share options held by the grantees and movements in such holdings during the financial year ended 31 July 2016:

| Name of grantee | Date of grant (Note 1) | Exercisable period | Exercise price HK\$ | Weighted average closing price on the date immediately before the exercise date HK\$ | Outstanding | Exercised | Granted | Lapsed/ cancelled | Outstanding |
|------------------|---------------------------|----------------------------------|---------------------------|---|---------------------|--------------------|--------------------|----------------------|--------------------|
| | | | | | at 1 August 2015 | during the year | during the year | during the year | at 31 July 2016 |
| Directors | | | | | | | | | |
| Beh Kim Ling | 16 December 2013 | 1 August 2014 to 31 July 2017 | 0.308 | N/A | 3,200,000 | - | - | - | 3,200,000 |
| | | 1 August 2015 to 31 July 2017 | 0.308 | N/A | 3,200,000 | - | - | - | 3,200,000 |
| | | 1 August 2016 to 31 July 2017 | 0.308 | N/A | 3,200,000 | - | - | - | 3,200,000 |



Report of the Directors

SHARE OPTION SCHEME (CONTINUED)

| Name of grantee | Date of grant (Note 1) | Exercisable period | Exercise price HK\$ | Weighted average closing price on the date immediately before the exercise date | Outstanding at 1 August 2015 | Exercised during the year | Granted during the year | Lapsed/ cancelled during the year | Outstanding at 31 July 2016 |
|---|---------------------------|----------------------------------|---------------------------|---|------------------------------------|---------------------------------|-------------------------------|--|-----------------------------------|
| | | | | HK\$ | | | | | |
| Gan Sem Yam | 16 December 2013 | 1 August 2014 to 31 July 2017 | 0.308 | N/A | 3,200,000 | - | - | - | 3,200,000 |
| | | 1 August 2015 to 31 July 2017 | 0.308 | N/A | 3,200,000 | - | - | - | 3,200,000 |
| | | 1 August 2016 to 31 July 2017 | 0.308 | N/A | 3,200,000 | - | - | - | 3,200,000 |
| Gan Chu Cheng | 16 December 2013 | 1 August 2014 to 31 July 2017 | 0.308 | N/A | - | - | - | - | - |
| | | 1 August 2015 to 31 July 2017 | 0.308 | N/A | 3,200,000 | - | - | - | 3,200,000 |
| | | 1 August 2016 to 31 July 2017 | 0.308 | N/A | 3,200,000 | - | - | - | 3,200,000 |
| Zhang Pei Yu | 16 December 2013 | 1 August 2014 to 31 July 2017 | 0.308 | 0.475 | 708,000 | 20,000 | - | - | 688,000 |
| | | 1 August 2015 to 31 July 2017 | 0.308 | N/A | 3,200,000 | - | - | - | 3,200,000 |
| | | 1 August 2016 to 31 July 2017 | 0.308 | N/A | 3,200,000 | - | - | - | 3,200,000 |
| Beh Chern Wei (appointed as an executive Director with effect from 16 December 2015) | 16 December 2013 | 1 August 2014 to 31 July 2017 | 0.308 | N/A | 1,200,000 | - | - | - | 1,200,000 |
| | | 1 August 2015 to 31 July 2017 | 0.308 | N/A | 1,200,000 | - | - | - | 1,200,000 |
| | | 1 August 2016 to 31 July 2017 | 0.308 | N/A | 1,200,000 | - | - | - | 1,200,000 |

Report of the Directors

SHARE OPTION SCHEME (CONTINUED)

| Name of grantee | Date of grant (Note 1) | Exercisable period | Exercise price HK\$ | Weighted average closing price on the date immediately before the exercise date HK\$ | Outstanding at 1 August 2015 | Exercised during the year | Granted during the year | Lapsed/ cancelled during the year | Outstanding at 31 July 2016 |
|--|---------------------------|----------------------------------|---------------------------|---|------------------------------------|---------------------------------|-------------------------------|--|-----------------------------------|
| | | | | | | | | | |
| Gan Tiong Sia | 16 December 2013 | 1 August 2014 to 31 July 2017 | 0.308 | N/A | - | - | - | - | - |
| | | 1 August 2015 to 31 July 2017 | 0.308 | 0.465 | 1,500,000 | 500,000 | - | - | 1,000,000 |
| | | 1 August 2016 to 31 July 2017 | 0.308 | N/A | 1,500,000 | - | - | - | 1,500,000 |
| Diong Tai Pew | 16 December 2013 | 1 August 2014 to 31 July 2017 | 0.308 | N/A | 400,000 | - | - | - | 400,000 |
| | | 1 August 2015 to 31 July 2017 | 0.308 | N/A | 400,000 | - | - | - | 400,000 |
| | | 1 August 2016 to 31 July 2017 | 0.308 | N/A | 400,000 | - | - | - | 400,000 |
| Tang Sim Cheow | 16 December 2013 | 1 August 2014 to 31 July 2017 | 0.308 | N/A | 400,000 | - | - | - | 400,000 |
| | | 1 August 2015 to 31 July 2017 | 0.308 | N/A | 400,000 | - | - | - | 400,000 |
| | | 1 August 2016 to 31 July 2017 | 0.308 | N/A | 400,000 | - | - | - | 400,000 |
| Lee Soo Gee (resigned as an independent non-executive Director with effect from 12 June 2015) | 16 December 2013 | 1 August 2014 to 31 July 2017 | 0.308 | N/A | 400,000 | - | - | - | 400,000 |
| | | 1 August 2015 to 31 July 2017 | 0.308 | N/A | 400,000 | - | - | - | 400,000 |
| | | 1 August 2016 to 31 July 2017 | 0.308 | N/A | 400,000 | - | - | - | 400,000 |
| | | | | | 42,908,000 | 520,000 | - | - | 42,388,000 |



Report of the Directors

SHARE OPTION SCHEME (CONTINUED)

| Name of grantee | Date of grant (Note 1) | Exercisable period | Exercise price HK\$ | Weighted average closing price on the date immediately before the exercise date HK\$ | Outstanding | Exercised | Granted | Lapsed/ cancelled | Outstanding |
|-----------------------------|---------------------------|----------------------------------|---------------------------|---|---------------------|--------------------|--------------------|----------------------|--------------------|
| | | | | | at 1 August 2015 | during the year | during the year | during the year | at 31 July 2016 |
| Other employees (Note 2) | 16 December 2013 | 1 August 2014 to 31 July 2017 | 0.308 | 0.549 | 3,136,000 | 1,488,000 | - | - | 1,648,000 |
| | | 1 August 2015 to 31 July 2017 | 0.308 | 0.490 | 18,800,000 | 8,800,000 | - | - | 10,000,000 |
| | | 1 August 2016 to 31 July 2017 | 0.308 | N/A | 18,800,000 | - | - | - | 18,800,000 |
| | | | | | 40,736,000 | 10,288,000 | - | - | 30,448,000 |
| | | | | | 83,644,000 | 10,808,000 | - | - | 72,836,000 |

Notes:

1. The average closing price of the shares of the Company as stated on the Stock Exchange's daily quotation sheets five trading days immediately before 16 December 2013, being the date of the grant of share options during the year, was HK\$0.308.
2. Other employees include employees of the Group (other than the Directors) working under employment contracts with the Group which are regarded as "continuous contracts" for the purpose of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).
3. There were no share options being cancelled during the financial year ended 31 July 2016.

Report of the Directors

SHARE OPTION SCHEME (CONTINUED)

The fair value of the share options granted during the year with the exercise price of HK\$0.308 per Share is estimated at approximately HK\$0.423 at the date of grant using the Binomial option pricing model ("Model"). The Model is one of the commonly used models to estimate the fair value of an option. The variables and assumptions used in computing the fair value of the share options are based on the management's best estimate. The value of an option varies with different variables of a number of subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. The inputs into the Model were as follows:

| | |
|----------------------------------|-------|
| Dividend yield (%) | 0.00 |
| Expected volatility (%) | 64.81 |
| Risk-free interest rate (%) | 0.735 |
| Expected life of options (years) | 3.60 |
| Exercise price (HK\$ per share) | 0.308 |

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the financial year ended 31 July 2016.

PERMITTED INDEMNITY PROVISION

The Company has arranged the appropriate insurance cover for Director's and officer's liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) when the Report of the Directors prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance.



Report of the Directors

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Details of the significant related party transactions for the financial year ended 31 July 2016 are set out in note 31 to the consolidated financial statements of the Group.

The Group had entered into the following continuing connected transactions during the financial year ended 31 July 2016, details of which are required to be disclosed in this report pursuant to Chapter 14A of the Listing Rules:–

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

On 22 August 2014, V.S. Technology Industry Park (Zhuhai) Co., Ltd. (“VS Zhuhai”), V.S. Industry (Zhuhai) Co., Ltd. (“VSI (Zhuhai)”) and VSA Electronics Technology (Zhuhai) Co., Ltd. (“VSAZH”) (collectively, the “Tenants”) (as tenants) entered into tenancy agreement (“New Leased Agreement”) with VS Management (as landlord) for the leasing of 19 blocks of residential buildings (“New Leased Premises”) in a residential complex for a term of three years commenced on 1 August 2014. The New Leased Premises are used as staff quarters of the Tenants and the Group.

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

Each of VS Zhuhai, VSI (Zhuhai) and VSAZH is a wholly-owned subsidiary of the Company. The entire issued share capital of VS Management is owned by Mr. Beh Kim Ling, an executive Director. Accordingly, VS Management is an associate of Mr. Beh Kim Ling and is therefore a connected person of the Company under Chapter 14A of the Listing Rules, and the tenancy arrangements as contemplated under the New Lease Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Pursuant to the New Lease Agreement, the rent and management fee the monthly rent and management fee of RMB659,587 (equivalent to approximately HK\$824,484*) is payable on the fifth day of each month during the tenancy period. The aggregate annual rent and management fee payable by VS Zhuhai, VSI (Zhuhai) and VSAZH to VS Management is estimated to be RMB7,915,044 for each of the three years financial years ending 31 July 2017. The annual expected cap amount of rent and management fee payable is RMB7,915,044 for each of the three years ending 31 July 2017. The amount of rent and management fee actually paid by the Tenants to VS Management for the year ended 31 July 2016 was RMB7,915,044 (equivalent to approximately HK\$9,893,805*).

Details of the above-mentioned continuing connected transactions were set out in the Company’s announcement dated 22 August 2014.

* Calculated based on the exchange rate set out in the announcement of the Company dated 22 August 2014.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

On 12 May 2014, the Company (for itself and on behalf of the other members of the Group) entered into a master supply agreement (“New Master Supply Agreement”) with V.S. Industry Berhad (“VS Berhad, together with its subsidiaries, the VS Berhad Group”) (for itself and for the other members of the VS Berhad Group) for a term of three years commencing from 1 August 2014 and ending on 31 July 2017 in relation to the supply of the Products from the Group to the VS Berhad Group. The expected annual capped amount of sales of the Products from the Group to the VS Berhad Group pursuant to the New Master Supply Agreement for each of the three years ending 31 July 2017 are HK\$40,000,000, HK\$50,000,000 and HK\$60,000,000 respectively. The actual amount of sales of the products from the Group to the VS Berhad Group pursuant to the New Master Supply Agreement for the year ended 31 July 2016 was RMB1,332,000 (equivalent to approximately HK\$1,593,000).

The actual amount, specification and price of the products to be supplied under the New Master Supply Agreement are subject to individual orders placed by the VS Berhad Group with the Group.

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

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

Details of the New Master Agreement were set out in the announcement and circular of the Company dated 12 May 2014 and 5 June 2014 respectively.



Report of the Directors

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS (CONTINUED)

(iii) Continuing connected transactions with Zhuhai Kejie Polymer Material Co., Ltd. (“Zhuhai Kejie”)

On 30 October 2015, VS Zhuhai and VSI (Zhuhai) entered into a master processing agreement (“Kejie Master Processing Agreement”) with Zhuhai Kejie. Pursuant to the Kejie Master Processing Agreement, VS Zhuhai and VSI (Zhuhai) agreed to engage Zhuhai Kejie for the provision of processing services, being colouration of plastic resin material and modification of chemical structure of plastic resin for the term of the Kejie Master Processing Agreement commencing from 1 August 2015 and ending on 31 July 2018. The expected annual capped amounts for the fees payable to Zhuhai Kejie under the Kejie Mater Processing Agreement for each the three years ending 31 July 2018 are HK\$9,800,000. The actual amount of fees paid from the Group to Zhuhai Kejie pursuant to the Kejie Master Processing Agreement for the year ended 31 July 2016 was RMB6,150,000 (equivalent to approximately HK\$7,353,000).

