Gemilang International Limited
彭順國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6163)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 APRIL 2020

The board of directors (the "**Board**") of Gemilang International Limited (the "**Company**") is pleased to announce its unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 April 2020 (the "**Reporting Period**") together with the comparative figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended 30 April 2020
(Expressed in United States Dollars)

		For the six months ended 30 April	
		2020	2019
		(Unaudited)	(Unaudited)
	Note	***US$'000***	*US$'000*
Revenue	3	**16,558**	34,935
Cost of sales		**(12,962)**	(27,808)
Gross profit		**3,596**	7,127
Other revenue		**43**	26
Other net income		**220**	344
Selling and distribution expenses		**(280)**	(1,678)
Net allowance for impairment losses on trade receivable		**(833)**	(659)
General and administrative expenses		**(1,962)**	(2,286)

	Note	For the six months ended 30 April 2020 (Unaudited) US$'000	2019 (Unaudited) US$'000
Profit from operations		**784**	2,874
Finance costs	4a	**(260)**	(376)
Share of loss of an associate		**–**	(300)
Profit before taxation	4	**524**	2,198
Income tax	6	**(246)**	(935)
Profit for the period attributable to the equity owners of the Company		**278**	1,263
Other comprehensive loss for the period			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**(739)**	(335)
Total comprehensive (loss)/income for the period attributable to equity owners of the Company		**(461)**	928
Earnings per share			
– Basic (US cents per share)	7	**0.11**	0.50
– Diluted (US cents per share)	7	**0.11**	0.50

Note:

The Group has initially applied HKFRS 16 at 1 November 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 April 2020
(Expressed in United States dollars)

	Note	**As at 30 April 2020 (Unaudited)** *US$'000*	As at 31 October 2019 (Audited) *US$'000*
Non-current assets			
Property, plant and equipment	8	**7,183**	7,777
Right-of-use assets	8	**556**	–
Intangible assets		**315**	327
Interest in a joint venture		**–**	–
Deferred tax assets		**74**	40
		8,128	8,144
Current assets			
Inventories		**16,914**	18,040
Trade and other receivables	9	**6,698**	13,485
Pledged bank deposits	10	**3,761**	3,300
Cash and bank balances		**1,871**	3,830
		29,244	38,655
Current liabilities			
Trade and other payables	11	**6,013**	11,657
Contract liabilities		**3,699**	4,839
Bank borrowings	12	**6,279**	8,564
Bank overdrafts		**1,415**	1,546
Lease liabilities		**293**	62
Provision for taxation		**287**	481
		17,986	27,149
Net current assets		**11,258**	11,506
Total assets less current liabilities		**19,386**	19,650
Non-current liabilities			
Lease liabilities		**257**	60
		257	60
Net assets		**19,129**	19,590
Capital and reserves			
Share capital		**324**	324
Reserves		**18,805**	19,266
Total equity attributable to owners of the Company		**19,129**	19,590

Note:

The Group has initially applied HKFRS 16 at 1 November 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 April 2020

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 21 June 2016 and its shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 11 November 2016.

The principal activity of the Company is investment holding. The principal activity of the Group is engaged in assembling and selling of aluminium and steel buses and manufacturing bus bodies. As at 30 April 2020, the directors consider that the Company is ultimately controlled by Mr. Phang Sun Wah and Mr. Pang Chong Yong (the "**Controlling shareholders**").

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated financial statements for the six months ended 30 April 2020 comprises the Company and its subsidiaries (together referred to as the "**Group**") and the Group's interest in a joint venture.

The condensed consolidated financial statements have been prepared in accordance with HKAS 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants, ("**HKICPA**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The condensed consolidated financial statements have been prepared on a going concern basis as at 30 April 2020, as the directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration the ability to generate funds internally.

The condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 October 2019.

Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 April 2020 are the same as those followed in the preparation of the annual financial statements of the Group for the year ended 31 October 2019.

In the current interim period, the Group has applied, for the first time, the following new, amendments and interpretation to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 Leases, the new and revised standards have had no significant financial effect on the Group's condensed consolidated financial statements. The Group has not applied any new standards, amendments or interpretation that is not yet effective for the current accounting period.

