

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

Interim Financial Report
31 July 2020

V.S. Industry Berhad

(Registration No. 198201008437 (88160-P))

(Incorporated in Malaysia)

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

	31.07.2020 RM'000	31.07.2019 RM'000
Assets		
Property, plant and equipment	846,875	888,990
Prepaid lease payments	--	76,137
Right-of-use assets	98,575	--
Investment properties	6,500	1,200
Investment in associates	66,784	64,619
Other investments	78,017	93,539
Prepayments	3,813	4,687
Deferred tax assets	5,059	3,575
Total non-current assets	1,105,623	1,132,747
Inventories	331,800	371,543
Contract assets	103,648	158,904
Trade and other receivables	877,553	994,784
Current tax asset	2,334	165
Cash and cash equivalents	404,512	379,457
Total current assets	1,719,847	1,904,853
Total assets	2,825,470	3,037,600
Equity		
Share capital	777,837	753,077
Reserves	924,581	853,389
Equity attributable to owners of the Company	1,702,418	1,606,466
Non-controlling interests	166,396	177,995
Total equity	1,868,814	1,784,461
Liabilities		
Loans and borrowings	23,431	66,904
Loan from a Director	23,614	10,347
Hire purchase liabilities	4,566	--
Deferred tax liabilities	65,718	74,739
Total non-current liabilities	117,329	151,990
Loans and borrowings	215,397	361,537
Hire purchase liabilities	8,630	--
Trade and other payables	575,972	707,944
Contract liabilities	7,553	10,276
Due to Directors	2,384	4,322
Current tax liabilities	29,391	17,070
Total current liabilities	839,327	1,101,149
Total liabilities	956,656	1,253,139
Total equity and liabilities	2,825,470	3,037,600
Net assets per share	0.92	0.88

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

	Individual 3 months ended 31 July		Cumulative 12 months ended 31 July	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Revenue	882,613	1,038,168	3,243,192	3,978,350
Cost of sales	(751,599)	(924,248)	(2,921,880)	(3,607,924)
Gross profit	131,014	113,920	321,312	370,426
Operating expenses	(41,202)	(40,372)	(148,739)	(157,635)
Net other income/(expenses)	(15,942)	(14,604)	(12,942)	(9,722)
Results from operating activities	73,870	58,944	159,631	203,069
Finance costs	(2,656)	(5,479)	(17,268)	(27,044)
Interest income	1,403	2,108	7,029	8,012
Share of profit/(loss) of associates, net of tax	(1,364)	(6,681)	2,165	(2,181)
Profit/(Loss) before tax	71,253	48,892	151,557	181,856
Tax expense	(25,038)	(19,628)	(48,871)	(62,384)
Profit/(Loss) for the period	46,215	29,264	102,686	119,472
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	(9,753)	(8,871)	20,760	14,252
Fair value through other comprehensive income	19,003	19,293	(20,941)	(80,472)
Revaluation of properties upon transfer to investment properties	81	--	81	--
Remeasurement of actuarial gain	87	210	87	210
Total comprehensive income for the period	55,633	39,896	102,673	53,462
Profit attributable to:				
Owners of the Company	54,120	56,263	115,864	165,394
Non-controlling interests	(7,905)	(26,999)	(13,178)	(45,922)
Profit for the period	46,215	29,264	102,686	119,472

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

	Individual 3 months ended 31 July		Cumulative 12 months ended 31 July	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Total comprehensive income attributable to:				
Owners of the Company	64,920	72,684	114,272	98,582
Non-controlling interests	(9,287)	(32,788)	(11,599)	(45,120)
Total comprehensive income for the period	55,633	39,896	102,673	53,462
Basic earnings per ordinary share (sen)	2.92	3.10	6.27	9.28
Diluted earnings per ordinary share (sen)	2.87	3.08	6.15	9.19

