V.S. Industry Berhad

(Registration No. 198201008437 (88160-P))
(Incorporated in Malaysia)

Interim Financial Report
31 October 2020

V.S. Industry Berhad

(Registration No. 198201008437 (88160-P))
(Incorporated in Malaysia)

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

	31.10.2020 RM'000	31.07.2020 RM'000
Assets		
Property, plant and equipment	847,448	846,875
Right-of-use assets	98,823	98,575
Investment properties	6,610	6,500
Investment in associates	68,286	67,754
Other investments	107,323	78,017
Prepayments	3,700	3,813
Deferred tax assets	4,975	5,059
Total non-current assets	1,137,165	1,106,593
Inventories	307,654	331,800
Contract assets	94,736	103,648
Trade and other receivables	1,020,256	884,372
Current tax asset	2,575	2,334
Cash and cash equivalents	481,632	404,512
Total current assets	1,906,853	1,726,666
Total assets	3,044,018	2,833,259
Equity		
Share capital	813,326	782,947
Reserves	1,001,121	926,069
Equity attributable to owners of the Company	1,814,447	1,709,016
Non-controlling interests	168,806	167,587
Total equity	1,983,253	1,876,603
Liabilities		
Loans and borrowings	21,145	27,997
Loan from a Director	23,273	23,614
Deferred tax liabilities	66,685	65,718
Total non-current liabilities	111,103	117,329
Loans and borrowings	258,489	224,027
Trade and other payables	626,907	575,972
Contract liabilities	14,712	7,553
Due to Directors	2,384	2,384
Current tax liabilities	47,170	29,391
Total current liabilities	949,662	839,327
Total liabilities	1,060,765	956,656
Total equity and liabilities	3,044,018	2,833,259
Net assets per share	0.96	0.92

V.S. Industry Berhad

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

	Individual 3 months ended 31 October		Cumulative 3 months ended 31 October	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Revenue	987,100	1,034,596	987,100	1,034,596
Cost of sales	(856,058)	(929,994)	(856,058)	(929,994)
Gross profit	131,042	104,602	131,042	104,602
Operating expenses	(41,192)	(38,298)	(41,192)	(38,298)
Net other income/(expenses)	104	(448)	104	(448)
Results from operating activities	89,954	65,856	89,954	65,856
Finance costs	(3,203)	(5,600)	(3,203)	(5,600)
Interest income	1,127	1,913	1,127	1,913
Share of profit/(loss) of associates, net of tax	532	1,500	532	1,500
Profit/(Loss) before tax	88,410	63,669	88,410	63,669
Tax expense	(24,540)	(17,269)	(24,540)	(17,269)
Profit/(Loss) for the period	63,870	46,400	63,870	46,400
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	(3,196)	2,992	(3,196)	2,992
Net change in fair value of equity investment designated at fair value through other comprehensive income	31,232	10,590	31,232	10,590
Disposal of equity investment designated at fair value through other comprehensive income	2,885	--	2,885	--
Total comprehensive income for the period	94,791	59,982	94,791	59,982
Profit attributable to:				
Owners of the Company	66,677	48,073	66,677	48,073
Non-controlling interests	(2,807)	(1,673)	(2,807)	(1,673)
Profit for the period	63,870	46,400	63,870	46,400

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

	Individual 3 months ended 31 October		Cumulative 3 months ended 31 October	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Total comprehensive income attributable to:				
Owners of the Company	93,572	63,637	93,572	63,637
Non-controlling interests	1,219	(3,655)	1,219	(3,655)
Total comprehensive income for the period	94,791	59,982	94,791	59,982
Basic earnings per ordinary share (sen)	3.56	2.62	3.56	2.62
Diluted earnings per ordinary share (sen)	3.47	2.61	3.47	2.61