HKFRS 16 "Leases"

HKFRS 16 replaces HKAS 17 Leases, and the related interpretations, HK(IFRIC)-Int 4 Determining whether an arrangement contains a lease, HK(SIC)-Int 15 Operating leases - Incentives and HK(SIC)-Int 27 Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 November 2019. The Group has elected to use modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 November 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below.

(a) *Change in the accounting polices*

(i) *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 November 2019. For contracts entered into before 1 November 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically office equipment. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right of-use asset has been reduced to zero.

(iii) Lessor accounting

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

(b) *Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies*

(i) Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) *Transitional impact*

At the date of transition to HKFRS 16 (i.e. 1 November 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 November 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.20%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 October 2020; and

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

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

	1 November 2019 (Unaudited) *US$'000*
Operating lease commitments at 31 October 2019	732
Less: Short-term leases with remaining lease term ending on 31 October 2020	(60)
Total future interest expenses	(36)
Present value of remaining lease payments, discounted using the incremental borrowing rates at 1 November 2019	636
Finance leases liabilities recognised as at 31 October 2019	122
Total lease liabilities recognised at 1 November 2019	758
Analysed as:	
Current	386
Non-current	372
	758

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 October 2019.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

The following table summarises the impact of the adoption of HKFRS 16 on the Group's condensed consolidated statement of financial position:

	Carrying amount at 31 October 2019 (Audited) *US$'000*	**Adjustments** (Unaudited) *US$'000*	**Carry amount at 1 November 2019** (Unaudited) *US$'000*
Line items in condensed consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Non-current assets			
Property, plant and equipment	7,777	(138)	7,639
Right-of-use assets	–	774	774
Total non-current assets	7,777	636	8,413
Current liabilities			
Obligations under finance leases	62	(62)	–
Lease liabilities	–	386	386
Total current liabilities	62	324	386
Non-current liabilities			
Obligations under finance leases	60	(60)	–
Lease liabilities	–	372	372
Total non-current liabilities	60	312	372

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

	At 30 April 2020 **(Unaudited)** ***US$'000***	At 1 November 2019 (Unaudited) *US$'000*
Motor vehicle	**103**	138
Properties leased for own use	**453**	636
	556	774

(d) Impact on the financial result and segment results of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 November 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported profit from operations in the Group's condensed consolidated statement of profit or loss and other comprehensive income, as compared to the results if HKAS 17 had been applied during the period.

3. REVENUE AND SEGMENT REPORTING

The principal activities of the Group are sales of bus bodies, trading of body kits and spare parts for buses and the provision of relevant services.

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products and services is as follows:

	Six months ended 30 April	
	2020	2019
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Revenue from contracts with customers within the scope of HKFRS15		
Disaggregated by major products or services		
– Sales of bus bodies and kits	**15,406**	33,380
– Sales of parts and provision of relevant services	**1,152**	1,555
	16,558	34,935

Disaggregated by geographical location

	Six months ended 30 April	
	2020	2019
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Malaysia (place of domicile)	**155**	48
Singapore	**11,807**	27,157
Hong Kong	**966**	3,724
Australia	**220**	3,550
United Arab Emirates	**3,168**	–
Others	**242**	456
	16,558	34,935

(b) Segment reporting

HKFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the board of directors of the Company, being the chief operating decision maker (the "**CODM**"), for the purpose of allocating resources to segments and assessing their performance.

For management purpose, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- Sales of bus bodies and kits – sales and fabrication of body work for buses and trading of body kits

- Sales of parts and provision of relevant services – dealing in spare parts for buses and provision of relevant services for buses

Segment profit represents the profit earned by each segment without allocation of head office and corporate expenses, other revenue, other net income, share of loss of an associate and finance costs. This is the measure reported to the CODM, for the purposes of resources allocation and performance assessment.

No segment assets and liabilities are presented as they were not regularly provided to the CODM for the purpose of resources allocation and performance assessment.

Information regarding the above segments is reported below.