The quantity, specification and price of the processing services to be provided by Zhuhai Kejie will be subject to individual orders placed by VS Zhuhai and VSI (Zhuhai) with Zhuhai Kejie.

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

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

Details of the Kejie Master Processing Agreement were set out in the Company’s announcement dated 30 October 2015.



Report of the Directors

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

1. in the ordinary and usual course of business of the Group;
2. on normal commercial terms or better; and
3. according to the relevant agreement governing them on terms that were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Board confirmed that the Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules in respect of each of the continuing connected transactions set out above.

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

1. had been approved by the Board;
2. (where applicable) were in accordance with the pricing policies of the Group;
3. were entered into in accordance with the terms of the agreements relating to these transactions; and
4. the aggregate consideration received or paid in respect of the above continuing connected transactions during the financial year ended 31 July 2016 had not exceeded the cap disclosed in the respective announcements and/or circulars.

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



Report of the Directors

PRE-EMPTIVE RIGHTS

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

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

During the year ended 31 July 2016, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 July 2016 are set out in note 24 to the consolidated financial statements of the Group.

INTEREST CAPITALISED

The amount of interest capitalised by the Group during the financial year ended 31 July 2016 is set out in note 8 to the consolidated financial statements of the Group.

FIVE YEARS SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 118 of this report.

PROPERTIES

Particulars of the major properties and property interests of the Group are shown on page 117 of this report.

RETIREMENT SCHEMES

Particulars of the retirement schemes of the Group are set out in note 10 to the consolidated financial statements of the Group.

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") was established by the Board on 20 January 2002 and was re-constituted on 30 September 2004 and 24 March 2012 respectively. The role, function and composition of the Audit Committee are set out on page 24 of this report.

The Audit Committee has reviewed the Group's financial statements for the year ended 31 July 2016 and is of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and the requirements of applicable laws, codes and regulations and that adequate disclosure pursuant thereto have been made.



Report of the Directors

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the best knowledge of the Directors at the date of this annual report, there was a sufficient prescribed public float of the issued Shares under the Listing Rules at any time during the financial year ended 31 July 2016.

AUDITORS

PricewaterhouseCoopers will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of PricewaterhouseCoopers as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company. There has been no change in the auditors of the Company in any of the preceding three years.

By order of the Board

Beh Kim Ling

Chairman

Johor Bahru, Malaysia

27 September 2016

Independent Auditor's Report



pwc

羅兵咸永道

TO THE SHAREHOLDERS OF V.S. INTERNATIONAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of V.S. International Group Limited (the “Company”) and its subsidiaries set out on pages 52 to 114, which comprise the consolidated statement of financial position as at 31 July 2016, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

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Independent Auditor's Report



羅兵咸永道

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 July 2016, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 September 2016

Consolidated Income Statement

For the year ended 31 July 2016

| | Note | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|--|------|------------------|-------------------------------|
| Revenue | 5 | 884,227 | 934,472 |
| Cost of sales | | (735,155) | (796,955) |
| Gross profit | | 149,072 | 137,517 |
| Other income | 6 | 7,653 | 4,233 |
| Other losses – net | 6 | (38,828) | (7,562) |
| Distribution costs | | (53,001) | (53,893) |
| General and administrative expenses | | (76,768) | (77,317) |
| Operating (loss)/profit | 7 | (11,872) | 2,978 |
| Finance income | | 385 | 719 |
| Finance costs | | (12,139) | (13,841) |
| Finance costs – net | 8 | (11,754) | (13,122) |
| Share of profit/(loss) of an associate | 17 | 2,531 | (2,677) |
| Loss before income tax | | (21,095) | (12,821) |
| Income tax expense | 9 | (11,408) | (10,345) |
| Loss for the year attributable to owners of the Company | | (32,503) | (23,166) |
| Loss per share attributable to owners of the Company during the year (Renminbi cents) | | | |
| Basic and diluted | 13 | (1.78) | (1.37) |

The notes on pages 58 to 114 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2016

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|--|-----------------|-------------------------------|
| Loss for the year | (32,503) | (23,166) |
| Other comprehensive income for the year | - | - |
| Total comprehensive loss for the year and attributable to owners of the Company | (32,503) | (23,166) |

The notes on pages 58 to 114 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 July 2016

| | Note | As at 31 July 2016 RMB'000 | As at 31 July 2015 RMB'000 (Restated) | As at 1 August 2014 RMB'000 (Restated) |
|---|------|----------------------------------|--|---|
| ASSETS | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | 14 | 455,100 | 422,881 | 440,271 |
| Land use rights | 14 | 18,576 | 19,083 | 19,590 |
| Goodwill | 15 | – | – | 2,302 |
| Interest in an associate | 17 | 15,884 | 13,353 | 16,030 |
| Prepayments and deposits | 19 | 9,772 | 73,431 | 812 |
| Deferred income tax assets | 26 | 2,221 | 3,486 | 2,451 |
| | | 501,553 | 532,234 | 481,456 |
| Current assets | | | | |
| Inventories | 18 | 94,869 | 102,579 | 140,180 |
| Trade and other receivables | 19 | 223,479 | 211,868 | 261,894 |
| Amounts due from related parties | 31 | 16,380 | 20,189 | 11,773 |
| Bank deposits | 20 | 12,986 | 17,821 | 26,490 |
| Cash and cash equivalents | 21 | 45,586 | 60,056 | 64,771 |
| | | 393,300 | 412,513 | 505,108 |
| Total assets | | 894,853 | 944,747 | 986,564 |
| EQUITY | | | | |
| Capital and reserves | | | | |
| Share capital | 27 | 84,996 | 84,549 | 70,890 |
| Share premium | 27 | 234,180 | 230,841 | 120,543 |
| Reserves | 28 | 80,716 | 112,710 | 134,323 |
| Total equity attributable to owners of the Company | | 399,892 | 428,100 | 325,756 |

Consolidated Statement of Financial Position

At 31 July 2016

| | Note | As at 31 July 2016 RMB'000 | As at 31 July 2015 RMB'000 (Restated) | As at 1 August 2014 RMB'000 (Restated) |
|-------------------------------------|------|----------------------------------|--|---|
| LIABILITIES | | | | |
| Non-current liabilities | | | | |
| Borrowings | 24 | 85,399 | 117,135 | 155,349 |
| Deferred income tax liabilities | 26 | 567 | 521 | 1,813 |
| | | 85,966 | 117,656 | 157,162 |
| Current liabilities | | | | |
| Trade and other payables | 23 | 234,693 | 240,457 | 290,146 |
| Amounts due to related parties | 31 | 703 | 912 | 1,149 |
| Derivative financial instruments | 22 | – | 7 | 235 |
| Borrowings | 24 | 164,785 | 148,319 | 203,085 |
| Tax payables | | 8,814 | 9,296 | 9,031 |
| | | 408,995 | 398,991 | 503,646 |
| Total liabilities | | 494,961 | 516,647 | 660,808 |
| Total equity and liabilities | | 894,853 | 944,747 | 986,564 |

The consolidated financial statements on pages 52 to 114 were approved by the Board of Directors on 27 September 2016 and were signed on its behalf.

Beh Kim Ling
Chairman

Gan Sem Yam
Managing Director

Consolidated Statement of Changes in Equity

For the year ended 31 July 2016

| | Note | Share capital RMB'000 (Restated) (note 27) | Share premium RMB'000 (Restated) (note 27) | Reserves RMB'000 (Restated) (note 28) | Total equity RMB'000 (Restated) |
|---|------|--|--|--|--|
| Balance at 1 August 2014 | | 70,890 | 120,543 | 134,323 | 325,756 |
| Comprehensive loss | | | | | |
| Loss for the year | | – | – | (23,166) | (23,166) |
| Total comprehensive loss | | – | – | (23,166) | (23,166) |
| Issuance of shares upon exercising of share options | 25 | 960 | 6,805 | (1,849) | 5,916 |
| Issuance of new shares | 27 | 12,699 | 103,493 | – | 116,192 |
| Fair value of employee services under the share options scheme | 25 | – | – | 3,402 | 3,402 |
| Total transactions with owners, recognised directly in equity | | 13,659 | 110,298 | 1,553 | 125,510 |
| Balance at 31 July 2015 | | 84,549 | 230,841 | 112,710 | 428,100 |
| Balance at 1 August 2015 | | 84,549 | 230,841 | 112,710 | 428,100 |
| Comprehensive loss | | | | | |
| Loss for the year | | – | – | (32,503) | (32,503) |
| Total comprehensive loss | | – | – | (32,503) | (32,503) |
| Issuance of shares upon exercising of share options | 25 | 447 | 3,339 | (1,033) | 2,753 |
| Fair value of employee services under the share options scheme | 25 | – | – | 1,542 | 1,542 |
| Total transactions with owners, recognised directly in equity | | 447 | 3,339 | 509 | 4,295 |
| Balance at 31 July 2016 | | 84,996 | 234,180 | 80,716 | 399,892 |

The notes on pages 58 to 114 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 July 2016

| | Note | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|------|-----------------|-------------------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 32 | 55,572 | 87,906 |
| Income tax paid | | (10,579) | (12,407) |
| Net cash generated from operating activities | | 44,993 | 75,499 |
| Cash flows from investing activities | | | |
| Payments for the purchase of property, plant and equipment | | (47,421) | (40,566) |
| Proceeds from sale of property, plant and equipment | 32 | 7,394 | 2,724 |
| Prepayments for proposed acquisitions | | – | (67,047) |
| Decrease in bank deposits | | 4,835 | 8,669 |
| Interest received | | 385 | 719 |
| Net cash used in investing activities | | (34,807) | (95,501) |
| Cash flows from financing activities | | | |
| Repayment of bank loans | | (240,488) | (365,438) |
| Proceeds from new bank loans | | 221,135 | 270,036 |
| Proceeds from shares issued under the share option scheme | | 2,753 | 5,916 |
| Net proceeds from issuance of new shares | | – | 116,192 |
| Borrowing costs paid | | (12,139) | (13,841) |
| Net cash (used in)/generated from financing activities | | (28,739) | 12,865 |
| Net decrease in cash and cash equivalents | | (18,553) | (7,137) |
| Cash and cash equivalents at beginning of year | 21 | 46,615 | 53,752 |
| Cash and cash equivalents at end of year | 21 | 28,062 | 46,615 |

The notes on pages 58 to 114 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

V.S. International Group Limited (the “Company”) and its subsidiaries (collectively, the “Group”) are principally engaged in the manufacturing and sales of plastic moulded products and parts, assembling of electronic products, and mould design and fabrication. The Company was incorporated in the Cayman Islands on 9 July 2001 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is ultimately owned by V.S. Industry Berhad, a company incorporated in Malaysia with limited liability, the shares of which are listed on the Main Market of Bursa Malaysia Securities Berhad.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 27 September 2016.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments which are carried at fair value.

The preparation of financial statements in conformity with HKFRS 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

(a) Change in presentation currency

During the year, the Group has changed its presentation currency from Hong Kong dollars (“HK\$”) to RMB for the preparation of its consolidated financial statements. Having considered the principal activities of the Group are mainly conducted in the People’s Republic of China (“PRC”) and the functional currency of all Company’s subsidiaries are denominated in RMB, the directors of the Company considered that the change would result in a more appropriate presentation of the Group’s transactions in these consolidated financial statements.

The change in presentation currency has been applied retrospectively. The comparative figures in these consolidated financial statements were translated from HK\$ to RMB using the applicable closing rates for items in the consolidated statement of financial position and applicable average rates that approximated to actual rates for items in the consolidated income statement and consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

- (b) Effect of adopting amendments and interpretation to existing standards

There were no new nor amended HKFRS becoming effective for the year ended 31 July 2016.

- (c) New standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group.