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Condensed consolidated statement of changes in equity for the period ended 31 October 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 2020	782,947	120,724	805,345	1,709,016	167,587	1,876,603
Foreign currency translation differences for foreign operations	--	(7,222)	--	(7,222)	4,026	(3,196)
Net change in fair value of equity investment designated at FVOCI	--	31,232	--	31,232	--	31,232
Disposal of equity investment designated at FVOCI	--	--	2,885	2,885	--	2,885
Profit for the period	--	--	66,677	66,677	(2,807)	63,870
Total comprehensive income for the period	--	24,010	69,562	93,572	1,219	94,791
Equity settled share-based transactions	30,379	(3,478)	--	26,901	--	26,901
Dividends to shareholders	--	--	(15,042)	(15,042)	--	(15,042)
Total transactions with owners of the Group	30,379	(3,478)	(15,042)	11,859	--	11,859
Realisation of revaluation reserve	--	(682)	682	--	--	--
At 31 October 2020	813,326	140,574	860,547	1,814,447	168,806	1,983,253

	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	--	4,974	--	4,974	(1,982)	2,992
Net change in fair value of equity investment designated at FVOCI	--	10,590	--	10,590	--	10,590
Profit for the period	--	--	48,073	48,073	(1,673)	46,400
Total comprehensive income for the period	--	15,564	48,073	63,637	(3,655)	59,982
Equity settled share-based transactions	15,798	(2,845)	--	12,953	--	12,953
Dividends to shareholders	--	--	(14,749)	(14,749)	--	(14,749)
Total transactions with owners of the Group	15,798	(2,845)	(14,749)	(1,796)	--	(1,796)
Realisation of revaluation reserve	--	(676)	676	--	--	--
At 31 October 2019	768,875	130,610	768,822	1,668,307	174,340	1,842,647

V.S. Industry Berhad

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

	3 months ended 31 October	
	2020 RM'000	**2019 RM'000**
Cash flows from operating activities		
Profit before tax	88,410	63,669
Adjustments for:		
Depreciation	24,852	23,444
Other non-cash items	3,728	(82)
Non-operating items	1,230	2,238
Operating profit before changes in working capital	118,220	89,269
Changes in working capital:		
Change in inventories	24,146	43,556
Change in contract assets	8,912	26,899
Change in trade and other receivables	(135,884)	(122,152)
Change in trade and other payables	53,775	(37,808)
Change in contract liabilities	7,159	914
Interest received	1,127	1,913
Tax paid	(5,951)	(12,796)
Net cash (used in)/from operating activities	71,504	(10,205)
Cash flows from investing activities		
Acquisition of property, plant and equipment	(24,918)	(33,983)
Proceeds from disposal of property, plant and equipment	1,364	1,359
Net proceeds on disposal of other investments	4,216	--
Changes in pledged deposits	8,663	2,172
Prepayments	113	(271)
Other investments	(1,346)	(365)
Net cash (used in)/from investing activities	(11,908)	(31,088)
Cash flows from financing activities		
Bank borrowings	25,553	47,245
Dividend paid to owners of the Company	(15,042)	(14,749)
Proceeds from issuance of shares	23,308	12,955
(Repayment)/Loan from a Director	(341)	2,211
Net cash (used in)/from financing activities	33,478	47,662
Exchange differences on translation of the financial statements of foreign operations	(7,222)	4,974
Net change in cash and cash equivalents	85,852	11,343
Cash and cash equivalents at beginning of period	361,208	329,640
Foreign exchange differences on opening balances	763	725
Cash and cash equivalents at end of period	447,823	341,708
Cash and cash equivalent comprise:		
Cash and bank balances	452,705	344,898
Deposit with licensed banks	491	6,569
Bank overdrafts	(5,373)	(9,759)
	447,823	341,708

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 three months period ended 31 October 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 2020 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 17 December 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 2020.

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 2020.

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 26.19 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 second interim dividend of 0.8 sen per ordinary share totalling RM15,042,132 in respect of the financial year ended 31 July 2020 on 30 October 2020.

8. Segment information

(a) Information about reportable segments

	3 months ended 31 October 2020			
	Malaysia RM'000	**Indonesia RM'000**	**China RM'000**	**Total RM'000**
External revenue	873,391	68,396	42,173	983,960
Segment profit/(loss) before tax	92,041	508	(5,513)	87,036

	3 months ended 31 October 2019			
	Malaysia RM'000	**Indonesia RM'000**	**China RM'000**	**Total RM'000**
External revenue	879,866	70,220	73,538	1,023,624
Inter-segment revenue	3,685	--	567	4,252
Segment profit/(loss) before tax	64,680	1,085	(3,097)	62,668

8. Segment information (Cont'd)

(b) Reconciliation of reportable segment profit or loss

	3 months ended 31 October	
	2020	**2019**
	RM'000	**RM'000**
Total profit for reportable segments	87,036	62,668
Other non-reportable segments	842	(499)
Share of profit of associate not included in reportable segments	532	1,500
Consolidated profit before tax	88,410	63,669

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 October 2020.