The following is an analysis of the Group's revenue and results by operating and reportable segments for both periods:

For the six months period ended 30 April 2020

	Sales of bus bodies and kits (Unaudited) *US$'000*	Sales of parts and provision of relevant services (Unaudited) *US$'000*	Total (Unaudited) *US$'000*
Revenue			
Revenue from contracts with external customers recognised at a point in time	**15,406**	**1,152**	**16,558**
Reportable segment revenue	**15,406**	**1,152**	**16,558**
Reportable segment profit	**793**	**38**	**831**
Unallocated head office and corporate expenses:			
– Other expenses			**(310)**
Other revenue			**43**
Other net income			**220**
Finance costs			**(260)**
Profit before income tax			**524**

For the six months period ended 30 April 2019

	Sales of bus bodies and kits (Unaudited) *US$'000*	Sales of parts and provision of relevant services (Unaudited) *US$'000*	Total (Unaudited) *US$'000*
Revenue			
Revenue from contracts with external customers recognised at a point in time	33,380	1,555	34,935
Reportable segment revenue	33,380	1,555	34,935
Reportable segment profit	2,829	107	2,936
Unallocated head office and corporate expenses:			
– Other expenses			(432)
Other revenue			26
Other net income			344
Finance costs			(376)
Share of loss of an associate			(300)
Profit before income tax			2,198

Note:

The Group has initially applied HKFRS 16 at 1 November 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

4. PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 April	
	2020	2019
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Interest expenses on bank and other borrowings	**243**	371
Interest expenses on lease liabilities	**17**	5
Total interest expenses on financial liabilities not at fair value through profit or loss	**260**	376

(b) Staff costs (including directors' emoluments)

	Six months ended 30 April	
	2020	2019
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Salaries, wages and other benefits	**1,459**	1,532
Contributions to defined contribution retirement plans	**234**	205
	1,693	1,737

(c) Other items

	Six months ended 30 April	
	2020	2019
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Cost of inventories	**12,962**	27,808
Depreciation charges		
– owned property, plant and equipment	**227**	269
– right-of-use assets	**194**	–
Net allowance for impairment losses on trade receivable	**833**	659
Net foreign exchange (gain)	**(220)**	(324)
Minimum operating lease rental expense in respect of		
– properties	**–**	131
– equipment	**–**	7
Short-term lease expense	**139**	–

Note:

The Group has initially applied HKFRS 16 at 1 November 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

5. DIVIDEND

The proposed final dividend for the year ended 31 October 2019 was vetoed by the Company's shareholders at the annual general meeting held on 24 March 2020. The Board do not recommend the payment of an interim dividend for the six months ended 30 April 2020 (2019: HK$0.03 per share).

6. INCOME TAX

Income tax in the condensed consolidated statement of profit or loss and other comprehensive income represents:

	Six months ended 30 April	
	2020	2019
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Current tax		
Charge for the period	**283**	1,071
Deferred tax		
Origination and reversal of temporary differences	**(37)**	(136)
Income tax expense	**246**	935

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(ii) During the six months period ended 30 April 2020, GML Coach Technology Pte. Ltd. is subject to Singapore statutory income tax rate of 17% (2019: 17%).

(iii) During the six months period ended 30 April 2020, Gemilang Coachwork Sdn. Bhd. is subject to Malaysia statutory income tax rate of 24% (2019: 24%).

7. EARNINGS PER SHARE

	Six months ended 30 April	
	2020	2019
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	**278**	1,263

Number of shares	Six months ended 30 April	
	2020	2019
	(Unaudited)	(Unaudited)
Weighted average number of issued ordinary shares at 1 November for the purpose of basic earnings per share	**251,364,000**	251,080,000
Effect of dilutive potential ordinary shares:		
Share options	**–**	283,817
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**251,364,000**	251,363,817

Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period of approximately US$278,000 (2019: US$1,263,000) and the weighted average of 251,364,000 ordinary shares (2019: 251,080,000 shares).

Diluted earnings per share

For the six months period ended 30 April 2020, the calculation did not assume the exercise of the outstanding share options and no adjustment had been made to the basic earnings per share as the exercise price per share option was higher than the average market share price of the Company during the Reporting Period. For the six months ended 30 April 2019, the calculation of diluted earnings per share is based on the profit for the period of approximately US$1,263,000 and the weighted average number of 251,363,817 ordinary shares.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Property, plant and equipment

During the six months period ended 30 April 2020, the Group acquired certain property, plant and equipment with a cost of approximately US$46,000 (unaudited) (2019: US$121,000 (unaudited)). No property, plant and equipment was disposed during the Reporting Period (2019: nil (unaudited)).

Right-of-use assets

During the six months period ended 30 April 2020, the Group did not enter into new lease agreement for the use of assets with lease term more than 12 months.