The following amendments and interpretation to existing standards are mandatory for the Group's accounting periods beginning on or after 1 August 2016, the adoption of which does not have any significant impact on the results and financial position of the Group.

| | |
|--|---|
| HKAS 1 (Amendment) | Disclosure initiative ⁽¹⁾ |
| HKAS 7 (Amendment) | Statement of Cash Flows ⁽²⁾ |
| HKAS 12 (Amendment) | Income taxes ⁽²⁾ |
| HKAS 16 and HKAS 38 (Amendment) | Clarification of Acceptable Methods of Depreciation and Amortisation ⁽¹⁾ |
| HKAS 16 and HKAS 41 (Amendment) | Bearer Plants ⁽¹⁾ |
| HKAS 27 (Amendment) | Equity Method in Separate Financial Statements ⁽¹⁾ |
| HKFRS 9 | Financial Instruments ⁽³⁾ |
| HKFRS 10 and HKAS 28 (Amendment) | Sale or Contribution of Assets between an Investor and its Associate and Joint Venture ⁽⁵⁾ |
| HKFRS 10, HKFRS 12 and HKAS 28 (Amendment) | Investment entities – Applying the consolidation exception ⁽¹⁾ |
| HKFRS 11 (Amendment) | Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operation ⁽¹⁾ |
| HKFRS 14 | Regulatory Deferral Accounts ⁽¹⁾ |
| HKFRS 15 | Revenue from Contracts with Customers ⁽³⁾ |
| HKFRS 16 | Leases ⁽⁴⁾ |
| HKFRSs (Amendment) | Annual improvements to HKFRSs 2012-2014 cycle ⁽¹⁾ |

⁽¹⁾ Effective for the Group for annual period beginning on or after 1 August 2016.

⁽²⁾ Effective for the Group for annual period beginning on or after 1 August 2017.

⁽³⁾ Effective for the Group for annual period beginning on or after 1 August 2018.

⁽⁴⁾ Effective for the Group for annual period beginning on or after 1 August 2019.

⁽⁵⁾ Effective date to be determined.

The Group will apply these new standards and amendments to existing standards in the period of initial application. The Group is currently assessing the impact of the adoption of the above new standards and amendments to existing standards and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

- (d) New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(i) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (Continued)

(a) Subsidiaries (Continued)

(ii) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in the other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in the other comprehensive income are reclassified to the consolidated income statement.

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment, if any. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (Continued)

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) from an associate' in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the most senior executive management who make strategic decisions.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

All foreign exchange gains and losses are presented in the consolidated income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Land use rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Cost mainly represents consideration paid for the rights to use the land on which various plant and buildings are situated for a prescribed period from the date the respective rights were granted. Amortisation of land use rights is calculated on a straight-line basis over the period of leases.

2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost of each asset to their residual values (if any) over their estimated useful lives as follows:

| | |
|--|---|
| Buildings | the shorter of the unexpired term of lease and 50 years |
| Leasehold improvements | the shorter of the unexpired term of lease and 10 years |
| Plant, moulds and machinery | 3 to 10 years |
| Power generating machinery and equipment | 20 years |
| Office equipment, furniture and fixtures | 3 to 5 years |
| Motor vehicles | 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost. Cost includes the costs of construction of buildings, the costs of plant and machinery, installation, testing and other direct costs. No depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the relevant assets are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life, for example, goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

(a) Classification

The Group classifies its financial assets into the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets (Continued)

(a) Classification (Continued)

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "bank deposits" and "cash and cash equivalents" in the consolidated statement of financial position (Notes 2.13 and 2.14).

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date—the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'other losses – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.11 Impairment of financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by using the first in, first out ("FIFO") method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents include cash in hand, deposits held at call with banks, and bank overdrafts.

2.15 Share capital

Ordinary shares are classified as equity.

2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables, other payables and accruals are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables, other payables and accruals are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Borrowing costs (Continued)

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on forward currency rates at the inception of the borrowings.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined on a cumulative basis based on the cumulative amounts of interest expenses that would have been incurred had the entity borrowed in its functional currency. The total amount of foreign exchange differences capitalised cannot exceed the amount of total net foreign exchange differences incurred on a cumulative basis at the end of the reporting period.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in the other comprehensive income or directly in equity. In this case the tax is also recognised in the other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and an associate, except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is legally enforceable rights to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balance on a net basis.

2.20 Employee benefits

(a) Pension obligations

The Group participates in various defined contribution retirement benefit plans which are available to all relevant employees. These plans are generally funded through payments to schemes established by government or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays contributions on a mandatory, contractual or voluntary basis into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods.

All contributions to pension plans are fully and immediately vested and the Group had no unvested benefits available to reduce its future contributions.

(b) Bonus plan

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities of bonus plan are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(c) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense within "finance costs" in the consolidated income statement.

2.22 Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair values.

Derivative financial instruments that do not qualify for hedge accounting are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated income statement.

2.24 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the lease periods.

2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sale of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products and collectivity of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognised using the effective interest method.

(c) Rental income

Rental income under operating leases is recognised on a straight-line basis over the term of the lease.

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk, and cash flow and fair value interest-rate risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Company under policies approved by the Board of Directors of the Company.

(a) Foreign exchange risk

The Group mainly operates in Mainland China with most of the transactions settled in United States dollars ("US\$") and RMB. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group is exposed to foreign exchange risk from various currency exposures, primarily with respect to US\$.

The Group enters into forward foreign exchange contracts to manage its foreign exchange risks, where appropriate.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Foreign exchange risk (Continued)

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

| | 2016 | US\$ |
|-----------------------------|------------------|-------------|
| | RMB'000 | 2015 |
| | | RMB'000 |
| | | (Restated) |
| Trade and other receivables | 99,163 | 90,728 |
| Bank deposits | 9,986 | 9,300 |
| Cash and cash equivalents | 21,935 | 26,380 |
| Trade and other payables | (50,297) | (60,038) |
| Interest-bearing borrowings | (187,860) | (205,942) |
| Overall net exposure | (107,073) | (139,572) |

At 31 July 2016, if RMB had weakened/strengthened by 5% against US\$, with all other variables held constant, post-tax loss for the year would have been approximately RMB4,234,000 higher/lower (2015: RMB4,098,000), mainly as a result of foreign exchange losses/gains on translation of financial assets and liabilities denominated in currencies other than the functional currency of the respective group entities.

(b) Credit risk

The carrying amounts of cash at banks, bank deposits, trade receivables, deposits and other receivables, and amounts due from related parties included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets. As at 31 July 2016, 30% (2015: 17%) and 65% (2015: 55%) of the trade receivables are due from the Group's largest customer and the five largest customers, respectively.

To manage its credit risk, the Group has policies in place to ensure that products are sold to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. Normally the Group does not require collaterals from trade debtors.

Management makes periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables, and amounts due from related parties based on historical payment records, the length of the overdue period, the financial strength of the trade and other debtors, and whether there are any disputes with the relevant debtors. The Group believes that adequate provision for doubtful debts has been made in the consolidated financial statements.

The majority of the Group's cash at banks are deposited in major financial institutions located in Hong Kong and Mainland China, which management believes are of high credit quality. Management does not expect any losses arising from non-performance by these counterparties.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

Prudent liquidity management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities, and funds generated from operating activities.

The Group's primary cash requirements have been for additions to and upgrades on property, plant and equipment, settlement of borrowings, payment for trade and other payables and payment for operating expenses. The Group mainly finances its working capital requirements through a combination of internal resources and bank borrowings, as necessary.

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and adequate amount of committed credit facilities to meet its liquidity requirements in the short and long term.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest payments computed using contractual rates, based on the earliest date on which the Group can be required to pay.

| | Within 6 months RMB'000 | Between 6 months and 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Total RMB'000 |
|-----------------------------------|---------------------------------------|---|---|---|-------------------------|
| At 31 July 2016 | | | | | |
| Borrowings | 104,223 | 67,990 | 41,170 | 47,090 | 260,473 |
| Trade and other payables | 226,505 | – | – | – | 226,505 |
| Amounts due to related parties | 703 | – | – | – | 703 |
| At 31 July 2015 (Restated) | | | | | |
| Borrowings | 103,571 | 51,761 | 40,657 | 81,254 | 277,243 |
| Trade and other payables | 219,308 | – | – | – | 219,308 |
| Amounts due to related parties | 912 | – | – | – | 912 |

As at 31 July 2015, derivative financial instruments of the Group are in respect of forward foreign exchange contracts to be settled on a gross basis and would result in cash inflow of RMB12,543,000 and cash outflow of RMB12,550,000 within 1 year after the reporting date. As the derivative financial instruments will all mature within 12 months, the impact of discounting is not significant. All forward foreign exchange contracts settled during the year ended 31 July 2016. No forward foreign exchange contract was entered as at 31 July 2016.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(d) Cash flow and fair value interest-rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets except for the cash and cash equivalents and bank deposits, details of which are disclosed in notes 20 and 21. The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings, details of which are disclosed in note 24. Borrowings carried at floating rates expose the Group to cash flow interest rate risk while those carried at fixed rates expose the Group to fair value interest-rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

As at 31 July 2016, if the interest rates on borrowings had been 50 basis points higher/lower, with all other variables held constant, post-tax loss for the year would have been RMB788,000 higher/lower (2015: RMB914,000), mainly as a result of higher/lower interest expense on floating rate borrowings.

3.2 Fair value estimation

The Group adopts the amendments to HKFRS 7 for financial instruments that are measured in the consolidated statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy.

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to estimate the fair value of an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Fair value estimation (Continued)

The fair value of derivative financial instruments comprising forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value. There was no change in valuation techniques during the year. All forward foreign exchange contracts were settled during the year ended 31 July 2016 and no forward foreign exchange contract was entered as at 31 July 2016.

As at 31 July 2015, all the resulting fair value estimates on the derivative financial instruments were included in level 2.

The carrying amounts of the Group's other current financial assets, including cash and cash equivalents, bank deposits, and trade and other receivables, and the Group's current financial liabilities including trade and other payables, and borrowings, approximate their fair values due to their short maturities.

There was no transfer of financial assets and liabilities in the fair value hierarchy classifications for the years ended 31 July 2016 and 2015.

3.3 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payments to shareholders, return capital to shareholders, issue new shares or obtain new bank borrowings.

The Group also monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents, and bank deposits. Total capital is calculated as "equity", as shown in the consolidated statement of financial position, plus net debt.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Capital risk management (Continued)

The table below analyses the Group's capital structure as at 31 July 2016 and 2015:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|--|-------------------------------|-------------------------------|
| Total borrowings (note 24) | 250,184 | 265,454 |
| Less: Cash and cash equivalents, and bank deposits (notes 20 and 21) | (58,572) | (77,877) |
| Net debt | 191,612 | 187,577 |
| Total equity | 399,892 | 428,100 |
| Total capital | 591,504 | 615,677 |
| Gearing ratio | 32% | 30% |

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

(a) Estimated impairment of non-financial assets

Non-financial assets including property, plant and equipment, interest in an associate, land use rights and goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amounts, and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of recoverable amount, which is based on the best information available.

The Group derives the required cash flow estimates from historical experience and internal business plans. To determine recoverable amount, the Group uses cash flow estimates discounted at an appropriate discount rate, quoted market prices when available and independent appraisals, as appropriate.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at the end of each reporting period.

(c) Estimation of provision for impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the collectability of receivables and deposits. Provisions for impairment are applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amounts of receivables and doubtful debt expense in the period in which such estimate is changed.

(d) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences would impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

5 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the most senior executive management of the Company. The senior executive management 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 senior executive management assesses the performance of the single operating segment based on a measure of profit before share of results of an associate, finance income, finance costs and income tax expense. The senior executive management 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 |

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (CONTINUED)

Revenue for the year consists of the following:

| | 2016 | 2015 |
|-----------------------------------|----------------|-----------------------|
| | RMB'000 | RMB'000 (Restated) |
| Turnover | | |
| Plastic injection and moulding | 503,483 | 546,881 |
| Assembling of electronic products | 319,151 | 319,596 |
| Mould design and fabrication | 61,593 | 67,995 |
| | 884,227 | 934,472 |

The Group's customer base is diversified but includes four (2015: four) customers with whom transactions have individually exceeded 10% of the Group's aggregate revenue for the year ended 31 July 2016. These customers individually contributed 12%, 14%, 14% and 22% of the Group's revenue (2015: 10%, 11%, 13% and 21%), respectively.

