

V.S. Industry Berhad
(Registration No. 198201008437 (88160-P))
(Incorporated in Malaysia)

Interim Financial Report
31 January 2020

V.S. Industry Berhad

(Registration No. 198201008437 (88160-P))

(Incorporated in Malaysia)

Condensed consolidated statement of financial position As at 31 January 2020 – unaudited

	31.01.2020 RM'000	31.07.2019 RM'000
Assets		
Property, plant and equipment	888,616	888,990
Prepaid lease payments	--	76,137
Right-of-use assets	88,810	--
Investment properties	1,200	1,200
Investment in associates	67,619	64,619
Other investments	98,953	93,539
Prepayments	3,974	4,687
Deferred tax assets	3,458	3,575
Total non-current assets	1,152,630	1,132,747
Inventories	312,486	371,543
Contract assets	103,643	158,904
Trade and other receivables	961,907	994,784
Current tax asset	165	165
Cash and cash equivalents	357,282	379,457
Total current assets	1,735,483	1,904,853
Total assets	2,888,113	3,037,600
Equity		
Share capital	775,761	753,077
Reserves	901,242	853,389
Equity attributable to owners of the Company	1,677,003	1,606,466
Non-controlling interests	171,403	177,995
Total equity	1,848,406	1,784,461
Liabilities		
Loans and borrowings	38,600	66,904
Loan from a Director	22,648	10,347
Lease liabilities	7,897	--
Deferred tax liabilities	75,285	74,739
Total non-current liabilities	144,430	151,990
Loans and borrowings	319,934	361,537
Lease liabilities	10,175	--
Trade and other payables	521,248	707,944
Contract liabilities	11,544	10,276
Due to Directors	4,322	4,322
Current tax liabilities	28,054	17,070
Total current liabilities	895,277	1,101,149
Total liabilities	1,039,707	1,253,139
Total equity and liabilities	2,888,113	3,037,600
Net assets per share	0.91	0.88

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Condensed consolidated statement of comprehensive income for the period ended 31 January 2020 - unaudited

	Individual 3 months ended 31 January		Cumulative 6 months ended 31 January	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Revenue	820,328	978,988	1,854,924	2,051,919
Cost of sales	(745,216)	(893,591)	(1,675,210)	(1,864,445)
Gross profit	75,112	85,397	179,714	187,474
Operating expenses	(37,042)	(38,844)	(75,340)	(80,089)
Net other income/(expenses)	6,865	7,004	6,417	(4,092)
Results from operating activities	44,935	53,557	110,791	103,293
Finance costs	(4,981)	(7,783)	(10,581)	(15,320)
Interest income	2,056	2,135	3,969	3,754
Share of profit/(loss) of associates, net of tax	1,500	1,500	3,000	3,000
Profit before tax	43,510	49,409	107,179	94,727
Tax expense	(12,242)	(13,835)	(29,511)	(30,551)
Profit for the period	31,268	35,574	77,668	64,176
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	(11,789)	(4,758)	(8,797)	14,005
Fair value through other comprehensive income	(3,774)	(5,434)	6,816	(71,175)
Total comprehensive income for the period	15,705	25,382	75,687	7,006
Profit attributable to:				
Owners of the Company	33,197	37,943	81,270	77,753
Non-controlling interests	(1,929)	(2,369)	(3,602)	(13,577)
Profit for the period	31,268	35,574	77,668	64,176

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Condensed consolidated statement of comprehensive income for the period ended 31 January 2020 – unaudited (Cont'd)

	Individual 3 months ended 31 January		Cumulative 6 months ended 31 January	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Total comprehensive income attributable to:				
Owners of the Company	18,642	24,302	82,279	15,336
Non-controlling interests	(2,937)	1,080	(6,592)	(8,330)
Total comprehensive income for the period	15,705	25,382	75,687	7,006
Basic earnings per ordinary share (sen)	1.79	2.11	4.41	4.43
Diluted earnings per ordinary share (sen)	1.79	2.08	4.41	4.35

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Condensed consolidated statement of changes in equity for the period ended 31 January 2020 - unaudited