9. TRADE AND OTHER RECEIVABLES

	At 30 April 2020 (Unaudited) ***US$'000***	At 31 October 2019 (Audited) *US$'000*
Trade receivables	**9,329**	16,153
Less: allowance for impairment losses	**(4,360)**	(3,684)
	4,969	12,469
Deposits, prepayments and other receivable	**1,729**	1,016
	6,698	13,485

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

Ageing analysis of trade receivables

The following is an ageing analysis of trade receivables presented based on the invoice date at the end of each reporting period.

	At 30 April 2020 (Unaudited) ***US$'000***	At 31 October 2019 (Audited) *US$'000*
Within 30 days	**856**	7,463
31 to 90 days	**1,933**	3,849
Over 90 days	**2,180**	1,157
	4,969	12,469

Trade receivables are normally due within 30 days from the date of billing.

10. PLEDGED BANK DEPOSITS

	At 30 April 2020 (Unaudited)	At 31 October 2019 (Audited)
	US$'000	*US$'000*
Fixed deposits	**3,761**	3,300

Pledged bank deposits have been pledged to banks as security for banking facilities granted to the Group.

11. TRADE AND OTHER PAYABLES

	At 30 April 2020 (Unaudited)	At 31 October 2019 (Audited)
	US$'000	*US$'000*
Trade payables	**4,269**	7,668
Other payables and accruals	**1,744**	3,989
	6,013	11,657

Ageing analysis of trade payables

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

	At 30 April 2020 (Unaudited)	At 31 October 2019 (Audited)
	US$'000	*US$'000*
Within 30 days	**586**	1,758
31 to 90 days	**598**	3,683
Over 90 days	**3,085**	2,227
	4,269	7,668

12. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to US$10,953,000 (unaudited) (31 October 2019: US$46,889,000 (audited)).

Bank borrowings are secured by:

(i) Legal charges over freehold land and buildings of the Group;

(ii) Deposits with licensed banks of the Group;

(iii) Legal charge over a land held by a related company of the Group for the bank borrowings as at 30 April 2020 and 31 October 2019; and

(iv) Execution of Deed of Assignment of benefits of contract proceeds and power of attorney by certain customers in respect of contract financed by the bank.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group designs and manufactures bus bodies and assemble buses. We divide our target markets into two segments, namely core markets which comprise Singapore and Malaysia, and developing markets which comprise all other markets to where we export our products including Australia, Hong Kong and United Arab Emirates. Our buses, comprising city buses and coaches in aluminium, mainly serve public and private bus transportation operators in our target markets. Our products mainly include single deck, double deck and articulated city buses, as well as single deck, double deck and high deck coaches.

We sell our products to public and private bus transportation operators, chassis principals and their purchasing agents, bus assemblers and manufacturers in two categories: (i) in the form of bus bodies (SKDs* and CKDs*) for their local assembly and onward sales; and (ii) in the form of whole buses (CBUs*). Apart from manufacturing bus bodies and assembling buses, we also provide after-sales services in maintenance of bus bodies and sales of related spare parts.

During the Reporting Period, all of our revenue was derived from the sales of aluminium buses and bus bodies. The demand in aluminium bus and bus body will continue to experience a higher growth due to increasing demand for the use of materials that meets environmental standards. Aluminium will likely be the preferred material for buses, in particular electric buses, due to its lighter weight and better energy efficiency.

The Group delivered a total of 109 buses (CBUs*) and 5 units of CKDs* to our customers during the Reporting Period.

**Notes:*

CBU: completely built up, means a fully completed bus ready for immediate operation

CKD: completely knocked down, means completely knocked down parts and components for the side, front, rear and extended chassis frames, and roof

SKD: semi knocked down parts, where only constructed side, front, rear and extended chassis frames, and roof are provided and the frames and roof are not joined to each other

The following tables set out information about the geographical location of the Group's revenue from external customers, for our two segments, sales of bus bodies and kits and sales of parts and provision of relevant services, respectively.