(i) Segment results, assets and liabilities

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

Segment assets include all tangible and current assets other than interest in an associate, deferred income tax assets and other corporate assets. Segment liabilities include trade payables, accruals and bills payable attributable to the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. The measure used for reporting segment profit is "segment result". To arrive at "segment result", the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as head office or corporate administration costs.

In addition to receiving segment information regarding "segment result", management 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.

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (CONTINUED)

(i) Segment results, assets and liabilities (Continued)

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 July 2016 and 2015 is set out below.

| | Plastic injection and moulding | | Assembling of electronic products | | Mould design and fabrication | | Consolidated | |
|--|-----------------------------------|------------|--------------------------------------|------------|---------------------------------|------------|----------------|------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | (Restated) | | (Restated) | | (Restated) | | (Restated) |
| Revenue from external customers | 503,483 | 546,881 | 319,151 | 319,596 | 61,593 | 67,995 | 884,227 | 934,472 |
| Reportable segment result | 40,132 | 21,989 | 37,000 | 33,646 | 11,088 | 15,265 | 88,220 | 70,900 |
| Other segment information | | | | | | | | |
| Year ended 31 July | | | | | | | | |
| Depreciation and amortisation for the year | 26,568 | 28,694 | 10,286 | 7,111 | 5,402 | 5,682 | 42,256 | 41,487 |
| (Write-back of provision)/provision for impairment of receivables | (476) | 3,553 | - | - | - | - | (476) | 3,553 |
| Provision/(write-back of provision) for impairment of inventories | (557) | (960) | 2,387 | 851 | 77 | (129) | 1,907 | (238) |
| Impairment of property, plant and equipment | - | 1,707 | - | - | - | - | - | 1,707 |
| Impairment of goodwill | - | 2,302 | - | - | - | - | - | 2,302 |
| Addition to non-current segment assets during the year | 77,340 | 13,530 | 10,481 | 25,870 | 599 | 825 | 88,420 | 40,225 |
| As at 31 July | | | | | | | | |
| Reportable segment assets | 529,952 | 490,095 | 116,560 | 146,391 | 66,451 | 67,028 | 712,963 | 703,514 |
| Reportable segment liabilities | 162,416 | 120,729 | 51,808 | 72,725 | 7,716 | 4,938 | 221,940 | 198,392 |

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (CONTINUED)

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

| | 2016 | 2015 |
|---|-----------------|-----------------------|
| | RMB'000 | RMB'000 (Restated) |
| Revenue | | |
| Reportable segment revenue | 884,227 | 934,472 |
| <hr/> | | |
| Consolidated turnover | 884,227 | 934,472 |
| <hr/> | | |
| Profit or loss | | |
| Reportable segment profit | 88,220 | 70,900 |
| Changes in fair value of forward foreign exchange contracts | – | (7) |
| Net (loss)/gain on forward foreign exchange contracts | (452) | 1,245 |
| Finance income | 385 | 719 |
| Finance costs | (12,139) | (13,841) |
| Unallocated depreciation and amortisation | (6,854) | (4,029) |
| Unallocated head office and corporate expenses | (58,786) | (65,131) |
| Provision for impairment of deposits | (34,000) | – |
| Share of profit/(loss) of an associate | 2,531 | (2,677) |
| <hr/> | | |
| Consolidated loss before income tax | (21,095) | (12,821) |
| <hr/> | | |
| Assets | | |
| Reportable segment assets | 712,963 | 703,514 |
| Interest in an associate | 15,884 | 13,353 |
| Deferred income tax assets | 2,221 | 3,486 |
| Unallocated head office and corporate assets | 163,785 | 224,394 |
| <hr/> | | |
| Consolidated total assets | 894,853 | 944,747 |
| <hr/> | | |
| Liabilities | | |
| Reportable segment liabilities | 221,940 | 198,392 |
| Deferred income tax liabilities | 567 | 521 |
| Unallocated head office and corporate liabilities | 272,454 | 317,734 |
| <hr/> | | |
| Consolidated total liabilities | 494,961 | 516,647 |
| <hr/> | | |

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (CONTINUED)

The Group's business is operated in five (2015: five) major economic environments.

Revenue from external customers is analysed as follows:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|--------------------------|-------------------------------|-------------------------------|
| Mainland China | 516,879 | 511,192 |
| United States of America | 184,251 | 230,049 |
| Europe | 145,623 | 106,846 |
| Hong Kong | 25,789 | 35,403 |
| South East Asia | 11,211 | 37,197 |
| Others | 474 | 13,785 |
| | 884,227 | 934,472 |

Analysis of the Group's carrying amounts of segment non-current assets has not been presented as all of the non-current assets are located in the PRC.

6 OTHER INCOME AND OTHER LOSSES – NET

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|-------------------------------|-------------------------------|
| Other income | | |
| Rental income | 5,222 | 2,935 |
| Sales of scrap materials | 512 | 1,252 |
| Subsidy income | 1,919 | 46 |
| | 7,653 | 4,233 |
| Other losses – net | | |
| Net foreign exchange loss | (3,197) | (959) |
| Changes in fair value of forward foreign exchange contracts | – | (7) |
| Net (loss)/gain on forward foreign exchange contracts | (452) | 1,245 |
| Net loss on disposal of property, plant and equipment | (1,179) | (3,832) |
| Impairment of property, plant and equipment | – | (1,707) |
| Impairment of goodwill | – | (2,302) |
| Provision for impairment of deposits (note 19) | (34,000) | – |
| | (38,828) | (7,562) |

Notes to the Consolidated Financial Statements

7 OPERATING (LOSS)/PROFIT

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

| | 2016 | 2015 |
|--|----------------|-----------------------|
| | RMB'000 | RMB'000 (Restated) |
| Amortisation of land use rights (note 14) | 507 | 507 |
| Auditors' remuneration | | |
| – Audit services | 1,846 | 1,512 |
| – Non-audit services | 148 | 415 |
| Cost of sales | 735,155 | 796,955 |
| Depreciation (note 14) | 48,603 | 45,009 |
| Impairment of property, plant and equipment | – | 1,707 |
| Impairment of goodwill (note 15) | – | 2,302 |
| Operating lease charges in respect of land and buildings | | |
| – Factory and hostel rentals | 8,535 | 8,493 |
| (Write-back of provision)/provision for impairment of | | |
| – Trade receivables (note 19) | (476) | 3,553 |
| – Inventories (note 18) | 1,907 | (238) |
| Provision for impairment of deposits | 34,000 | – |
| Staff costs (note 10) | 174,513 | 171,216 |

Cost of sales amounting to RMB149,540,000 (2015: RMB154,164,000) is related to staff costs, depreciation, and operating lease charges, which are also included in the respective total amounts disclosed separately above for each type of expense.

Notes to the Consolidated Financial Statements

8 FINANCE COSTS – NET

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|--|-------------------------------|-------------------------------|
| Finance income | | |
| Bank interest income | (385) | (719) |
| Finance costs | | |
| Interest on bank borrowings | 9,880 | 11,089 |
| Less: borrowing costs capitalised as construction in progress (note) | (32) | (22) |
| | 9,848 | 11,067 |
| Other finance charges | 2,291 | 2,774 |
| | 12,139 | 13,841 |
| Finance costs – net | 11,754 | 13,122 |

Note: During the year ended 31 July 2016, borrowing costs had been capitalised at the Group's weighted average effective interest rate of 3.6% per annum (2015: 3.9% per annum) for construction in progress.

9 INCOME TAX EXPENSE

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|-------------------------------|-------------------------------|
| Current income tax | | |
| Provision for the year | 9,707 | 10,999 |
| Deferred income tax | | |
| Origination and reversal of temporary differences (note 26) | 1,701 | (654) |
| | 11,408 | 10,345 |

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 2016 and 2015.

The Group's subsidiaries established in the PRC are subject to a corporate income tax rate of 25%, except for two subsidiaries, which are fully exempt from corporate income tax for the first three years after obtaining the concession, follow by a 50% tax exemption for the next three years and had been granted with a preferential rate of 15% from 1 January 2015 to 31 December 2017 whose applicable tax rates will resume as 25% afterwards, respectively.

Notes to the Consolidated Financial Statements

9 INCOME TAX EXPENSE (CONTINUED)

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.

The tax charge on the Group's loss before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to results of the consolidated companies as follows:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|--|-------------------------------|-------------------------------|
| Loss before income tax | (21,095) | (12,821) |
| Tax calculated at the applicable domestic tax rate of respective companies | (168) | (551) |
| Tax effect of non-deductible expenses | 9,514 | 1,567 |
| Tax effect of tax losses not recognised | 4,430 | 8,948 |
| Tax effect on withholding tax of retained profits in the PRC subsidiaries | 436 | 381 |
| Utilisation of previously unrecognised tax losses | (2,804) | – |
| | 11,408 | 10,345 |

10 STAFF COSTS

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|-------------------------------|-------------------------------|
| Salaries, wages and allowances | 162,421 | 156,850 |
| Contribution to retirement benefit schemes | 10,550 | 10,964 |
| Equity settled share-based payment expenses (note 25) | 1,542 | 3,402 |
| | 174,513 | 171,216 |

Staff costs include directors' remuneration totalling RMB10,974,000 (2015: RMB10,176,000) (note 11).

Subsidiaries of the Company operating in the PRC participate in a government pension scheme whereby the subsidiaries are required to pay annual contributions at rates from 13% to 30% of the standard wages of employees as determined by the relevant authorities in the PRC. Under the scheme, retirement benefits of existing and former employees are payable by the relevant authorities and the Group has no further obligations beyond the annual contributions.

Notes to the Consolidated Financial Statements

10 STAFF COSTS (CONTINUED)

Contributions to the Mandatory Provident Fund (“MPF”) are required under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The Group and its employees in Hong Kong make monthly mandatory contributions to the MPF Scheme at 5% of the employees’ relevant income as defined under the Mandatory Provident Fund Schemes Ordinance. The maximum amount of monthly relevant income for MPF mandatory contributions is HK\$30,000 (equivalent to RMB26,000).

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

11. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors’ emoluments

The remuneration of directors for the year ended 31 July 2016 is set out below:

| | Fees RMB'000 | Salaries RMB'000 | Discretionary bonuses (note (i)) RMB'000 | Housing allowance RMB'000 | Share-based payments (note (ii)) RMB'000 | Employer's contribution to a retirement benefit scheme RMB'000 | Remunerations paid or receivable in respect of accepting office as director RMB'000 | Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertakings RMB'000 | Total RMB'000 |
|--|-----------------|---------------------|---|---------------------------------|---|---|--|---|------------------|
| Executive directors | | | | | | | | | |
| Beh Kim Ling | - | 4,567 | - | - | 134 | - | - | - | 4,701 |
| Beh Chern Wei (note (iii)) | - | 1,140 | 79 | - | 50 | - | - | - | 1,269 |
| Gan Sem Yam | - | 1,721 | - | - | 134 | - | - | - | 1,855 |
| Gan Chu Cheng | - | 1,230 | - | - | 134 | - | - | - | 1,364 |
| Zhang Pei Yu | - | 718 | 53 | - | 134 | - | - | - | 905 |
| | - | 9,376 | 132 | - | 586 | - | - | - | 10,094 |
| Non-executive director | | | | | | | | | |
| Gan Tiong Sia | 151 | - | - | - | 63 | - | - | - | 214 |
| Independent non-executive directors | | | | | | | | | |
| Diong Tai Pew | 234 | - | - | - | 17 | - | - | - | 251 |
| Fu Xiao Nan (note (iv)) | 199 | - | - | - | - | - | - | - | 199 |
| Tang Sim Cheow | 199 | - | - | - | 17 | - | - | - | 216 |
| | 632 | - | - | - | 34 | - | - | - | 666 |
| | 783 | 9,376 | 132 | - | 683 | - | - | - | 10,974 |

Notes to the Consolidated Financial Statements

11. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' emoluments (Continued)

Certain of the comparative information of directors' emoluments for the year ended 31 July 2015 previously disclosed in accordance with the predecessor Companies Ordinance have been restated in order to comply with the new scope and requirements by the Hong Kong Companies Ordinance (Cap.622).

