

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

Interim Financial Report
30 April 2020

V.S. Industry Berhad

(Registration No. 198201008437 (88160-P))

(Incorporated in Malaysia)

Condensed consolidated statement of financial position As at 30 April 2020 – unaudited

	30.04.2020 RM'000	31.07.2019 RM'000
Assets		
Property, plant and equipment	904,112	888,990
Prepaid lease payments	--	76,137
Right-of-use assets	76,093	--
Investment properties	1,200	1,200
Investment in associates	68,148	64,619
Other investments	57,815	93,539
Prepayments	4,085	4,687
Deferred tax assets	3,598	3,575
Total non-current assets	1,115,051	1,132,747
Inventories	345,667	371,543
Contract assets	114,065	158,904
Trade and other receivables	640,244	994,784
Current tax asset	165	165
Cash and cash equivalents	434,787	379,457
Total current assets	1,534,928	1,904,853
Total assets	2,649,979	3,037,600
Equity		
Share capital	777,672	753,077
Reserves	848,708	853,389
Equity attributable to owners of the Company	1,626,380	1,606,466
Non-controlling interests	175,683	177,995
Total equity	1,802,063	1,784,461
Liabilities		
Loans and borrowings	33,557	66,904
Loan from a Director	24,036	10,347
Hire purchase liabilities	5,793	--
Deferred tax liabilities	68,394	74,739
Total non-current liabilities	131,780	151,990
Loans and borrowings	229,783	361,537
Hire purchase liabilities	9,539	--
Trade and other payables	459,080	707,944
Contract liabilities	11,728	10,276
Due to Directors	4,322	4,322
Current tax liabilities	1,684	17,070
Total current liabilities	716,136	1,101,149
Total liabilities	847,916	1,253,139
Total equity and liabilities	2,649,979	3,037,600
Net assets per share	0.88	0.88

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Condensed consolidated statement of comprehensive income for the period ended 30 April 2020 - unaudited

	Individual 3 months ended 30 April		Cumulative 9 months ended 30 April	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Revenue	505,655	888,263	2,360,579	2,940,182
Cost of sales	(495,071)	(819,231)	(2,170,281)	(2,683,676)
Gross profit	10,584	69,032	190,298	256,506
Operating expenses	(32,197)	(37,174)	(107,537)	(117,263)
Net other income/(expenses)	(3,417)	8,974	3,000	4,882
Results from operating activities	(25,030)	40,832	85,761	144,125
Finance costs	(4,031)	(6,245)	(14,612)	(21,565)
Interest income	1,657	2,150	5,626	5,904
Share of profit/(loss) of associates, net of tax	529	1,500	3,529	4,500
Profit/(Loss) before tax	(26,875)	38,237	80,304	132,964
Tax expense	5,678	(12,205)	(23,833)	(42,756)
Profit/(Loss) for the period	(21,197)	26,032	56,471	90,208
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	39,310	9,118	30,513	23,123
Fair value through other comprehensive income	(46,760)	(28,590)	(39,944)	(99,765)
Total comprehensive income for the period	(28,647)	6,560	47,040	13,566
Profit attributable to:				
Owners of the Company	(19,526)	31,378	61,744	109,131
Non-controlling interests	(1,671)	(5,346)	(5,273)	(18,923)
Profit for the period	(21,197)	26,032	56,471	90,208

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Condensed consolidated statement of comprehensive income for the period ended 30 April 2020 – unaudited (Cont'd)

	Individual 3 months ended 30 April		Cumulative 9 months ended 30 April	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Total comprehensive income attributable to:				
Owners of the Company	(32,927)	10,562	49,352	25,898
Non-controlling interests	4,280	(4,002)	(2,312)	(12,332)
Total comprehensive income for the period	(28,647)	6,560	47,040	13,566
Basic earnings per ordinary share (sen)	(1.05)	1.74	3.34	6.16
Diluted earnings per ordinary share (sen)	(1.05)	1.72	3.34	6.06

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Condensed consolidated statement of changes in equity for the period ended 30 April 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	--	27,552	--	27,552	2,961	30,513
Fair value through other comprehensive income	--	(39,944)	--	(39,944)	--	(39,944)
Profit for the period	--	--	61,744	61,744	(5,273)	56,471
Total comprehensive income for the period	--	(12,392)	61,744	49,352	(2,312)	47,040
Equity settled share-based transactions	24,595	(5,936)	--	18,659	--	18,659
Dividends to shareholders	--	--	(48,097)	(48,097)	--	(48,097)
Total transactions with owners of the Group	24,595	(5,936)	(48,097)	(29,438)	--	(29,438)
Realisation of revaluation reserve	--	(1,336)	1,336	--	--	--
Transferred to retained earnings	--	77	(77)	--	--	--
At 30 April 2020	777,672	98,980	749,728	1,626,380	175,683	1,802,063