Sales of bus bodies segment

	Revenue from external customers For the six months ended 30 April	
	2020	2019
	US$'000	*US$'000*
Malaysia (place of domicile)	**122**	–
Singapore	**10,989**	25,865
Hong Kong	**924**	3,692
Australia	**–**	3,516
United Arab Emirates	**3,154**	–
Others	**217**	307
	15,406	33,380

The sales of bus bodies segment is our major source of income for our Group, with the sales of whole buses as the major product contributing over 93.0% of revenue for the Reporting Period. The revenue generated from this segment amounted to approximately US$15.41 million during the Reporting Period, representing a decrease of approximately 53.8% compared to the corresponding period in 2019 of approximately US$33.38 million. The decrease in revenue in this segment was attributable to the significant decrease in delivery of whole buses to Singapore due to the adverse impact of the 2019 coronavirus ("**COVID-19**") outbreak and the enforcement of the movement control order in March 2020 and April 2020, respectively. During the Reporting Period, the Group had delivered 85 units of whole buses to customers in Singapore.

Sales of parts and provision of relevant services segment

	Revenue from external customers For the six months ended 30 April	
	2020	2019
	US$'000	*US$'000*
Malaysia (place of domicile)	**33**	48
Singapore	**818**	1,292
Hong Kong	**42**	32
Australia	**220**	34
United Arab Emirates	**14**	–
Others	**25**	149
	1,152	1,555

The sales of parts and provision of relevant services segment is our secondary source of income, in which its revenue was mainly generated from providing after-sales service and sales of parts to our customers. The revenue generated from this segment amounted to approximately US$1.15 million during the Reporting Period representing a decrease of approximately 25.9% as compared with approximately US$1.56 million for the corresponding period in 2019.

The decrease in sales of parts and related services in our Singapore market is consistent with our supply of buses to Singapore. The sales from this segment was mainly contributed from the markets where we sold our whole buses to, in particular Singapore, as the demand for sales of parts and related services was correlated with the number of buses sold to these places cumulatively. These markets will continue to have higher demand for spare parts replacement and after-sales service as more buses purchased from our group are running on the road.

OUTLOOK

The Group has been able to maintain our market position in Asia, with the continuous support from our customers in the region. The Group believes in maintaining the top-quality products to be the leading bus manufacturing solution provider. We will continue to innovate and provide high technology and quality products and solutions to our customers.

During the Reporting Period, the COVID-19 outbreak leading to lockdown in many countries has put an incredible strain on transportation systems in worldwide and the operations of the Group has been adversely impacted. Following the relieve of the COVID-19 pandemic, the regional lockdown restriction began to ease gradually. We believe that public transport is vital to keep economy running. Being a participant in the supply chain of transportation system, the Group will continue to maintain our competitive edge and being endeavour to recover from the adverse impact brought by the COVID-19 during the second half of the financial year ending 31 October 2020.

OPERATING RESULTS AND FINANCIAL REVIEW

Revenue

During the Reporting Period, the Group recorded a revenue of approximately US$16.56 million, representing a significant decrease of approximately 52.6% as compared with approximately US$34.94 million for the corresponding period in 2019. Such significant decrease was attributable to the significant decrease in delivery of double deck buses in Singapore as compared to the corresponding period in 2019.

By product category

We derive our revenue mainly from the assembly and sales of aluminium buses (CBUs) and manufacture bus bodies in the form of SKDs or CKDs. The following table sets out our revenue from different product segments during the Reporting Period:

	For the six months ended 30 April			
	2020		2019	
	US$'000	*%*	*US$'000*	*%*
Bus				
CBU				
– City Bus	**13,382**	**80.8**	33,290	95.3
– Coach	**1,807**	**10.9**	–	–
Bus Body				
CKD				
– City Bus	**217**	**1.3**	90	0.3
Maintenance and after-sales service	**1,152**	**7.0**	1,555	4.4
TOTAL	**16,558**	**100**	34,935	100.0

By geographical location

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of the customers is based on the location at which the goods are delivered and services are provided.

	Revenues from external customers For the six months ended 30 April	
	2020	2019
	US$'000	*US$'000*
Malaysia (place of domicile)	**155**	48
Singapore	**11,807**	27,157
Hong Kong	**966**	3,724
Australia	**220**	3,550
United Arab Emirates	**3,168**	–
Others	**242**	456
	16,558	34,935

Gross profit and gross profit margin

Our gross profit was approximately US$3.60 million and US$7.13 million for the six months ended 30 April 2020 and 2019, respectively. Our gross profit margin was approximately 21.7% and 20.4% for the six months ended 30 April 2020 and 2019, respectively. The increase of gross profit margin during the six months ended 30 April 2020 was due to a decrease in contractor wages in relation to better planning of production schedule in the Reporting Period, which is in consistent with our production planning.