| | Fees RMB'000 | Salaries RMB'000 | Discretionary bonuses (note (i)) RMB'000 | Housing allowance RMB'000 | Share-based payments (note (ii)) RMB'000 | Employer's contribution to a retirement benefit scheme RMB'000 | Remunerations paid or receivable in respect of accepting office as director RMB'000 | Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertakings RMB'000 | Total RMB'000 |
|--|-----------------|---------------------|---|---------------------------------|---|---|--|---|------------------|
| Executive directors | | | | | | | | | |
| Beh Kim Ling | - | 4,354 | - | - | 312 | - | - | - | 4,666 |
| Beh Chern Wei (note (iii)) | - | - | - | - | - | - | - | - | - |
| Gan Sem Yam | - | 1,641 | - | - | 312 | - | - | - | 1,953 |
| Gan Chu Cheng | - | 1,172 | - | - | 312 | - | - | - | 1,484 |
| Zhang Pei Yu | - | 727 | 24 | - | 312 | - | - | - | 1,063 |
| | - | 7,894 | 24 | - | 1,248 | - | - | - | 9,166 |
| Non-executive director | | | | | | | | | |
| Gan Tiong Sia | 144 | - | - | - | 146 | - | - | - | 290 |
| Independent non-executive directors | | | | | | | | | |
| Diong Tai Pew | 223 | - | - | - | 39 | - | - | - | 262 |
| Fu Xiao Nan (note (iv)) | 26 | - | - | - | - | - | - | - | 26 |
| Lee Soo Gee (note (v)) | 164 | - | - | - | 39 | - | - | - | 203 |
| Tang Sim Cheow | 190 | - | - | - | 39 | - | - | - | 229 |
| | 603 | - | - | - | 117 | - | - | - | 720 |
| | 747 | 7,894 | 24 | - | 1,511 | - | - | - | 10,176 |

Notes to the Consolidated Financial Statements

11. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' emoluments (Continued)

| | Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the Company or its subsidiary undertakings RMB'000 | Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertakings RMB'000 | Total RMB'000 |
|---------------------------------|--|---|-------------------------|
| For the year ended 31 July 2016 | 10,974 | – | 10,974 |
| For the year ended 31 July 2015 | 10,176 | – | 10,176 |

Notes:

- (i) Each of the executive directors is entitled, on completion of every twelve months of service, to a management bonus in respect of each financial year of the Company in an amount to be determined by the board of directors which is subject to a cap.
- (ii) These represent the estimated value of share options granted to the directors under the Company's share option scheme (note 25). The value of these share options was measured according to the Group's accounting policies for share-based payment transactions as set out in note 2.22.
- (iii) Beh Chern Wei was appointed as alternate director to Gan Chu Cheng with effect from 21 March 2015 and no remuneration was received by him during the period in this capacity as alternate director. On 16 December 2015, Beh Chern Wei was redesignated from an alternate director to an executive director.
- (iv) Fu Xiao Nan was appointed as independent non-executive director with effect from 12 June 2015.
- (v) Lee Soo Gee resigned as independent non-executive director with effect from 12 June 2015.

Notes to the Consolidated Financial Statements

11. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Consideration provided to third parties for making available directors' services

During the year ended 31 July 2016, the Company did not pay consideration to any third parties for making available directors' services (2015: Nil).

(c) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year ended 31 July 2016, there was no loans, quasi-loans and other dealing arrangements in favour of the directors, or controlled body corporates and connected entities of such directors (2015: Nil).

(d) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2015: Nil).

12 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2015: three) are directors whose emoluments are disclosed in note 11. The aggregate emoluments in respect of the remaining one (2015: two) individual are as follows:

| | 2016 | 2015 |
|-------------------------------|----------------|-----------------------|
| | RMB'000 | RMB'000 (Restated) |
| Salaries and other emoluments | 2,276 | 3,215 |
| Discretionary bonuses | 190 | 284 |
| Share-based payments | 50 | 234 |
| | 2,516 | 3,733 |

The emoluments of the one (2015: two) individuals with the highest emoluments are within the following bands:

| | Number of individuals | |
|-------------------------------|------------------------------|------|
| | 2016 | 2015 |
| HK\$1,000,001 – HK\$1,500,000 | – | 1 |
| HK\$3,000,001 – HK\$3,500,000 | 1 | 1 |

There were no amounts paid during the year ended 31 July 2016 (2015: Nil) to the directors or any of the five highest paid individuals as inducement to join or upon joining the Company or the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements

13 LOSS PER SHARE

(a) Basic

The calculation of basic loss per share is based on the loss attributable to owners of the Company of RMB32,503,000 (2015: RMB23,166,000) and the weighted average number of ordinary shares in issue during the year as follows:

| | 2016 | 2015 (Restated) |
|--|------------------|--------------------|
| Loss attributable to owners of the Company (RMB'000) | (32,503) | (23,166) |
| Weighted average number of ordinary shares in issue ('000) | 1,826,378 | 1,687,300 |
| Basic loss per share (RMB cents) | (1.78) | (1.37) |

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all the Company's outstanding share options. For the years ended 31 July 2016 and 2015, diluted loss per share equal basic loss per share as the exercise of the outstanding share options would be anti-dilutive.

14 PROPERTY, PLANT AND EQUIPMENT, AND LAND USE RIGHTS

| | Buildings | Leasehold Improve- ments | Plant, moulds and machinery | Power generating machinery and equipment | Office equipment, furniture and fixtures | Motor vehicles | Construction in progress | Sub-total | Land use rights | Total |
|------------------|-----------------------|--------------------------------|-----------------------------------|--|---|-----------------------|-----------------------------|-----------------------|-----------------------|-----------------------|
| | RMB'000 (Restated) | RMB'000 (Restated) | RMB'000 (Restated) | RMB'000 (Restated) | RMB'000 (Restated) | RMB'000 (Restated) | RMB'000 (Restated) | RMB'000 (Restated) | RMB'000 (Restated) | RMB'000 (Restated) |
| Cost | | | | | | | | | | |
| At 1 August 2014 | 295,844 | 16,327 | 721,371 | - | 53,913 | 20,673 | - | 1,108,128 | 25,471 | 1,133,599 |
| Additions | 65 | 1,979 | 26,926 | - | 2,639 | 3,326 | 947 | 35,882 | - | 35,882 |
| Disposals | (598) | - | (26,244) | - | (6,424) | (4,084) | - | (37,350) | - | (37,350) |
| At 31 July 2015 | 295,311 | 18,306 | 722,053 | - | 50,128 | 19,915 | 947 | 1,106,660 | 25,471 | 1,132,131 |
| At 1 August 2015 | 295,311 | 18,306 | 722,053 | - | 50,128 | 19,915 | 947 | 1,106,660 | 25,471 | 1,132,131 |
| Additions | 174 | 901 | 18,789 | 67,970 | 1,055 | 227 | 279 | 89,395 | - | 89,395 |
| Disposals | - | (356) | (22,714) | - | (308) | (545) | - | (23,923) | - | (23,923) |
| At 31 July 2016 | 295,485 | 18,851 | 718,128 | 67,970 | 50,875 | 19,597 | 1,226 | 1,172,132 | 25,471 | 1,197,603 |

Notes to the Consolidated Financial Statements

14 PROPERTY, PLANT AND EQUIPMENT, AND LAND USE RIGHTS (CONTINUED)

| | Buildings | Leasehold Improve- ments | Plant, moulds and machinery | Power generating machinery and equipment | Office equipment, furniture and fixtures | Motor vehicles | Construction in progress | Sub-total | Land use rights | Total |
|--|-----------------------|--------------------------------|-----------------------------------|--|---|-----------------------|-----------------------------|-----------------------|-----------------------|-----------------------|
| | RMB'000 (Restated) | RMB'000 (Restated) | RMB'000 (Restated) | RMB'000 (Restated) | RMB'000 (Restated) | RMB'000 (Restated) | RMB'000 (Restated) | RMB'000 (Restated) | RMB'000 (Restated) | RMB'000 (Restated) |
| Accumulated depreciation, amortisation and impairment | | | | | | | | | | |
| At 1 August 2014 | 72,920 | 8,695 | 526,668 | - | 41,731 | 17,843 | - | 667,857 | 5,881 | 673,738 |
| Charge for the year | 7,163 | 1,285 | 33,021 | - | 2,163 | 1,377 | - | 45,009 | 507 | 45,516 |
| Written back on disposals | (566) | - | (20,712) | - | (5,875) | (3,641) | - | (30,794) | - | (30,794) |
| Impairment | - | - | 1,707 | - | - | - | - | 1,707 | - | 1,707 |
| At 31 July 2015 | 79,517 | 9,980 | 540,684 | - | 38,019 | 15,579 | - | 683,779 | 6,388 | 690,167 |
| At 1 August 2015 | 79,517 | 9,980 | 540,684 | - | 38,019 | 15,579 | - | 683,779 | 6,388 | 690,167 |
| Charge for the year | 7,059 | 1,469 | 34,588 | 2,004 | 1,970 | 1,513 | - | 48,603 | 507 | 49,110 |
| Written back on disposals | - | (175) | (14,436) | - | (248) | (491) | - | (15,350) | - | (15,350) |
| At 31 July 2016 | 86,576 | 11,274 | 560,836 | 2,004 | 39,741 | 16,601 | - | 717,032 | 6,895 | 723,927 |
| Net book value | | | | | | | | | | |
| At 31 July 2016 | 208,909 | 7,577 | 157,292 | 65,966 | 11,134 | 2,996 | 1,226 | 455,100 | 18,576 | 473,676 |
| At 31 July 2015 | 215,794 | 8,326 | 181,369 | - | 12,109 | 4,336 | 947 | 422,881 | 19,083 | 441,964 |

At 31 July 2016 and 2015, the Group's land use rights and certain of its property, plant and equipment have been pledged as security for its trade finances, overdrafts and bank loans (note 24).

Depreciation incurred during the year is attributable to the following:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|-------------------------------------|-----------------|-------------------------------|
| Cost of sales | 35,347 | 36,541 |
| Distribution costs | 436 | 219 |
| General and administrative expenses | 12,820 | 8,249 |
| | 48,603 | 45,009 |

Notes to the Consolidated Financial Statements

15 GOODWILL

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|------------------|-----------------|-------------------------------|
| At 1 August | – | 2,302 |
| Less: impairment | – | (2,302) |
| <hr/> | | |
| At 31 July | – | – |

The Group's goodwill was allocated to the operating segment of "Plastic injection and moulding" in relation to the CGU of Qingdao operations. During the year ended 31 July 2015, management conducted an impairment assessment on the recoverable amount of goodwill and concluded that full impairment provision was required as a result of the then expected reduction of operation of this CGU.