	Share capital RM'000	Non- distributable Reserve RM'000	Distributable Retained Profits RM'000	Total RM'000	Non- controlling interest RM'000	Total equity RM'000
At 1 August 2019	753,077	118,567	734,822	1,606,466	177,995	1,784,461
Foreign currency translation differences for foreign operations	--	(5,807)	--	(5,807)	(2,990)	(8,797)
Fair value through other comprehensive income	--	6,816	--	6,816	--	6,816
Profit for the period	--	--	81,270	81,270	(3,602)	77,668
Total comprehensive income for the period	--	1,009	81,270	82,279	(6,592)	75,687
Equity settled share-based transactions	22,684	(4,860)	--	17,824	--	17,824
Dividends to shareholders	--	--	(29,566)	(29,566)	--	(29,566)
Total transactions with owners of the Group	22,684	(4,860)	(29,566)	(11,742)	--	(11,742)
Realisation of revaluation reserve	--	(1,182)	1,182	--	--	--
Transferred to retained earnings	--	77	(77)	--	--	--
At 31 January 2020	775,761	113,611	787,631	1,677,003	171,403	1,848,406

	Share capital RM'000	Non- distributable Reserve RM'000	Distributable Retained Profits RM'000	Total RM'000	Non- controlling interest RM'000	Total equity RM'000
At 1 August 2018	603,303	214,251	605,630	1,423,184	220,919	1,644,103
Effect of adopting MFRS 15	--	--	11,618	11,618	2,196	13,814
Effect of adopting MFRS 9	--	(11,665)	11,665	--	--	--
At 1 August 2018 (As restated)	603,303	202,586	628,913	1,434,802	223,115	1,657,917
Foreign currency translation differences for foreign operations	--	8,758	--	8,758	5,247	14,005
Fair value through other comprehensive income	--	(71,175)	--	(71,175)	--	(71,175)
Profit for the period	--	--	77,753	77,753	(13,577)	64,176
Total comprehensive income for the period	--	(62,417)	77,753	15,336	(8,330)	7,006
Share buyback	--	(3,187)	--	(3,187)	--	(3,187)
Equity settled share-based transactions	18,809	(2,510)	--	16,299	--	16,299
Conversion of warrants	119,067	--	--	119,067	--	119,067
Dividends to shareholders	--	--	(21,232)	(21,232)	--	(21,232)
Disposal of a subsidiary	--	(4,691)	4,691	--	--	--
Total transactions with owners of the Group	137,876	(10,388)	(16,541)	110,947	--	110,947
Realisation of revaluation reserve	--	(1,196)	1,196	--	--	--
Transferred to retained earnings	--	673	(673)	--	--	--
At 31 January 2019	741,179	129,258	690,648	1,561,085	214,785	1,775,870

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Condensed consolidated statement of cash flows for the period ended 31 January 2020 - unaudited

	6 months ended 31 January	
	2020 RM'000	2019 RM'000
Cash flows from operating activities		
Profit before tax	107,179	94,727
Adjustments for:		
Depreciation and amortisation	46,505	46,494
Other non-cash items	(233)	5,440
Non-operating items	3,404	7,062
Operating profit before changes in working capital	<u>156,855</u>	<u>153,723</u>
Changes in working capital:		
Change in inventories	59,057	(58,745)
Change in contract assets	55,261	59,701
Change in trade and other receivables	32,877	(23,894)
Change in trade and other payables	(183,318)	(124,135)
Change in contract liabilities	1,268	(59)
Interest received	3,969	3,754
Tax paid	(17,864)	(19,704)
Net cash (used in)/from operating activities	<u>108,105</u>	<u>(9,359)</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment	(71,041)	(108,280)
Proceeds from disposal of property, plant and equipment	2,073	7,076
Net proceeds on disposal of a subsidiary	--	16,286
Change in pledged deposits	3,377	(11,971)
Prepayments	713	6,097
Other investments	1,402	(5,336)
Net cash (used in)/from investing activities	<u>(63,476)</u>	<u>(96,128)</u>
Cash flows from financing activities		
Bank borrowings	(56,933)	(69,172)
Dividend paid to owners of the Company	(29,566)	(21,232)
Proceeds from issuance of shares	19,841	136,814
Loan from a Director	12,301	--
Repurchase of treasury shares	--	(3,187)
Net cash (used in)/from financing activities	<u>(54,357)</u>	<u>43,223</u>
Exchange differences on translation of the financial statements of foreign operations	<u>(5,807)</u>	<u>8,758</u>
Net change in cash and cash equivalents	<u>(15,535)</u>	<u>(53,506)</u>
Cash and cash equivalents at beginning of period	<u>329,640</u>	<u>362,849</u>
Foreign exchange differences on opening balances	<u>2,012</u>	<u>2,893</u>
Cash and cash equivalents at end of period	<u>316,117</u>	<u>312,236</u>
Cash and cash equivalent comprise:		
Cash and bank balances	292,987	304,646
Deposit with licensed banks	27,723	19,917
Bank overdrafts	(4,593)	(12,327)
	<u>316,117</u>	<u>312,236</u>