Selling and distribution expenses

Our selling and distribution expenses primarily include advertising and promotion expenses, logistic expenses, commission expenses as well as travelling expenses for sales personnel.

Our selling and distribution expenses decreased by approximately US$1.4 million or 83.3% from approximately US$1.68 million for six months period ended 30 April 2019 to approximately US$0.28 million in the Reporting Period. Such decrease was driven mainly by the decrease in commission payable for whole buses delivery to Australia which is in line with the decrease in sales to Australia during the Reporting Period.

General and administrative expenses

Our general and administrative expenses mainly comprised staff costs as well as legal and professional fees. Staff costs mainly represent the salary and staff benefits to our management and our staff who were not directly involved in the production.

Our general and administrative expenses decreased by approximately US$0.32 million or 14.1% from approximately US$2.29 million for the six months ended 30 April 2019 to US$1.96 million during the Reporting Period. Such decrease was attributed by reduction in legal and professional expenses incurred during the Reporting Period.

Income tax expenses

During the Reporting Period, the income tax expense decreased by approximately US$0.69 million as compared with the six months period ended 30 April 2019. The decrease was in line with the decrease in the Group's profit as compared to the period ended 30 April 2019. The effective tax rate for the period ended 30 April 2019 and 2020 was 42.5% and 46.9%, respectively. No significant changes were noted in the effective tax rate.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash flow

For the six months ended 30 April 2020, the Group's working capital was financed by bank loans.

Net current assets

The Group's net current assets amounted to approximately US$11.3 million as at 30 April 2020, as compared to approximately US$11.5 million as at 31 October 2019. As at 30 April 2020, the Group's current ratio was approximately 1.63, as compared to approximately 1.42 as at 31 October 2019.

Cash and cash equivalents, bank deposits and bank loans

As at 30 April 2020, cash and cash equivalents of the Group was approximately US$0.46 million, as compared to approximately US$2.28 million as at 31 October 2019. As at 30 April 2020, the Group had pledged bank deposits of approximately US$3.76 million, as compared to approximately US$3.30 million as at 31 October 2019. The bank borrowings of the Group decreased by approximately 26.7% to approximately US$6.28 million as at 30 April 2020 from approximately US$8.56 million as at 31 October 2019.

Gearing ratio

As at 30 April 2020, the gearing ratio (calculated by dividing leases liabilities, bank borrowings and bank overdrafts less cash and bank balance by total equity as at the end of the period/year) of the Group increased to approximately 33.3% from approximately 32.7% as at 31 October 2019, primarily attributable to the decrease in reserves of the Group.

Capital expenditures

For the six months ended 30 April 2020, the Group had capital expenditure of approximately US$0.05 million, as compared to approximately US$0.12 million for the six months ended 30 April 2019. The expenditure was mainly related to the purchase of office equipments as part of office upkeep.

Significant investments

As at 30 April 2020, the Group did not have any significant investments.

Commitments

As at 30 April 2020, the Group had capital commitments in relation to capital contribution of approximately US$212,000 (RMB1,500,000) to the joint venture company, 上海北鋁汽車科技有限公司 ("**上海北鋁**"). The amount of registered capital of 上海北鋁 shall be RMB3,000,000 which the Group and the venture partner, 上海北斗新能源有限公司, shall contribute the capital equally pursuant to the joint venture agreement. As at 30 April 2020 no capital has been contributed by the Group (31 October 2019: US$213,000).

The Group is the lessee in respect of a number of properties held under leases which were classified as operating leases of approximately US$732,000 under HKAS 17 as at 31 October 2019. During the Reporting Period, the Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances as at 1 November 2019 to recognise lease liabilities relating to these leases (see note 2). From 1 November 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 2.

Material investments or capital assets

As at 30 April 2020, the Group did not hold any material investment. There was no specific plan for material investments or capital assets as at 30 April 2020.

Material acquisitions or disposals

During the Reporting Period, there was no material acquisition or disposal of subsidiaries, associates and joint ventures by the Group.