	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	--	16,532	--	16,532	6,591	23,123
Fair value through other comprehensive income	--	(99,765)	--	(99,765)	--	(99,765)
Profit for the period	--	--	109,131	109,131	(18,923)	90,208
Total comprehensive income for the period	--	(83,233)	109,131	25,898	(12,332)	13,566
Share buyback	--	(3,187)	--	(3,187)	--	(3,187)
Equity settled share-based transactions	19,939	(6,170)	4,178	17,947	--	17,947
Conversion of warrants	119,068	--	--	119,068	--	119,068
Dividends to shareholders	--	--	(57,346)	(57,346)	--	(57,346)
Disposal of a subsidiary	--	(4,710)	4,710	--	--	--
Total transactions with owners of the Group	139,007	(14,067)	(48,458)	76,482	--	76,482
Realisation of revaluation reserve	--	(1,707)	1,707	--	--	--
Transferred from retained earnings	--	675	(675)	--	--	--
At 30 April 2019	742,310	104,254	690,618	1,537,182	210,783	1,747,965

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Condensed consolidated statement of cash flows for the period ended 30 April 2020 - unaudited

	9 months ended 30 April	
	2020 RM'000	2019 RM'000
Cash flows from operating activities		
Profit before tax	80,304	132,964
Adjustments for:		
Depreciation and amortisation	70,397	70,120
Other non-cash items	(1,081)	6,024
Non-operating items	5,051	10,034
Operating profit before changes in working capital	<u>154,671</u>	<u>219,142</u>
Changes in working capital:		
Change in inventories	25,876	43,894
Change in contract assets	44,839	44,663
Change in trade and other receivables	354,540	15,099
Change in trade and other payables	(261,178)	(186,195)
Change in contract liabilities	1,452	(136)
Interest received	5,626	5,904
Tax paid	(45,587)	(34,346)
Net cash (used in)/from operating activities	<u>280,239</u>	<u>108,025</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment	(83,671)	(101,981)
Proceeds from disposal of property, plant and equipment	7,003	6,844
Net proceeds on disposal of a subsidiary	--	16,286
Change in pledged deposits	1,960	(12,353)
Prepayments	602	6,089
Other investments	(4,220)	(6,693)
Net cash (used in)/from investing activities	<u>(78,326)</u>	<u>(91,808)</u>
Cash flows from financing activities		
Bank borrowings	(160,879)	(135,944)
Dividend paid to owners of the Company	(48,097)	(57,346)
Proceeds from issuance of shares	21,752	135,457
Loan from a Director	13,689	--
Repurchase of treasury shares	--	(3,187)
Net cash (used in)/from financing activities	<u>(173,535)</u>	<u>(61,020)</u>
Exchange differences on translation of the financial statements of foreign operations	<u>27,552</u>	<u>16,532</u>
Net change in cash and cash equivalents	<u>55,930</u>	<u>(28,271)</u>
Cash and cash equivalents at beginning of period	<u>329,640</u>	<u>362,849</u>
Foreign exchange differences on opening balances	<u>4,456</u>	<u>4,813</u>
Cash and cash equivalents at end of period	<u>390,026</u>	<u>339,391</u>
Cash and cash equivalent comprise:		
Cash and bank balances	395,944	331,623
Deposit with licensed banks	854	19,992
Bank overdrafts	(6,772)	(12,224)
	<u>390,026</u>	<u>339,391</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 nine months period ended 30 April 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 23 June 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 33.12 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;
- (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; and
- (c) a first interim dividend of 1.0 sen per ordinary share totalling RM18,530,490 in respect of the financial year ending 31 July 2020 on 6 March 2020.