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Condensed consolidated statement of changes in equity for the period ended 31 July 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	--	19,181	--	19,181	1,579	20,760
Remeasurement of actuarial gain	--	--	87	87	--	87
Fair value through other comprehensive income	--	(20,941)	--	(20,941)	--	(20,941)
Revaluation of properties upon transfer to investment properties	--	81	--	81	--	81
Profit for the period	--	--	115,864	115,864	(13,178)	102,686
Total comprehensive income for the period	--	(1,679)	115,951	114,272	(11,599)	102,673
Equity settled share-based transactions	24,760	5,017	--	29,777	--	29,777
Dividends to shareholders	--	--	(48,097)	(48,097)	--	(48,097)
Total transactions with owners of the Group	24,760	5,017	(48,097)	(18,320)	--	(18,320)
Realisation of revaluation reserve	--	(2,219)	2,219	--	--	--
Transferred to retained earnings	--	164	(164)	--	--	--
At 31 July 2020	777,837	119,850	804,731	1,702,418	166,396	1,868,814

	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	--	871	13,535	14,406	2,196	16,602
Effect of adopting MFRS 9	--	(11,665)	11,665	--	--	--
At 1 August 2018 (As restated)	603,303	203,457	630,830	1,437,590	223,115	1,660,705
Foreign currency translation differences for foreign operations	--	12,329	--	12,329	1,923	14,252
Remeasurement of actuarial gain	--	--	210	210	--	210
Fair value through other comprehensive income	--	(79,351)	--	(79,351)	(1,121)	(80,472)
Profit for the period	--	--	165,394	165,394	(45,922)	119,472
Total comprehensive income for the period	--	(67,022)	165,604	98,582	(45,120)	53,462
Share buyback	--	(3,187)	--	(3,187)	--	(3,187)
Equity settled share-based transactions	30,706	(8,572)	4,171	26,305	--	26,305
Conversion of warrants	119,068	--	--	119,068	--	119,068
Dividends to shareholders	--	--	(71,892)	(71,892)	--	(71,892)
Disposal of a subsidiary	--	(4,706)	4,706	--	--	--
Total transactions with owners of the Group	149,774	(16,465)	(63,015)	70,294	--	70,294
Realisation of revaluation reserve	--	(2,213)	2,213	--	--	--
Transfer from retained earnings	--	810	(810)	--	--	--
At 31 July 2019	753,077	118,567	734,822	1,606,466	177,995	1,784,461

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

	12 months ended 31 July	
	2020 RM'000	2019 RM'000
Cash flows from operating activities		
Profit before tax	151,557	181,856
Adjustments for:		
Depreciation	91,815	99,183
Other non-cash items	41,853	43,438
Non-operating items	7,654	9,802
Operating profit before changes in working capital	292,879	334,279
Changes in working capital:		
Change in inventories	25,243	12,654
Change in contract assets	55,256	11,858
Change in trade and other receivables	114,623	(57,589)
Change in trade and other payables	(120,391)	(34,651)
Change in contract liabilities	(2,723)	2,211
Interest received	7,029	8,012
Tax paid	(49,234)	(52,361)
Net cash (used in)/from operating activities	322,682	224,413
Cash flows from investing activities		
Acquisition of property, plant and equipment	(120,596)	(117,025)
Proceeds from disposal of property, plant and equipment	13,417	10,725
Net proceeds on disposal of a subsidiary	--	15,858
Changes in pledged deposits	2,850	946
Refund of investment cost from an associate	--	5,000
Dividend received from an associate	--	2,000
Prepayments	874	6,236
Other investments	(5,419)	(25,707)
Net cash (used in)/from investing activities	(108,874)	(101,967)
Cash flows from financing activities		
Bank borrowings	(189,855)	(249,324)
Dividend paid to owners of the Company	(48,097)	(71,892)
Proceeds from issuance of shares	20,508	143,450
Loan from a Director	13,267	10,347
Repurchase of treasury shares	--	(3,187)
Net cash (used in)/from financing activities	(204,177)	(170,606)
Exchange differences on translation of the financial statements of foreign operations	19,181	12,458
Net change in cash and cash equivalents	28,812	(35,702)
Cash and cash equivalents at beginning of period	329,640	362,849
Foreign exchange differences on opening balances	2,756	2,493
Cash and cash equivalents at end of period	361,208	329,640
Cash and cash equivalent comprise:		
Cash and bank balances	366,923	323,612
Deposit with licensed banks	490	15,896
Bank overdrafts	(6,205)	(9,868)
	361,208	329,640

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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 twelve months period ended 31 July 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 28 September 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 33.42 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

	12 months ended 31 July 2020			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	2,568,282	237,220	288,193	3,093,695
Inter-segment revenue	143,209	--	576	143,785
Segment profit/(loss) before tax	185,403	(11,429)	(23,942)	150,032

	12 months ended 31 July 2019			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	3,337,702	245,563	388,130	3,971,395
Inter-segment revenue	3,979	-	4,376	8,355
Segment profit/(loss) before tax	267,801	991	(82,980)	185,812

(b) Reconciliation of reportable segment profit or loss

	12 months ended 31 July	
	2020 RM'000	2019 RM'000
Total profit for reportable segments	150,032	185,812
Other non-reportable segments	(640)	(1,775)
Share of profit of associate not included in reportable segments	2,165	(2,181)
Consolidated profit before tax	151,557	181,856

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 31 July 2020.