16 SUBSIDIARIES

Details of the Group's subsidiaries at 31 July 2016 are set out below.

| Name of company | Place of incorporation and kind of legal entity | Principal activities and place of operation | Particulars of issued and paid up capital | Proportion of ownership interest | | |
|---|---|--|---|----------------------------------|---------------------|----------------------|
| | | | | Group's effective interest | Held by the Company | Held by subsidiaries |
| V.S. International Industry Limited | British Virgin Islands ("BVI"), limited liability company | Investment holding in the PRC | US\$100 | 100% | 100% | – |
| V.S. Investment Holdings Limited | BVI, limited liability company | Dormant | HK\$54,000,025 | 100% | 100% | – |
| V.S. Corporation (Hong Kong) Co. Limited ("VSHK") | Hong Kong, limited liability company | Trading of electronic products, parts and components, and investment holding in the PRC | HK\$75,000,002 (HK\$75,000,000 non-voting deferred shares and HK\$2 ordinary shares (note (iv))) | 100% | – | 100% |
| V.S. Technology Industry Park (Zhuhai) Co. Ltd (note (i)) | PRC, limited liability company | Manufacturing, assembling and selling of plastic moulded products and electronic products, parts and components in the PRC | US\$36,820,000 | 100% | – | 100% |
| Haivs Industry (Qingdao) Co Ltd (note (i)) | PRC, limited liability company | Dormant | RMB32,150,000 | 100% | – | 100% |

Notes to the Consolidated Financial Statements

16 SUBSIDIARIES (CONTINUED)

| Name of company | Place of incorporation and kind of legal entity | Principal activities and place of operation | Particulars of issued and paid up capital | Proportion of ownership interest | | |
|--|---|--|---|----------------------------------|---------------------|----------------------|
| | | | | Group's effective interest | Held by the Company | Held by subsidiaries |
| Qingdao GS Electronics Plastics Co., Ltd (note (i)) | PRC, limited liability company | Manufacturing and selling of plastic moulded products and parts in the PRC | RMB73,980,000 | 100% | - | 100% |
| Qingdao GP Electronic Plastics Co., Ltd. (note (ii)) | PRC, limited liability company | Dormant | US\$11,000,000 | 100% | - | 100% |
| Qingdao GP Precision Mold Co Ltd. (note (i)) | PRC, limited liability company | Dormant | US\$3,000,000 | 100% | - | 100% |
| VSA Holding Hong Kong Co., Limited | Hong Kong, limited liability company | Investment holding in the PRC | HK\$15,600,000 | 100% | - | 100% |
| Energy Ally Global Limited | BVI, limited liability company | Investment holding in the PRC | US\$10,000 | 100% | 100% | - |
| VSA Electronics Technology (Zhuhai) Co Ltd. (note (iii)) | PRC, limited liability company | Assembling and selling of electronic products, parts and components in the PRC | US\$15,250,000 | 100% | - | 100% |
| V.S. Industry (Zhuhai) Co., Ltd. (note (ii)) | PRC, limited liability company | Manufacturing and selling of plastic moulded products and parts in the PRC | US\$9,540,000 | 100% | - | 100% |
| V.S. Holding Vietnam Limited | BVI, limited liability company | Investment holding in the PRC | US\$100 | 100% | 100% | - |
| V.S. Industry Holding Limited | Hong Kong, limited liability company | Investment holding in the PRC | HK\$100 | 100% | 100% | - |
| V.S. ECO-TECH (Zhuhai) Co., Ltd. (note (ii)) | PRC, limited liability company | Dormant | RMB7,250,000 | 100% | - | 100% |
| V.S. Industrial Product Design (Zhuhai) Co. Ltd. 珠海市威士茂工業產品設計有限公司(note (v)) | PRC, limited liability company | Product design and trading of electronic products, parts and components in the PRC | RMB1,000,000 | 100% | - | 100% |
| Zhuhai Deyuan Energy Conservation Technology Company Limited 珠海德源節能科技有限公司(note (v)) | PRC, limited liability company | Operation and management of rooftop solar plant | RMB20,000,000 | 100% | - | 100% |

Notes to the Consolidated Financial Statements

16 SUBSIDIARIES (CONTINUED)

Notes:

- (i) These are wholly foreign owned enterprises established in the PRC.
- (ii) These are sino-foreign equity joint venture companies established in the PRC. The registered capital is held by two of the Company's wholly-owned subsidiaries.
- (iii) This is a foreign equity joint venture company established in the PRC. The registered capital is held by three of the Company's subsidiaries.
- (iv) In accordance with the articles of association of VSHK, any shareholder holding the 75,000,000 non-voting deferred shares are not entitled to any dividend or any participation in the profits or assets of VSHK and is also not entitled to vote at any general meeting.
- (v) The English names of the companies established in the PRC represent the best effort by the directors in translating its Chinese names as they do not have an official English name.

17 INTEREST IN AN ASSOCIATE

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|--------------------------|-------------------------------|-------------------------------|
| At beginning of the year | 13,353 | 16,030 |
| Share of profit/(loss) | 2,531 | (2,677) |
| At end of the year | 15,884 | 13,353 |

The particulars of the Group's associate as at 31 July 2016 and 2015 are as follows:

| Name of company | Place of incorporation and kind of legal entity | Principal activities and place of operation | Particulars of capital | Proportion of ownership interest | | |
|--|---|--|---------------------------------|----------------------------------|----------------------|--------------------|
| | | | | Group's effective interest | Held by subsidiaries | Measurement method |
| VS Industry Vietnam Joint Stock Company ("VS Vietnam") | Vietnam, Limited liability company | Manufacturing and selling of plastic moulded products and parts in Vietnam | Legal capital of US\$10,863,000 | 23.93% | 23.93% | Equity method |

VS Vietnam is a private company and there is no quoted market price available for its shares.

There are no contingent liabilities relating to the Group's interest in the associate.

Notes to the Consolidated Financial Statements

17 INTEREST IN AN ASSOCIATE (CONTINUED)

Set out below are the summarised financial information for VS Vietnam which is accounted for using the equity method.

Summarised statement of financial position

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|-------------------------|-------------------------------|-------------------------------|
| Current assets | 178,292 | 149,319 |
| Non-current assets | 150,965 | 150,811 |
| Current liabilities | (239,109) | (232,129) |
| Non-current liabilities | (23,770) | (12,200) |
| Net assets | 66,378 | 55,801 |

Summarised statement of comprehensive income

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|-----------------------------------|-------------------------------|-------------------------------|
| Revenue | 290,018 | 336,916 |
| Expenses | (279,441) | (348,104) |
| Total comprehensive income/(loss) | 10,577 | (11,188) |

Reconciliation of the summarised financial information presented to the carrying amount of its interest in VS Vietnam is as follows:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|------------------------------------|-------------------------------|-------------------------------|
| Opening net assets | 55,801 | 66,989 |
| Total comprehensive income/(loss) | 10,577 | (11,188) |
| Closing net assets | 66,378 | 55,801 |
| Effective interest in an associate | 23.93% | 23.93% |
| Interest in an associate | 15,884 | 13,353 |
| Carrying value | 15,884 | 13,353 |

Notes to the Consolidated Financial Statements

18 INVENTORIES

Inventories included in the consolidated statement of financial position comprise:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|--------------------------|-------------------------------|-------------------------------|
| Raw materials | 31,682 | 38,988 |
| Work-in-progress | 18,949 | 24,491 |
| Finished goods | 55,624 | 49,220 |
| Inventories – gross | 106,255 | 112,699 |
| Provision for impairment | (11,386) | (10,120) |
| Inventories – net | 94,869 | 102,579 |

Movements in the Group's provision for impairment of inventories are as follows:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|--|-------------------------------|-------------------------------|
| Beginning of the year | 10,120 | 16,419 |
| Provision/(write-back of provision) for the year | 1,907 | (238) |
| Write-off | (641) | (6,061) |
| End of the year | 11,386 | 10,120 |

Notes to the Consolidated Financial Statements

19 TRADE AND OTHER RECEIVABLES

| | 2016 | 2015 |
|--|-----------------|-----------------------|
| | RMB'000 | RMB'000 (Restated) |
| Trade receivables | 148,441 | 168,305 |
| Bills receivable | 51,910 | 44,569 |
| <hr/> | | |
| Trade and bills receivables – gross | 200,351 | 212,874 |
| Less: Provision for impairment | (5,251) | (9,804) |
| <hr/> | | |
| Trade and bills receivables – net | 195,100 | 203,070 |
| <hr style="border-top: 1px dashed #000;"/> | | |
| Other receivables, prepayments and deposits | 72,151 | 82,229 |
| Less: Provision for impairment | (34,000) | – |
| <hr/> | | |
| Other receivables, prepayments and deposits – net (note) | 38,151 | 82,229 |
| <hr style="border-top: 1px dashed #000;"/> | | |
| Less: Prepayments and deposits (non-current) | (9,772) | (73,431) |
| <hr style="border-top: 1px dashed #000;"/> | | |
| Total trade and other receivables (current) | 223,479 | 211,868 |

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 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 Deposits of RMB34,000,000. As at 31 July 2016, the Deposits have not yet been refunded to the Group. 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.

Notwithstanding the Settlement Agreement, in view of the lapse of the 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.

Notes to the Consolidated Financial Statements

19 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|-------------------------------|-------------------------------|-------------------------------|
| Neither past due nor impaired | 187,615 | 194,364 |
| <hr/> | | |
| Past due for: | | |
| Less than 1 month | 2,906 | 5,976 |
| 1 to 3 months | 1,958 | 990 |
| More than 3 months | 7,872 | 11,544 |
| | 12,736 | 18,510 |
| | 200,351 | 212,874 |

As at 31 July 2016, trade receivables of RMB7,485,000 (2015: RMB8,706,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

As at 31 July 2016, trade receivables of RMB5,251,000 (2015: RMB9,804,000) were impaired and fully provided for. Movements in the Group's provision for impairment of trade receivables are as follows:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|-------------------------------|-------------------------------|
| At 1 August | 9,804 | 6,251 |
| (Write-back of provision)/provision for impairment (note 7) | (476) | 3,553 |
| Write-off | (4,077) | – |
| | 5,251 | 9,804 |

The other classes within trade and other receivables do not contain any impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying amounts of each class of receivable mentioned above. Certain bills receivable have been pledged as security for certain banking facilities, including trade finances, overdrafts and bank loans (note 24).

Notes to the Consolidated Financial Statements

20 BANK DEPOSITS

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|------------------------------------|-------------------------------|-------------------------------|
| Pledged deposits with banks (Note) | 12,986 | 17,821 |

Note:

The deposits are pledged to banks as security for certain banking facilities, including trade finances, overdrafts and bank loans (note 24).

21 CASH AND CASH EQUIVALENTS

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|--|-------------------------------|-------------------------------|
| Cash at banks and on hand | 45,586 | 49,056 |
| Short-term bank deposits with original maturities of less than three months | - | 11,000 |
| Cash and cash equivalents | 45,586 | 60,056 |

Cash, cash equivalents and bank overdrafts include the following for the purposes of the consolidated statement of cash flows:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|--|-------------------------------|-------------------------------|
| Cash and cash equivalents | 45,586 | 60,056 |
| Bank overdrafts (note 24) | (17,524) | (13,441) |
| Cash, cash equivalents and bank overdrafts | 28,062 | 46,615 |

Notes to the Consolidated Financial Statements

22 DERIVATIVE FINANCIAL INSTRUMENTS

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|-------------------------------|-------------------------------|
| Measured at fair value and included in the consolidated statement of financial position as current liabilities | | |
| Forward foreign exchange contracts | - | 7 |

As at 31 July 2016, the Group has no outstanding forward foreign exchange contracts. As at 31 July 2015, the Group has certain outstanding forward foreign exchange contracts with long positions in RMB at notional principal amounts of RMB12,543,000 and short positions in US\$ at notional principal amounts of US\$2,000,000, equivalent to RMB12,544,000.

23 TRADE AND OTHER PAYABLES

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|--|-------------------------------|-------------------------------|
| Trade payables | 154,926 | 157,360 |
| Bills payable | 7,211 | 7,420 |
| Trade and bills payables | 162,137 | 164,780 |
| Payables for the purchase of property, plant and equipment | 14,923 | 2,608 |
| Accrued expenses and other payables | 57,633 | 73,069 |
| Trade and other payables | 234,693 | 240,457 |

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

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|--------------------|-------------------------------|-------------------------------|
| Less than 1 month | 49,620 | 56,092 |
| 1 to 3 months | 72,750 | 74,782 |
| More than 3 months | 39,767 | 33,906 |
| | 162,137 | 164,780 |

Notes to the Consolidated Financial Statements

24 BORROWINGS

| | 2016 | 2015 |
|--|----------------|-----------------------|
| | RMB'000 | RMB'000 (Restated) |
| Current | | |
| Short-term bank borrowings, secured | 30,000 | 30,000 |
| Short-term bank borrowings, unsecured | 14,800 | 20,307 |
| Bank overdrafts, secured | 17,524 | 13,441 |
| Trust receipts bank loans, secured | 62,625 | 49,175 |
| Portion of bank borrowings repayable within one year, secured | 39,836 | 35,396 |
| | 164,785 | 148,319 |
| Non-current | | |
| Bank borrowings repayable after one year but within two years, secured | 39,836 | 37,259 |
| Bank borrowings repayable after two years but within five years, secured | 45,563 | 79,876 |
| | 85,399 | 117,135 |
| Total borrowings | 250,184 | 265,454 |

As at 31 July 2016 and 2015, the entire amounts of bank overdrafts and trust receipts bank loans are related to banking facilities containing a repayment on demand clause.