Foreign exchange risk

The Group undertakes certain transactions denominated in foreign currencies, mainly in United States dollars, Australian dollars and Singapore dollars, hence exposure to exchange rate fluctuations arises. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure closely in order to keep the net exposure to an acceptable level. The Group will consider hedging significant foreign currency exposure should the need arises.

Charges on assets

As at 30 April 2020, pledged bank deposits of approximately US$3.76 million (31 October 2019: US$3.30 million) as disclosed in the condensed consolidated statement of financial position have been pledged to banks as security for banking facilities granted to the Group. The net book value of the following assets were pledged to secure certain banking facilities granted to the Group:

	As at 30 April 2020 US$'000	As at 31 October 2019 US$'000
Freehold land	**1,717**	1,860
Buildings	**4,121**	4,377
	5,838	6,237

Performance bonds

	As at 30 April 2020 US$'000	As at 31 October 2019 US$'000
Performance bonds for contracts in favour of customers	**5,633**	7,389

The above performance bonds were given by banks in favour of some of Group's customers as security for the due performance and observance of the Group's obligations under the contracts entered into between the Group and its customers. If the Group fails to provide satisfactory performance to its customers to whom performance bonds have been given, such customers may demand the banks to pay to them the sum or sums stipulated under such demand. The Group will then become liable to compensate such banks accordingly. The performance bonds will be released upon the completion of the contract work for the relevant customers.

INTERIM DIVIDEND

The Board do not recommend the payment of an interim dividend for the six months ended 30 April 2020 (2019: HK$0.03 per share).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 April 2020, the total number of full-time employees of the Group was approximately 354 (31 October 2019: 357). The Group recruits, employs, remunerates and promotes its employees based on their qualifications, experience, skills, performance and contributions. Remuneration is offered with reference to market rates. Salary and/or promotion review is conducted upon performance appraisal by management on a regular basis. Discretionary year-end bonus and share options, if applicable, are granted to eligible employees, in accordance with the Group's performance and individual's contribution. Ample in-house orientation and on-the-job training are arranged for the employees all year around. Employees are always encouraged to attend job-related seminars, courses and programs organised by professional or educational institutions in Malaysia, Hong Kong or other jurisdictions.

EVENTS AFTER THE REPORTING PERIOD

Update on litigation

In April 2018, Gemilang Coachwork Sdn. Bhd. ("**Gemilang Coachwork**"), a wholly owned subsidiary of the Company, issued a writ against a Malaysian customer ("**Defendant 1**") and its holding company ("**Defendant 2**"), (collectively, the "**Defendants**") in the High Court of Malaya at Johor Bahru, requiring, among other things, the Defendants to repay the sum of approximately MYR10,884,624 for the goods supplied and delivered by Gemilang Coachwork. (In February 2016 and August 2016, Gemilang Coachwork entered into two supplier letters of acceptance with the said customer, pursuant to which Gemilang Coachwork would supply and deliver an aggregate of one hundred and fifty (150) units of eco-range aluminium superstructure body kits and supply and assemble one (1) unit of bus prototype. As at the date on which Gemilang Coachwork issued the writ, despite effort paid to recover the debt, the outstanding amount of approximately MYR10,884,624 (equivalent to approximately US$2.72 million) had not been paid to Gemilang Coachwork's account.)

In August 2018, the case was heard in the High Court of Malaya at Johor Bahru and Gemilang Coachwork successfully obtained a summary judgment against the Defendants. Subsequently, a winding up petition dated 30 October 2018 was filed in the High Court of Malaya and has been served on the Defendants on 15 November 2018. The winding up petition served on the Defendant 1 was subsequently dismissed on 2 January 2019 as Defendant 1 was already wound up in July 2018 by a third party. Defendant 2 had filed an originating summons for judicial management in the High Court of Malaya at Shah Alam. The hearing of the said originating summons was held on 24 January 2019 and the order for judicial management was subsequently granted. Defendant 2 has applied for second extension on the judicial management in the High Court of Malaya at Shah Alam in May 2019 for 2 months and the extension was approved. After that, Defendant 2 has applied for extension of judicial management order in the High Court of Malaya at Shah Alam on 13 August 2019 but the application was not allowed by the High Court on 10 December 2019. Eventually, the High Court of Malaya ordered Defendant 2 be wound up under the provisions of the Companies Act 2016 on 30 January 2020. The Company was informed by its legal adviser that the outstanding amount will be paid upon when the receiver has exercised the right and duty according to the wind up order and the debt will be repaid according to the debt security. As at the date of the results announcement, the distribution results are not completed.