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12. Related party transactions

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

	12 months ended 31 July	
	2020 RM'000	2019 RM'000
Subsidiaries in which certain Directors have financial interest		
- Purchases	1,077	3,881
- Purchases of plant and equipment	--	5,369
A company which is wholly owned by close family member of certain Directors		
- Purchases	2,766	6,515
A company in which spouse of a Director has financial interest		
- Purchases	9,338	7,675
- Sales	1,664	662
A company which is controlled by close family member of a Director		
- Sub-contracting fee payable	3,099	3,206
A company which is controlled by a Director		
- Operating lease charges and management fee payable	2,939	3,951
A company which is controlled by close family member of a key management personnel		
- Repair and maintenance services payable	398	449
A company which is wholly owned by a Director		
- Rental receivable	225	--
Associates		
- Sales	1,046	--
A company which is wholly owned by close family member of a Director		
- Sales	528	--
- Sales of plant and equipment	5,346	--
Remuneration paid to staff who are close family member of certain Directors	1,381	1,344

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 RM882.6 million, a decrease of RM155.6 million as compared to the previous year corresponding quarter. Profit before tax, meanwhile, grew by 45.7% or RM22.4 million to RM71.3 million over the same period.

The improved earnings for the current quarter despite decrease in revenue 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.

For the financial year ended 31 July 2020, the Group recorded a revenue of RM3,243.2 million, a decrease of RM735.2 million or 18.5% as compared to RM3,978.4 million recorded in the preceding year. Profit before tax stood at RM151.6 million, having dropped by RM30.3 million or 16.7% over the same period.

The reduced earnings for the cumulative quarters was mainly due to losses of RM26.9 million incurred during the temporary closure of factories following the Movement Control Order (“MCO”) that was imposed in the preceding quarter, in addition to lower orders from a key customer.

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

	Individual Quarter		Cumulative Quarter	
	31 July		31 July	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Revenue				
Malaysia	667,245	892,962	2,568,282	3,337,702
Indonesia	49,936	64,921	237,220	245,563
China	79,482	77,660	288,193	388,130
Profit/(loss) before tax				
Malaysia	93,025	103,646	185,403	267,801
Indonesia	(6,495)	1,602	(11,429)	991
China	(14,323)	(49,388)	(23,942)	(82,980)

Malaysia segment

For the current quarter, Malaysia segment posted 25.3% decrease in revenue by comparison to previous corresponding quarter mainly due to lower sales orders from a key customer. Profit before tax was lower at RM93.0 million in tandem with the lower revenue achieved.

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13. Review of performance (Cont'd)

Malaysia segment

For the cumulative quarters, Malaysian segment recorded lower profit before tax largely owing to production being halted from 18 March 2020 in adherence to MCO imposed by the authority. Operations resumed subsequently during the later part of April 2020 under conditional MCO phase. In addition, lower orders from a key customer contributed to the decline as well. As a result, profit before tax was lower at RM93.0 million versus RM103.6 million in the preceding year.

Indonesia segment

Indonesia segment recorded a loss before tax of RM6.5 million for the quarter under review as compared to a profit before tax of RM1.6 million in the preceding year corresponding quarter mainly due to lower sales order and impairment loss on receivable amounted to RM2.6 million.

For the cumulative quarters, Indonesia segment continued to incur loss largely owing to under-utilization of production capacity, impairment loss on receivable and inventories written off totalling RM5.6 million due to business cessation of a customer.