The exposure of the Group's borrowings to interest rate changes and the weighted average effective interest rates at the date of financial position are as follows:

| | 2016 | 2015 |
|--------------------------|----------------|-----------------------|
| | RMB'000 | RMB'000 (Restated) |
| – at floating rates | 205,384 | 215,147 |
| | 2016 | 2015 |
| Trust receipt bank loans | 3.1% | 2.5% |
| Bank overdrafts | 7.0% | 7.0% |
| Other bank borrowings | 3.4% | 2.9% |

As at 31 July 2016, the Group's borrowings of RMB44,800,000 (2015: RMB50,307,000) are carried at fixed rates and bear interest at rates ranging from 4.4% to 5.7% per annum (2015: 3.9% to 7.3% per annum).

Notes to the Consolidated Financial Statements

24 BORROWINGS (CONTINUED)

Certain banking facilities, including trade finances, overdrafts and bank loans, are secured by the following assets of the Group:

| | 2016 | 2015 |
|-------------------------------|----------------|-----------------------|
| | RMB'000 | RMB'000 (Restated) |
| Bills receivable (note 19) | 4,212 | – |
| Bank deposits (note 20) | 12,986 | 17,821 |
| Buildings (note 14) | 184,549 | 190,785 |
| Plant and machinery (note 14) | 31,369 | 38,059 |
| Land use rights (note 14) | 15,524 | 15,948 |
| | 248,640 | 262,613 |

The above-mentioned secured banking facilities, including trade finances, overdrafts and bank loans, totalling RMB266,111,000 (2015: RMB301,768,000), were utilised to the extent of RMB235,384,000 at 31 July 2016 (2015: RMB245,147,000). The Group's banking facilities also included certain unsecured banking facilities, totalling RMB82,500,000 (2015: RMB82,500,000), which were utilised to the extent of RMB14,800,000 at 31 July 2016 (2015: RMB20,307,000).

25 SHARE OPTION SCHEME

Pursuant to the resolution duly passed at the extraordinary general meeting of the Company ("EGM") held on 21 September 2012, the Company adopted a share option scheme, the total number of ordinary shares which could be allotted and issued upon exercise of all options granted or to be granted under the share option scheme must not in aggregate exceed 10 percent of the shares in issue as at the date of the EGM. As at the date of the EGM, there were 1,156,034,666 shares of the Company in issue. Accordingly, the initial mandate was 115,603,466 shares of the Company.

Pursuant to the resolution passed by the directors at a meeting of the Board on 16 December 2013, the board approved the grant of 110,100,000 share options under the rules of the share options scheme at an exercise price of HK\$0.308 per share. The options' fair value of HK\$12,654,000 (equivalent to RMB10,137,000) was measured at the grant date using the binomial option pricing model (note 25(c)). During the year ended 31 July 2016, an amount of RMB1,542,000 (2015: RMB3,402,000) was recognised as employee costs with a corresponding increase in capital reserve within equity.

Pursuant to the resolution duly passed at the annual general meeting of the Company ("AGM") held on 17 December 2014, the Company refreshed the existing share option scheme limit up to 10% of the issued share capital of the Company as at the date of AGM. As at the date of the AGM, there were 1,763,221,547 shares of the Company in issue. Accordingly, the refreshed mandate was 176,322,154 shares of the Company.

Notes to the Consolidated Financial Statements

25 SHARE OPTION SCHEME (CONTINUED)

- (a) Terms and conditions of share options granted during the year ended 31 July 2016 are as follows, whereby all options are to be settled by physical delivery of shares:

| Date granted | Vesting period | Exercisable period | Exercise price per option HK\$ | Number of options |
|------------------|----------------------------------|-------------------------------|-----------------------------------|-------------------|
| 13 December 2013 | 16 December 2013 to 31 July 2014 | 1 August 2014 to 31 July 2017 | 0.308 | 36,700,000 |
| | 16 December 2013 to 31 July 2015 | 1 August 2015 to 31 July 2017 | 0.308 | 36,700,000 |
| | 16 December 2013 to 31 July 2016 | 1 August 2016 to 31 July 2017 | 0.308 | 36,700,000 |
| | | | | 110,100,000 |

Pursuant to the rules of the share option scheme, the options will lapse when the grantee ceases to be an employee of the Group for reasons other than death, ill-health or retirement.

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

| | 2016 | | 2015 | |
|--|---|---------------------------|---|---------------------------|
| | Weighted average exercise price HK\$ | Number of options '000 | Weighted average exercise price HK\$ | Number of options '000 |
| Outstanding at the beginning of the year | 0.308 | 83,644 | 0.308 | 110,100 |
| Exercised during the year | 0.308 | (10,808) | 0.308 | (24,056) |
| Lapsed during the year | N/A | — | 0.308 | (2,400) |
| Outstanding at the end of the year | 0.308 | 72,836 | 0.308 | 83,644 |
| Exercisable at the end of the year | 0.308 | 37,336 | 0.308 | 12,644 |

During the year ended 31 July 2015, 2,400,000 share options lapsed as certain employees ceased to be employees of the Group for reasons other than death, ill-health or retirement.

During the year ended 31 July 2016, 10,808,000 (2015: 24,056,000) share options were exercised. The gross proceeds received by the Company were HK\$3,329,000 (equivalent to RMB2,753,000) (2015: HK\$7,409,000 (equivalent to RMB5,916,000)), among which RMB447,000 (2015: RMB960,000) and RMB3,339,000 (2015: RMB6,805,000) was credited to share capital account and share premium account respectively, and RMB1,033,000 (2015: RMB1,849,000) was debited to employee share-based capital reserve.

Notes to the Consolidated Financial Statements

25 SHARE OPTION SCHEME (CONTINUED)

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

The share options outstanding as at 31 July 2016 had an exercise price of HK\$0.308 (2015: HK\$0.308).

(c) Fair value of options and assumptions

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

Fair value of options and assumptions

| | |
|---|----------------|
| Fair value at measurement date (weighted average) | HK\$12,654,000 |
| Share price | HK\$0.300 |
| Exercise price | HK\$0.308 |
| Expected volatility (expressed as weighted average volatility used in the modelling under the binomial model) | 64.81% |
| Option life (expressed as weighted average life used in the modeling under the binomial model) | 3.6 years |
| Expected dividends | 0% |
| Risk-free interest rate (based on Hong Kong Exchange Fund Notes) | 0.735% |

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

Options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received.

Notes to the Consolidated Financial Statements

26 DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|-------------------------------|-------------------------------|
| Deferred tax assets: | | |
| – to be recovered after more than 12 months | 2,221 | 3,486 |
| Deferred tax liabilities: | | |
| – to be recovered after more than 12 months | (567) | (521) |
| Deferred tax assets – net | 1,654 | 2,965 |

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

| | Deferred tax on the impairment losses of trade receivables and inventories RMB'000 (Restated) | Withholding tax on future dividend income from PRC subsidiaries RMB'000 (Restated) | Total RMB'000 (Restated) |
|---|--|---|---------------------------------------|
| At 1 August 2014 | 2,451 | (1,813) | 638 |
| Payment of withholding tax | – | 1,673 | 1,673 |
| Credited/(charged) to profit or loss (note 9) | 1,035 | (381) | 654 |
| At 31 July 2015 | 3,486 | (521) | 2,965 |
| At 1 August 2015 | 3,486 | (521) | 2,965 |
| Payment of withholding tax | – | 390 | 390 |
| Charged to profit or loss (note 9) | (1,265) | (436) | (1,701) |
| At 31 July 2016 | 2,221 | (567) | 1,654 |

The Group did not recognise deferred income tax assets of RMB30,426,000 (2015: RMB44,572,000) in respect of tax losses amounting to RMB123,959,000 (2015: RMB187,176,000) that can be carried forward against future taxable income, which will expire between 2017 and 2021 (2015: 2016 and 2020).

Notes to the Consolidated Financial Statements

27 SHARE CAPITAL AND SHARE PREMIUM

| | 2016 | | | 2015 | | |
|---|-------------------------|---------------|---------------|-------------------------|--------------------------|--------------------------|
| | Number of shares ('000) | Share capital | Share premium | Number of shares ('000) | Share capital (Restated) | Share premium (Restated) |
| Authorised: | | | | | | |
| Ordinary shares of HK\$0.05 each | 4,000,000 | 200,000 | - | 4,000,000 | 200,000 | - |
| Issued and fully paid: (RMB'000) | | | | | | |
| At beginning of year | 1,821,738 | 84,549 | 230,841 | 1,478,002 | 70,890 | 120,543 |
| Issuance of share upon exercising of share options (note 25(b)) | 10,808 | 447 | 3,339 | 24,056 | 960 | 6,805 |
| Issue of new shares (note (i)) | - | - | - | 319,680 | 12,699 | 103,493 |
| At end of year | 1,832,546 | 84,996 | 234,180 | 1,821,738 | 84,549 | 230,841 |

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

Note:

- (i) On 9 December 2014, 266,680,000 new shares were issued at the subscription price of HK\$0.45 each. The gross proceeds received by the Company were HK\$120,006,000 (equivalent to RMB95,021,000), among which RMB10,558,000 was credited to share capital account and the balance of RMB82,234,000 (net of professional fee of RMB2,229,000) was credited to the share premium account.

In addition, on 9 March 2015, 53,000,000 new shares were issued at the subscription price of HK\$0.55 each. The gross proceeds received by the Company were HK\$29,150,000 (equivalent to RMB23,547,000), among which RMB2,141,000 was credited to share capital account and the balance of RMB21,259,000 (net of professional fee of RMB147,000) was credited to the share premium account.

Notes to the Consolidated Financial Statements

28 RESERVES

| | Note | Capital reserves RMB'000 (Restated) | Statutory reserve fund RMB'000 (Restated) (note (i)) | Employee share-based capital reserve RMB'000 (Restated) | Retained earnings/ (accumulated losses) RMB'000 (Restated) | Total RMB'000 (Restated) |
|--|------|---|---|---|---|--------------------------------|
| Balance at 1 August 2014 | | 11,752 | 43,914 | 5,036 | 73,621 | 134,323 |
| Comprehensive loss | | | | | | |
| Loss for the year | | - | - | - | (23,166) | (23,166) |
| Total comprehensive loss | | - | - | - | (23,166) | (23,166) |
| Issuance of shares upon exercising of share options | 25 | - | - | (1,849) | - | (1,849) |
| Appropriation (note (i)) | | - | 17,419 | - | (17,419) | - |
| Fair value of employee services under the share options scheme | 25 | - | - | 3,402 | - | 3,402 |
| Total transactions with owners, recognised directly in equity | | - | 17,419 | 1,553 | (17,419) | 1,553 |
| Balance at 31 July 2015 and 1 August 2015 | | 11,752 | 61,333 | 6,589 | 33,036 | 112,710 |
| Comprehensive loss | | | | | | |
| Loss for the year | | - | - | - | (32,503) | (32,503) |
| Total comprehensive loss | | - | - | - | (32,503) | (32,503) |
| Issuance of shares upon exercising of share options | 25 | - | - | (1,033) | - | (1,033) |
| Appropriation (note (i)) | | - | 3,466 | - | (3,466) | - |
| Fair value of employee services under the share options scheme | 25 | - | - | 1,542 | - | 1,542 |
| Total transactions with owners, recognised directly in equity | | - | 3,466 | 509 | (3,466) | 509 |
| Balance at 31 July 2016 | | 11,752 | 64,799 | 7,098 | (2,933) | 80,716 |

Note:

(i) Statutory reserve fund

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

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

Notes to the Consolidated Financial Statements

29 DIVIDENDS

No dividend has been paid or declared by the Company for the years ended 31 July 2016 and 2015.

30 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 July 2016 not provided for in the consolidated financial statements are as follows:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|----------------|-------------------------------|-------------------------------|
| Contracted for | 2,003 | 14,751 |

(b) Operating lease commitments

The Group as lessee

The total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|-----------------|-------------------------------|-------------------------------|
| Within one year | 4,207 | 4,247 |

The Group as lessor

As at 31 July 2016 and 2015, the Group had future aggregate minimum lease receivables under non-cancellable operating leases as follows:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|-------------------------------|-------------------------------|
| Within one year | 2,262 | 5,121 |
| Later than one year and not later than five years | - | 2,034 |
| | 2,262 | 7,155 |

As at 31 July 2016 and 2015, the Company does not have any significant commitments.