Despite of the fact that several attempts were made to recover the outstanding amount from the Defendants, the Company has not reached a settlement agreement with the Defendants for the settlement of the aforesaid sum. Based on the assessment of the latest available financial information of the Defendants, communications with the Defendants and other information available to the Board (including such information as stated above), as the recoverability of such receivables is expected to be remote, the Company has made provision for such outstanding amount in the year ended 31 October 2018.

The Company will provide further information as and when appropriate in accordance with the Listing Rules.

USE OF PROCEEDS FROM GLOBAL OFFERING

The net proceeds of the global offering received by the Company were approximately HK$68.06 million (approximately US$8.77 million), after deduction of related listing expenses, of which HK$15 million of the total amount of fees and expenses in connection with the global offering has been paid from the proceeds of the Pre-IPO investments.

Use of net proceeds	Planned amount as stated in the Prospectus[(1)] *US$ million*	Actual amount utilised up to 30 April 2020 *US$ million*	Actual balance as at 30 April 2020 *US$ million*
Construction of the new facility in Senai, Malaysia	4.70	(3.70)	1.00
Upgrading and acquiring machines	0.89	(0.63)	0.26
Repayment of bank loans	2.39	(2.39)	–
Working capital	0.79	(0.79)	–
Total	8.77	(7.51)	1.26

(1) The planned amount as stated in the Prospectus was further adjusted as disclosed in the announcement of the Company dated 10 November 2016 after the offer price being fixed at HK$1.28.

Such utilization of the net proceeds was in accordance with the proposed allocations as set out in the section headed "Future Plans and Use of Proceeds" in the Company's prospectus dated 31 October 2016 (the "**Prospectus**"). The unutilized portion of the net proceeds were deposited in our banks in Hong Kong and Malaysia and is intended to be utilized in the manner consistent with the proposed allocation as set forth in the Prospectus.

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

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Director's securities transactions. Specific enquires have been made to all Directors and the Directors have confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the Reporting Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

It is the belief of the Board that good corporate governance plays a vital part in maintaining the success of the Company. The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company (the "**Shareholders**") and to enhance corporate value accountability. The Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules save and except for Code Provision C.1.2 throughout the Reporting Period.

Pursuant to Code Provision C.1.2 of the CG Code, management should provide all members of the Board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. From November 2019 to February 2020, rather than providing monthly updates to all members of the Board, the management provided information and updates to the members of the Board as and when appropriate. Since March 2020, the management has provided monthly updates on the Group's performance, position and prospects and tried its best endeavors to provide management account of the Group to the Directors.

The Company will continue to review the current corporate governance structure from time to time and shall make necessary changes when appropriate and report to Shareholders accordingly.

AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with Rule 3.21 of the Listing Rules. The primary duties of the Audit Committee are, among other things, to review and supervise the financial reporting process, risk management and internal control system of the Group, oversee the audit process and select external auditors and assess their independence and qualifications. The audit committee consists of three independent non-executive Directors with Mr. Huan Yean San as the chairman. Other members are Ms. Wong Hiu Ping and Ms. Kwok Yuen Shan Rosetta.

The Audit Committee has reviewed the unaudited consolidated interim results and the interim report of the Company for the six months ended 30 April 2020 and agreed to the accounting principles and practices adopted by the Company.

PUBLICATION OF THE UNAUDITED INTERIM RESULTS AND INTERIM REPORT

In accordance with the requirements under the Listing Rules, the interim report containing all the Company's information set out in this announcement including the unaudited financial results for the six months ended 30 April 2020 will be posted on the Company's website (***www.gml.com.my***) and the website of the Stock Exchange (***www.hkex.com.hk***) in due course.

By order of the Board
Gemilang International Limited
Phang Sun Wah
Chairman

24 June 2020

As at the date of this announcement, the Board comprises (i) Mr. Phang Sun Wah (Chairman), Mr. Pang Chong Yong and Ms. Phang Huey Shyan as executive directors of the Company; and (ii) Ms. Lee Kit Ying, Ms. Wong Hiu Ping, Ms. Kwok Yuen Shan Rosetta and Mr. Huan Yean San as independent non-executive directors of the Company.