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8. Segment information

(a) Information about reportable segments

	9 months ended 30 April 2020			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	1,901,037	187,284	208,711	2,297,032
Inter-segment revenue	57,458	--	567	58,025
Segment profit/(loss) before tax	92,378	(4,934)	(9,619)	77,825

	9 months ended 30 April 2019			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	2,444,740	180,642	310,470	2,935,852
Inter-segment revenue	-	-	2,575	2,575
Segment profit/(loss) before tax	164,155	(611)	(33,592)	129,952

(b) Reconciliation of reportable segment profit or loss

	9 months ended 30 April	
	2020 RM'000	2019 RM'000
Total profit for reportable segments	77,825	129,952
Other non-reportable segments	(1,050)	(1,488)
Share of profit of associate not included in reportable segments	3,529	4,500
Consolidated profit before tax	80,304	132,964

9. Material events subsequent to period end

There are no material events subsequent to the end of the period reported that have not been reflected in this quarterly report.

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 30 April 2020.

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12. Related party transactions

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

	9 months ended 30 April	
	2020 RM'000	2019 RM'000
Subsidiaries in which certain Directors have financial interest		
- Purchases	1,077	2,455
- Purchases of plant and equipment	--	5,369
A company which is wholly owned by close family member of certain Directors		
- Purchases	1,302	4,966
A company in which spouse of a Director has financial interest		
- Purchases	6,808	4,718
- Sales	1,407	--
Associates		
- Sales	230	--
A company which is wholly owned by close family member of a Director		
- Sales	162	--
- Sales of plant and equipment	1,786	--
A company which is controlled by close family member of a Director		
- Sub-contracting fee payable	2,364	2,189
A company which is controlled by a Director		
- Operating lease charges and management fee payable	2,194	3,211
A company which is controlled by close family member of a key management personnel		
- Repair and maintenance services payable	341	400
Remuneration paid to staff who are close family member of certain Directors	1,087	1,056

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 RM505.7 million, a decrease of RM382.6 million as compared to the previous year corresponding quarter, largely due to temporary closure of factories following the Movement Control Order (“MCO”) imposed by the Government from 18 March 2020. This, coupled with losses incurred in Indonesia, had consequently resulted in the Group suffering a loss before tax of RM26.9 million as compared to a profit before tax of RM38.2 million in the previous corresponding quarter.

For the nine months period ended 30 April 2020, the Group recorded a revenue of RM2,360.6 million, a decrease of RM579.6 million or 19.7% when compared to the corresponding period of the preceding year of RM2,940.2 million. Profit before tax stood at RM80.3 million, having dropped by RM52.7 million or 39.6% over the same period due to the same reason mentioned above.

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

	Individual Quarter 30 April		Cumulative Quarter 30 April	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Revenue				
Malaysia	361,116	741,989	1,901,037	2,444,740
Indonesia	56,218	50,658	187,284	180,642
China	65,229	93,087	208,711	310,470
Profit/(loss) before tax				
Malaysia	(19,703)	46,480	92,378	164,155
Indonesia	(4,484)	344	(4,934)	(611)
China	(3,070)	(9,538)	(9,619)	(33,592)

Malaysia segment

For the current quarter and cumulative quarters, Malaysia segment recorded a 51.3% and 22.2% decrease in revenue respectively owing to the temporary closure of factories following the MCO as mentioned above. Meanwhile, although production was halted during this period, fixed operating costs such as, amongst others, depreciation, staff and production workers' salaries, as well as financing costs continued to incur. With the substantial decrease in revenue during the temporary production halt, it was insufficient to cover the fixed overheads and financing costs. As a result, a loss before tax of RM19.7 million was incurred for the current quarter whereas profit before tax declined by 43.7% for the cumulative quarters.

Indonesia segment

Despite achieving higher revenue, Indonesia segment recorded a loss before tax of RM4.5 million for the quarter under review as compared to a profit before tax of RM0.3 million

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13. Review of performance (Cont'd)

in the preceding year corresponding quarter, mainly due to less favourable sales mix and inventories written off that amounted to RM3.0 million.

For the cumulative quarters, Indonesia segment continued to incur loss largely owing to under-utilization of production capacity and inventories written off as mentioned above.

China segment

For the current quarter and cumulative quarters, China segment recorded lower revenue as a result of lower sale orders completed. In addition, turnover for the current quarter was further affected considering that operations only resumed on 17 Feb 2020 instead of immediately after the Chinese New Year holiday due to lockdown imposed by the Chinese Government to battle the Novel Coronavirus (“Covid-19”) pandemic. Nevertheless, losses narrowed significantly for the cumulative quarters owing to lower operating expenses incurred following the streamlining of activities and adoption of an asset-light business model with lower gearing structure.