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Notes to the condensed consolidated interim financial statements

V.S. Industry Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of the Bursa Malaysia Securities Berhad.

The condensed consolidated interim financial statements of the Group as at and for the six months period ended 31 January 2020 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interests in associates.

The consolidated financial statements of the Group as at and for the year ended 31 July 2019 are available upon request from the Company's registered office at:

Registered office

Suite 9D, Level 9
Menara Ansar
65, Jalan Trus
80000 Johor Bahru
Johor
Malaysia

These condensed consolidated interim financial statements were approved by the Board of Directors on 26 March 2020.

1. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad and MFRS 134, *Interim Financial Reporting* in Malaysia and with IAS 34, *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 July 2019.

2. Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 July 2019, except for the adoption of MFRS 16, *Leases*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. Accordingly, the Group prepares its financial statements with adoption of MFRS 16 in its financial statements for the financial year ending 31 July 2020.

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3. Seasonal or cyclical factors

The Group's operations are not significantly affected by any seasonal or cyclical factors.

4. Unusual items affecting the assets, liabilities, equity, net income or cash flows

There are no unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group for the current quarter and financial year-to-date.

5. Material changes in estimates

There are no material changes in estimates for the current quarter and financial year-to-date.

6. Issuances, cancellations, repurchases, resale and repayments of debts and equity securities

There are no issuance, cancellations, repurchases, resale and repayments of debts and equity securities for the current financial year-to-date other than the issuance of 22.95 million ordinary shares pursuant to the exercise of share options under the Company's Employees Share Option Scheme.

7. Dividends paid

Since the end of the previous financial year, the Company paid:-

- (a) a fourth interim dividend of 0.8 sen per ordinary share totalling RM14,748,879 in respect of the financial year ended 31 July 2019 on 31 October 2019; and
- (b) a final dividend of 0.8 sen per ordinary share totalling RM14,817,396 in respect of the financial year ended 31 July 2019 on 24 January 2020.

8. Segment information

- (a) Information about reportable segments

	6 months ended 31 January 2020			
	Malaysia	Indonesia	China	Total
	RM'000	RM'000	RM'000	RM'000
External revenue	1,539,921	131,066	143,482	1,814,469
Inter-segment revenue	39,217	--	567	39,784
Segment profit/(loss) before tax	112,081	(450)	(6,549)	105,082

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8. Segment information (Cont'd)

(a) Information about reportable segments (Cont'd)

	6 months ended 31 January 2019			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	1,702,751	129,984	217,383	2,050,118
Inter-segment revenue	--	--	2,003	2,003
Segment profit/(loss) before tax	117,672	(955)	(24,054)	92,663

(b) Reconciliation of reportable segment profit or loss

	6 months ended 31 January	
	2020 RM'000	2019 RM'000
Total profit for reportable segments	105,082	92,663
Other non-reportable segments	(903)	(936)
Share of profit of associate not included in reportable segments	3,000	3,000
Consolidated profit before tax	107,179	94,727

9. Material events subsequent to period end

Subsequent to the end of the reporting period, the Government has imposed Movement Control Order ("MCO") effective from 18 March 2020 to 1 April 2020 (which was later extended to 14 April 2020) in view of the Covid-19 pandemic, with the objectives to slow down the infection rate and bring the situation under control. The MCO measure would have certain adverse impact on the overall economy of the country, including the Group as well as other Electronics Manufacturing Services providers.

The magnitude of the impact of Covid-19 pandemic remains uncertain at this juncture, as it depends on the eventual duration of MCO and effectiveness of the preventive measures put in place by the authority.

The Group will continue to pay close attention to the development of the Covid-19 pandemic and the MCO, and evaluate the impact on the financial position and operating results of the Group going forward.