Notes to the Consolidated Financial Statements

31 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

| | 2016 | 2015 |
|---|----------------|-----------------------|
| | RMB'000 | RMB'000 (Restated) |
| Sales to the ultimate holding company | 1,332 | 11,104 |
| Sales to an associate | 7,043 | 16,984 |
| | 8,375 | 28,088 |
| Operating lease charges paid and payable to a company controlled by a director | 7,408 | 7,408 |
| Management fee paid and payable to a company controlled by a director | 507 | 507 |
| Sub-contracting fee paid and payable to a company controlled by the family member of a director | 6,150 | 4,288 |
| Repair and maintenance services paid and payable to a company controlled by the family member of a director | 346 | 547 |

The transactions described above were entered into at terms and prices mutually agreed between the relevant parties.

- (b) Amounts due from related parties were detailed as follows:

| | 2016 | 2015 |
|--|----------------|-----------------------|
| | RMB'000 | RMB'000 (Restated) |
| Amount due from a company controlled by a director | 2,490 | 2,088 |
| Amount due from an associate (note) | 13,890 | 16,687 |
| Amount due from the ultimate holding company | – | 1,414 |
| | 16,380 | 20,189 |

Amounts due from related parties other than an associate are interest-free, unsecured and repayable on demand.

Notes to the Consolidated Financial Statements

31 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Amounts due from related parties were detailed as follows: (Continued)

Note:

The entire amount due from an associate arises from trading transactions which is interest-free and unsecured, an aging analysis based on overdue date is as follows:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|--|-------------------------------|-------------------------------|
| Due within 1 month or on demand | 2,072 | 9,378 |
| Due after 1 month but within 3 months | 1,055 | 2,005 |
| Due after 3 months but within 6 months | 607 | 2,245 |
| Due over 6 months | 10,156 | 3,059 |
| | 13,890 | 16,687 |

The maximum exposure to credit risk is the fair value of the above receivables. The Group grant its associate credit term mainly ranging from 60 to 120 days.

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

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|-------------------------------|-------------------------------|
| Amounts due to directors | 200 | 165 |
| Amount due to the ultimate holding company | 32 | 167 |
| Amount due to a company controlled by the family member of a director | 471 | 580 |
| | 703 | 912 |

The amounts due to related parties are interest-free, unsecured and repayable on demand.

(d) Key management personnel remuneration

The Group has not identified any person, other than the directors of the Company, having the authority and responsibility for planning, directing and controlling the activities of the Group. Details of the remuneration of the directors of the Company are set out in note 11.

Notes to the Consolidated Financial Statements

32 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

| | Note | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|------|-----------------|-------------------------------|
| Loss before income tax | | (21,095) | (12,821) |
| Adjustments for: | | | |
| – Finance costs | 8 | 12,139 | 13,841 |
| – Interest income | 8 | (385) | (719) |
| – Fair value of derivative financial instruments | | (7) | (228) |
| – Amortisation of land use rights | 7 | 507 | 507 |
| – Depreciation | 7 | 48,603 | 45,009 |
| – Share of (profit)/loss of an associate | | (2,531) | 2,677 |
| – Impairment of goodwill | 6 | – | 2,302 |
| – Impairment of property, plant and equipment | 6 | – | 1,707 |
| – Provision for impairment of deposits | 6 | 34,000 | – |
| – Net loss on disposal of property, plant and equipment | 6 | 1,179 | 3,832 |
| – Equity settled share-based payment expenses | 10 | 1,542 | 3,402 |
| Changes in working capital: | | 73,952 | 59,509 |
| Inventories | | 7,710 | 37,601 |
| Trade and other receivables | | (11,611) | 50,026 |
| Amounts due from related companies | | 3,809 | (8,416) |
| Amounts due to related companies | | (209) | (237) |
| Trade and other payables | | (18,079) | (50,577) |
| Cash generated from operations | | 55,572 | 87,906 |

(b) Loss on disposal of property, plant and equipment is arrived at as follows:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|--------------------------|-----------------|-------------------------------|
| Net book amount disposed | 8,573 | 6,556 |
| Proceeds received | (7,394) | (2,724) |
| Loss on disposals | 1,179 | 3,832 |

Notes to the Consolidated Financial Statements

34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|-------------------------------|-------------------------------|
| ASSETS | | |
| Non-current assets | | |
| Investments in subsidiaries | 308,844 | 308,844 |
| Prepayments | – | 34,000 |
| | 308,844 | 342,844 |
| Current assets | | |
| Other receivables | 2 | 2 |
| Amounts due from subsidiaries | 53,659 | 46,343 |
| Cash and cash equivalents | 215 | 304 |
| | 53,876 | 46,649 |
| Total assets | 362,720 | 389,493 |
| EQUITY | | |
| Capital and reserves | | |
| Share capital | 84,996 | 84,549 |
| Share premium | 234,180 | 230,841 |
| (Deficits)/reserves (Note (a)) | (20,699) | 31,679 |
| Total equity attributable to owners of the Company | 298,477 | 347,069 |
| LIABILITIES | | |
| Current liabilities | | |
| Other payables | 1,339 | 1,583 |
| Amounts due to subsidiaries | 62,904 | 40,841 |
| Total liabilities | 64,243 | 42,424 |
| Total equity and liabilities | 362,720 | 389,493 |

The statement of financial position of the Company was approved by the Board of Directors on 27 September 2016 and was signed on its behalf.

Beh Kim Ling
Chairman

Gan Sem Yam
Managing Director

Notes to the Consolidated Financial Statements

34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Note (a) (Deficits)/reserves movement of the Company

| | Contributed surplus | Employee share-based capital reserve | Accumulated losses | Total |
|---|-------------------------------------|---|-------------------------------|-----------------------|
| | RMB'000 (Restated) (note (i)) | RMB'000 (Restated) (note (ii)) | RMB'000 (Restated) | RMB'000 (Restated) |
| Balance at 1 August 2014 | 148,621 | 5,036 | (103,901) | 49,756 |
| Comprehensive loss | | | | |
| Loss for the year | – | – | (19,630) | (19,630) |
| Issuance of shares upon exercising of share options | – | (1,849) | – | (1,849) |
| Fair value of employee services under the share options scheme | – | 3,402 | – | 3,402 |
| Balance at 31 July 2015 and 1 August 2015 | 148,621 | 6,589 | (123,531) | 31,679 |
| Comprehensive loss | | | | |
| Loss for the year | – | – | (52,887) | (52,887) |
| Issuance of shares upon exercising of share options | – | (1,033) | – | (1,033) |
| Fair value of employee services under the share options scheme | – | 1,542 | – | 1,542 |
| Balance at 31 July 2016 | 148,621 | 7,098 | (176,418) | (20,699) |

Notes:

(i) Share premium and contributed surplus

- (a) Under the Companies Law of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.
- (b) Pursuant to a reorganisation, the Company became the holding company of the Group on 20 January 2002. The excess of the consolidated net assets represented by the shares acquired over the nominal value of shares issued by the Company in exchange under the reorganisation was transferred to contributed surplus. In the consolidated financial statements, capital reserves represents the difference between (a) the nominal value of shares of the subsidiaries acquired; and (b) the nominal value of the shares issued by the Company in exchange under the reorganisation of the Group on 20 January 2002.

(ii) Employee share-based capital reserve

Employee share-based capital reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group in accordance with the accounting policy adopted for share-based payments in note 2.22.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Beh Kim Ling (*Chairman*)
 Gan Sem Yam (*Managing Director*)
 Gan Chu Cheng (*Finance Director*)
 Zhang Pei Yu
 Beh Chern Wei

Non-executive Director

Gan Tiong Sia

Independent non-executive Directors

Diong Tai Pew
 Tang Sim Cheow
 Fu Xiao Nan

AUDIT COMMITTEE OF THE BOARD

Diong Tai Pew (*Chairman of the Audit Committee*)
 Fu Xiao Nan
 Tang Sim Cheow

REMUNERATION COMMITTEE OF THE BOARD

Fu Xiao Nan
 (*Chairman of the Remuneration Committee*)
 Diong Tai Pew
 Beh Kim Ling

NOMINATION COMMITTEE OF THE BOARD

Tang Sim Cheow
 (*Chairman of the Nomination Committee*)
 Diong Tai Pew
 Gan Chu Cheng

COMPANY SECRETARY

Ng Ting On, Polly

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
 Cricket Square
 Hutchins Drive, P.O. Box 2681
 Grand Cayman
 KY1-1111
 Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISERS AS TO HONG KONG LAWS

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

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
 22nd Floor, Prince's Building
 Central, Hong Kong

PRINCIPAL BANKERS

Malayan Banking Berhad
 Industrial & Commercial Bank of China Ltd.
 Agricultural Bank of China
 China Resources Bank of Zhuhai

SUBSIDIARIES

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

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



Corporate Information

V.S. Corporation (Hong Kong) Co., Limited
 VSA Holding Hong Kong Co., Limited
 V.S. Industry Holding Limited
 40th Floor, Jardine House
 1 Connaught Place
 Central, Hong Kong
 Tel. No: (852) 2511 9002
 Fax No: (86) 756 3385 681

V.S. Technology Industry Park (Zhuhai) Co., Ltd.
 V.S. Industry (Zhuhai) Co., Ltd.
 VSA Electronics Technology (Zhuhai) Co., Ltd.
 V.S. ECO-TECH (Zhuhai) Co., Ltd.
 V.S. Industrial Product Design (Zhuhai) Co., Ltd.
 Zhuhai Deyuan Energy Conservation Technology
 Company Limited
 Beisha Village, Tangjia Wan Town
 Xiangzhou District
 519085 Zhuhai
 Guangdong Province
 The People's Republic of China
 Tel. No: (86) 756 6295 888
 Fax No: (86) 756 3385 691/681

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

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

ASSOCIATED COMPANY

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

Group Properties

MAJOR PROPERTIES HELD FOR OWN USE

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

Five Years Summary

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|--------------------------|--------------|--------------|--------------|--------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Results | | | | | |
| Revenue | 884,227 | 934,472 | 1,087,353 | 978,703 | 1,234,537 |
| Operating (loss)/profit | (11,872) | 2,978 | 5,804 | (1,631) | (19,270) |
| Finance costs – net | (11,754) | (13,122) | (16,985) | (17,616) | (28,569) |
| Share of profit/(loss) of an associate | 2,531 | (2,677) | (1,188) | (3,533) | (632) |
| Loss before income tax | (21,095) | (12,821) | (12,369) | (22,780) | (48,471) |
| Income tax expense | (11,408) | (10,345) | (8,019) | (7,727) | (11,650) |
| Loss for the year | (32,503) | (23,166) | (20,388) | (30,507) | (60,121) |
| Attributable to: | | | | | |
| Owners of the Company | (32,503) | (23,166) | (20,388) | (30,507) | (60,193) |
| Non-controlling interests | – | – | – | – | 72 |
| Loss for the year | (32,503) | (23,166) | (20,388) | (30,507) | (60,121) |
| Assets and liabilities | | | | | |
| Non-current assets | 501,553 | 532,234 | 481,456 | 526,888 | 594,957 |
| Current assets | 393,300 | 412,513 | 505,108 | 428,077 | 525,486 |
| Total assets | 894,853 | 944,747 | 986,564 | 954,965 | 1,120,443 |
| Current liabilities | (408,995) | (398,991) | (503,646) | (444,550) | (571,088) |
| Non-current liabilities | (85,966) | (117,656) | (157,162) | (180,771) | (221,894) |
| NET ASSETS | 399,892 | 428,100 | 325,756 | 329,644 | 327,461 |
| Share capital | 84,996 | 84,549 | 70,890 | 65,518 | 58,045 |
| Reserves | 314,896 | 343,551 | 254,866 | 264,126 | 269,416 |
| TOTAL EQUITY | 399,892 | 428,100 | 325,756 | 329,644 | 327,461 |
| Loss per share | | | | | |
| Basic and diluted | Note (1.78) cents | (1.37) cents | (1.47) cents | (2.43) cents | (5.21) cents |

Note:

During the year ended 2012, 2013, 2014, 2015 and 2016 the effects of share options and bonus warrants are anti-dilutive.