14. Variation of results against preceding quarter

	Current Quarter 30 April 2020 RM'000	Preceding Quarter 31 January 2020 RM'000
Revenue	505,655	820,328
(Loss)/Profit before tax	(26,875)	43,510
(Loss)/Profit attributable to owners of the Company	(19,526)	33,197

For the current quarter under review, the Group incurred a loss before tax of RM26.9 million as compared to a profit before tax of RM43.5 million in the preceding quarter mainly due to temporary closure of factories following the MCO imposed as mentioned above.

15. Current year prospects

The operating environment has been very difficult during the current financial year. Amidst a decelerating global economy plagued by uncertainties arising from the ongoing US-China trade tension, the world was thrown into chaos by the unprecedented challenges brought forth by the Covid-19 pandemic.

The Group's production in Malaysia was halted from 18 March 2020 in adherence to the MCO imposed by our Government in combating the spread of the virus. Operations resumed subsequently during the later part of April 2020 under the conditional MCO phase after obtaining the regulatory approvals. Production pace has since picked up steadily and is currently operating at full capacity, while in compliance to the Standard Operating Procedures (“SOPs”).

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15. Current year prospects (Cont'd)

With the resumption of operations, the Group expects to return to profitability in the coming quarter. Nevertheless, it is without doubt that the situation remains challenging and demanding. With consumer spending across the world affected by the impact of economic loss arising from the Covid-19 pandemic as well as the resultant strict movement control measures, the overall order flow from customers during the current financial year is expected to be lower than the previous year. At present, visibility of order flow is also shorter as compared to previously.

Meanwhile, the discussions with prospective customers continued to be hindered by the restriction on international travels. Meaningful progress may only be achieved as and when the international travel restriction is lifted.

On a brighter note, with countries now progressively opening up their economies, the situation should be improving gradually. The recovery phase is a positive development provided the virus spread is brought under control with no major recurrence of spike in cases.

On balance, given the aforementioned factors and considering the performance thus far, the overall results of the Group for the current year is expected to be lower than the previous year, although the longer term prospects of the Group remain intact. Under the stewardship of the experienced Board and management team, which is further backed by strong balance sheet, the Group is confident to navigate through the prevailing challenges.

16. Profit forecast

Not applicable.

17. Tax expense

	Individual 3 months ended 30 April		Cumulative 9 months ended 30 April	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Tax expense				
Current period	(5,224)	12,073	24,614	47,115
Deferred tax expense				
Current period	(454)	132	(781)	(4,359)
	<u>(5,678)</u>	<u>12,205</u>	<u>23,833</u>	<u>42,756</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 that cannot be offset against taxable profits made by other subsidiaries, in addition to certain non-deductible expenses for tax purposes.

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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

	30.04.2020 RM'000	31.07.2019 RM'000
Non-current		
<i>Secured</i>		
Term loans	1,998	2,146
Finance lease liabilities	--	12,660
Non-current		
<i>Unsecured</i>		
Term loans	31,559	52,098
	<u>33,557</u>	<u>66,904</u>
Current		
<i>Secured</i>		
Term loan	199	4,341
Trust receipts	31,138	52,703
Finance lease liabilities	--	11,865
Bank overdraft	6,772	9,868
Short term loan	41,329	27,141
<i>Unsecured</i>		
Term loans	30,143	31,224
Bankers' acceptance	36,070	69,379
Trust receipts	70,895	130,630
Short term loan	13,237	24,386
	<u>229,783</u>	<u>361,537</u>
	<u>263,340</u>	<u>428,441</u>

Borrowings denominated in US Dollar amounted to RM117.9 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.

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21. Profit for the period

	3 months ended 30 April		9 months ended 30 April	
	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	24,967	23,626	70,397	70,120
Net foreign exchange (gain)/loss	5,209	(9,226)	2,484	(7,085)
(Gain)/Loss on disposal of property, plant and equipment	(843)	134	(1,165)	352

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: 2.8 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 (loss)/profit attributable to owners of the Company of RM(19.5) million and RM61.7 million respectively and the weighted average number of ordinary shares of 1,853.666 million and 1,846.967 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 (loss)/profit attributable to owners of the Company of RM(19.5) million and RM61.7 million respectively and the weighted average number of ordinary shares, adjusted for the dilutive effects of potential ordinary shares of 1,853.872 million and 1,847.160 million respectively.

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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	2,940,182	2,947,974
Cost of sales	(2,683,676)	(2,655,182)
Operating expenses	(117,263)	(153,549)
Individual		
Revenue	888,263	889,710
Cost of sales	(819,231)	(814,354)
Operating expenses	(37,174)	(43,498)