10. Changes in composition of the Group

There are no major changes in the composition of the Group for the current quarter and financial year-to-date.

11. Contingent liabilities and contingent assets

The Group does not have any contingent liabilities and contingent assets as at 31 January 2020.

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12. Related party transactions

Significant related party transactions of the Group are as follows: -

	6 months ended 31 January	
	2020	2019
	RM'000	RM'000
Subsidiaries in which certain Directors have financial interest		
- Purchases	1,068	1,829
- Purchases of plant and equipment	--	5,369
A company which is wholly owned by close family member of certain Directors		
- Purchases	1,109	3,286
A company in which spouse of a Director has financial interest		
- Purchases	5,351	3,358
- Sales	1,038	--
A company which is controlled by close family member of a Director		
- Sub-contracting fee payable	1,447	1,609
A company which is controlled by a Director		
- Operating lease charges and management fee payable	1,449	2,458
A company which is controlled by close family member of a key management personnel		
- Repair and maintenance services payable	295	323
Remuneration paid to staff who are close family member of certain Directors	790	628

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

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Additional Information on Interim Financial Report required on the Bursa Malaysia Listing Requirements

13. Review of performance

For the current quarter under review, the Group recorded a revenue of RM820.3 million, a decrease of RM158.7 million as compared to the previous year corresponding quarter, largely due to lower sales orders from key customers. Profit before tax, meanwhile, decreased 11.9% or RM5.9 million to RM43.5 million over the same period.

For the six months period ended 31 January 2020, the Group recorded a revenue of RM1,854.9 million, a decrease of RM197.0 million or 9.6% as compared to the corresponding period of the preceding year of RM2,051.9 million. Profit before tax stood at RM107.2 million, increased by 13.1% or RM12.5 million over the same period.

The reduced earnings for the current quarter was mainly attributable to lower sales orders from key customers. The improved earnings for the cumulative quarters was mainly attributable to much smaller losses from the operations in China following restructuring and streamlining of operations by adopting an asset-light and lower-cost model.

The comparison of the results of the segment are tabulated below:-

	Individual Quarter 31 January		Cumulative Quarter 31 January	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Revenue				
Malaysia	660,055	818,687	1,539,921	1,702,751
Indonesia	60,846	54,680	131,066	129,984
China	69,944	105,173	143,482	217,383
Profit/(loss) before tax				
Malaysia	47,401	51,739	112,081	117,672
Indonesia	(1,535)	318	(450)	(955)
China	(3,452)	(3,691)	(6,549)	(24,054)

Malaysia segment

For the current quarter and cumulative quarters, Malaysia segment recorded a 19.4% and 9.6% decrease in revenue respectively due to lower sales orders from key customers. In tandem with the decrease in revenue, profit before tax dropped by 8.4% and 4.8% respectively over the same period.

Indonesia segment

Despite achieving higher revenue, Indonesia segment recorded loss before tax of RM1.5 million for the quarter under review as compared to profit before tax of RM0.3 million in the preceding year corresponding quarter mainly due to less favourable foreign exchange rate.

For the cumulative quarters, Indonesia segment continued to incur loss largely owing to under-utilization of production capacity.

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13. Review of performance (Cont'd)

China segment

For the current quarter and cumulative quarters, China segment recorded lower revenue as a result of lower sale orders completed. Losses narrowed significantly for the cumulative quarters due to lower operating expenses incurred following streamlining activities and adopting an asset-light model with lower gearing structure.

14. Variation of results against preceding quarter

	Current Quarter 31 January 2020 RM'000	Preceding Quarter 31 October 2019 RM'000
Revenue	820,328	1,034,596
Profit before tax	43,510	63,669
Profit attributable to owners of the Company	33,197	48,073

For the current quarter under review, the Group recorded a lower profit before tax of RM43.5 million as compared to RM63.7 million in the preceding quarter, in line with the decline in revenue as a result of lower sales orders from key customers.

15. Current year prospects

The operating environment has been challenging amidst the ongoing US-China trade tension and slowdown in global economy. The COVID-19 outbreak since January 2020, which has now turned pandemic, has further put much dampener on both local and global markets affecting trade activities and movement of people worldwide.

As a result of pandemic, supply chain experienced some delays in materials shipment as suppliers in China are now catching up on production since resuming operations in mid-February 2020. Meanwhile, on the demand side, outlook for the next few months appears uncertain at this juncture.