China segment

For the current quarter and cumulative quarters, losses narrowed significantly 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 31 July 2020 RM'000	Preceding Quarter 30 April 2020 RM'000
Revenue	882,613	505,655
(Loss)/Profit before tax	71,253	(26,875)
(Loss)/Profit attributable to owners of the Company	54,127	(19,526)

For the current quarter under review, the Group registered a profit before tax of RM71.3 million as compared to a loss before tax of RM26.9 million in the preceding quarter mainly due to temporary closure of factories following the MCO imposed in the preceding quarter.

15. Current year prospects

The operating environment has been very difficult during the current financial year, particularly during the third quarter. Amidst a decelerating global economy plagued by uncertainties arising from the slowdown in global economy, the world is facing unprecedented challenges brought forth by the Covid-19 pandemic.

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15. Current year prospects (Cont'd)

On a positive note, however, despite the challenging situation, the Group managed to clinch another new customer from the US in August 2020 to produce cordless electrostatic sprayers on box-build assembly basis. The addition of this new customer is a further testament to the Group's capability and track record.

Meanwhile, orders from existing customers are showing fairly healthy rebound as well by comparison to the preceding quarter. Additionally, the Group will also be producing new models that some customers plan to roll out in 2021. The encouraging trend is expected to sustain in the near future. With this, the Group's existing capacity is projected to be filled up by 2021. In preparation for future expansion, the Group plans to increase its capacity by acquiring new plant. Discussion with prospective customers remain ongoing.

In view of the progressive developments above, the Board opines that the financial performance in the next financial year will be better supported by recovery in global and local economies. The prospects of the Group remain bright under the stewardship of the experienced Board and management team that is further backed by a strong balance sheet.

16. Profit forecast

Not applicable.

17. Tax expense

	Individual 3 months ended 31 July		Cumulative 12 months ended 31 July	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Tax expense				
- Current period	32,384	16,476	56,998	63,591
- Prior years	3,004	(1,757)	3,004	(1,757)
Deferred tax expense				
- Current period	(7,337)	7,208	(8,118)	2,849
- Prior years	(3,013)	(2,299)	(3,013)	(2,299)
	<u>25,038</u>	<u>19,628</u>	<u>48,871</u>	<u>62,384</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

	31.07.2020 RM'000	31.07.2019 RM'000
Non-current		
<i>Secured</i>		
Term loans	1,952	2,146
Finance lease liabilities	--	12,660
Non-current		
<i>Unsecured</i>		
Term loans	21,479	52,098
	<u>23,431</u>	<u>66,904</u>
Current		
<i>Secured</i>		
Term loan	189	4,341
Trust receipts	30,903	52,703
Finance lease liabilities	--	11,865
Bank overdraft	6,205	9,868
Short term loan	40,770	27,141
<i>Unsecured</i>		
Term loans	31,548	31,224
Bankers' acceptance	16,403	69,379
Trust receipts	77,861	130,630
Short term loan	11,518	24,386
	<u>215,397</u>	<u>361,537</u>
	<u>238,828</u>	<u>428,441</u>

Borrowings denominated in US Dollar amounted to RM117.0 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 31 July		12 months ended 31 July	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Profit for the period is arrived at after charging/(crediting)				
Depreciation	21,418	29,063	91,815	99,183
Net foreign exchange (gain)/loss	(2,811)	(3,195)	(327)	(10,280)
(Gain)/Loss on disposal of property, plant and equipment	(389)	5,016	(1,554)	5,368
Impairment loss on property, plant and equipment	16,124	22,068	16,124	22,068
Loss on disposal of a subsidiary	--	--	--	3,002

22. Dividends

- (a) A second interim dividend of 0.8 sen per ordinary share was declared on 28 September 2020 for the financial year ended 31 July 2020 and will be paid on 30 October 2020 to shareholders whose names appear on the Company's Record of Depositors on 15 October 2020.
- (b) The Board is proposing for the shareholders' approval at the forthcoming Annual General Meeting, a final dividend of 0.8 sen per ordinary share for the financial year ended 31 July 2020. The details of the book closure date and payment date will be announced at a later stage.
- (c) The total dividend per share for the current financial year is 2.6 sen (previous year corresponding period: 4.4 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 RM54.1 million and RM115.9 million respectively and the weighted average number of ordinary shares of 1,854.314 million and 1,848.804 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 RM54.1 million and RM115.9 million respectively and the weighted average number of ordinary shares, adjusted for the dilutive effects of potential ordinary shares of 1,888.158 million and 1,882.648 million respectively.