Given the extent and reach of COVID-19, the Group anticipate order flow from customers may slow down in the coming quarter(s), which in turn, would affect the financial performance in the second half of current financial year. Discussion with prospective customers have also been held up in view of the travel caution and restriction. In addition, the Movement Control Order ("MCO") implemented by the Government that is in place from 18 March 2020 to 1 April 2020 (subsequently extended to 14 April 2020) is also expected to have further impact on the operations of the Group.

However, the magnitude of the impact of Covid-19 pandemic and resulting MCO remains uncertain at this juncture, as it depends on the eventual duration of MCO and effectiveness of the preventive measures put in place by the authority.

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15. Current year prospects (Cont'd)

Against the aforementioned backdrop, the performance of the Group for the current year is expected to be lower than the previous year.

16. Profit forecast

Not applicable.

17. Tax expense

	Individual 6 months ended 31 January		Cumulative 6 months ended 31 January	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Tax expense				
Current period	12,735	13,775	29,838	35,042
Deferred tax expense				
Current period	(493)	60	(327)	(4,491)
	<u>12,242</u>	<u>13,835</u>	<u>29,511</u>	<u>30,551</u>

The effective tax rate of the Group for the financial year-to-date was higher than the statutory tax rate mainly due to losses of certain subsidiaries cannot be offset against taxable profits made by other subsidiaries and certain non-deductible expenses for tax purposes.

18. Status of uncompleted corporate proposals

There are no outstanding uncompleted corporate proposals as at the date of this quarterly report.

19. Borrowing and debt securities

	31.01.2020	31.07.2019
	RM'000	RM'000
Non-current		
<i>Secured</i>		
Term loans	2,044	2,146
Finance lease liabilities	--	12,660

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19. Borrowing and debt securities (Cont'd)

	31.01.2020 RM'000	31.07.2019 RM'000
Non-current		
<i>Unsecured</i>		
Term loans	36,556	52,098
	<u>38,600</u>	<u>66,904</u>
Current		
<i>Secured</i>		
Term loan	207	4,341
Trust receipts	36,412	52,703
Finance lease liabilities	--	11,865
Bank overdraft	4,593	9,868
Short term loan	50,987	27,141
<i>Unsecured</i>		
Term loans	30,959	31,224
Bankers' acceptance	65,188	69,379
Trust receipts	117,706	130,630
Short term loan	13,882	24,386
	<u>319,934</u>	<u>361,537</u>
	<u>358,534</u>	<u>428,441</u>

Borrowings denominated in US Dollar amounted to RM142.4 million (31.7.2019 : RM195.2 million).

20. Changes in material litigation

There are no material litigation which would materially and adversely affect the financial position of the Group as at the date of this quarterly report.

21. Profit for the period

	3 months ended 31 January		6 months ended 31 January	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Profit for the period is arrived at after charging/(crediting)				
Depreciation and amortisation	21,986	23,292	45,430	46,494
Net foreign exchange (gain)/loss	(4,738)	(4,261)	(2,725)	2,141
(Gain)/Loss on disposal of property, plant and equipment	(164)	436	(322)	218

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22. Dividends

- (a) No dividend is proposed for the current financial quarter.
- (b) The total dividend per share for the current financial year is 1.0 sen (previous year corresponding period: 2.0 sen).

23. Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share for the current quarter and financial year to-date are based on net profit attributable to owners of the Company of RM33.2 million and RM81.3 million respectively and the weighted average number of ordinary shares of 1,850.716 million and 1,843.617 million respectively.

(b) *Diluted earnings per share*

The calculation of diluted earnings per share for the current quarter and financial year to-date are based on net profit attributable to owners of the Company of RM33.2 million and RM81.3 million respectively and the weighted average number of ordinary shares, adjusted for the dilutive effects of potential ordinary shares of 1,851.999 million and 1,844.883 million respectively.

24. Comparatives

The following figures in prior years have been reclassified to conform with current year's presentation:

	As restated RM'000	As previously stated RM'000
Cumulative		
Revenue	2,051,919	2,058,264
Cost of sales	(1,864,445)	(1,840,828)
Operating expenses	(80,089)	(110,051)
Individual		
Revenue	978,988	982,647
Cost of sales	(893,591)	(881,801)
Operating expenses	(38,844)	(54,293)