12. Related party transactions

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

	3 months ended 31 October	
	2020 RM'000	**2019 RM'000**
Subsidiaries in which certain Directors have financial interest		
- Purchases	--	1,068
A company which is wholly owned by close family member of certain Directors		
- Purchases	910	1,074
A company in which spouse of a Director has financial interest		
- Purchases	3,980	4,115
- Sales	499	--
A company which is controlled by close family member of a Director		
- Sub-contracting fee payable	502	934
A company which is controlled by a Director		
- Operating lease charges and management fee payable	198	724
A company which is controlled by close family member of a key management personnel		
- Repair and maintenance services payable	15	189
A company which is wholly owned by a Director		
- Rental receivable	75	--
Remuneration paid to staff who are close family member of certain Directors	292	291

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

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 RM987.1 million, a decrease of RM47.5 million as compared to the previous year corresponding quarter due to lower contribution from China operations. Profit before tax, meanwhile, grew by 38.9% or RM24.7 million to RM88.4 million over the same period.

The improved earnings for the current quarter despite decrease in revenue was mainly attributable to favourable product sales mix in Malaysia.

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

	Individual Quarter 31 October	
	2020 RM'000	**2019 RM'000**
Revenue		
Malaysia	873,391	879,866
Indonesia	68,396	70,220
China	42,173	73,538
Profit/(Loss) before tax		
Malaysia	92,041	64,680
Indonesia	508	1,085
China	(5,513)	(3,097)

Malaysia segment
Malaysia segment posted a marginal decrease in revenue in the current quarter by comparison to previous corresponding quarter. Profit before tax, however, was higher at RM92.0 million due to earnings contribution from a more diversified clientele that led to an overall better product sales mix.

Indonesia segment
Indonesia segment recorded a lower profit before tax of RM0.5 million for the quarter under review as compared to a profit before tax of RM1.1 million in the preceding year corresponding quarter mainly due to lower sales order and absence of economies of scale.

China segment
China segment recorded a higher loss for the current quarter in tandem with the decrease in revenue. Operations continued to be affected by under-utilisation of capacity, absence of large orders coupled with the highly challenging operating landscape in China.

14. Variation of results against preceding quarter

	Current Quarter 31 October 2020 RM'000	Preceding Quarter 31 July 2020 RM'000
Revenue	987,100	882,613
Profit before tax	88,410	73,058
Profit attributable to owners of the Company	66,677	54,741

For the current quarter under review, the Group recorded a higher profit before tax of RM88.4 million as compared to RM73.1 million in the preceding quarter mainly attributable to the narrower losses recorded from operations in China, as well as improved performance from Indonesia on the back of higher revenue and absence of impairment on receivables amounting to RM2.6 million incurred previously.

15. Current year prospects

The operating environment is expected to remain challenging due to the uncertainties stemming from the Covid-19 pandemic. However, the situation is anticipated to improve with continued containment measures adopted by various governments as well as the anticipated gradual rollout of vaccines from early 2021. Against this backdrop, global and local economies are expected to rebound and recover over the next 12 months, along with improved consumer sentiments.

The Group is and will continue to be kept busy fulfilling customers' orders in the coming quarters, including several new product models that are in the pipeline for launching in 2021 by our customers. To recap, the Group has in August 2020 secured a new customer from the US to produce cordless electrostatic sprayers on box-build assembly basis, and this is followed by the clinching of another new name in October 2020 to manufacture home appliance. With this, the Group's existing capacity is expected to be filled up by 2021. To cater for future expansion purpose, the Group has acquired six pieces of land with industrial buildings with a total land size of approximately 413,682 square feet in i-Park @ Senai Airport City, Senai, Johor for a total consideration of RM98.8 million. VS' headquarter will also move to i-Park @ Senai Airport City when the new buildings are ready.

On balance, the Board is cognizant of the challenges ahead. However, with prudent planning and careful execution, backed by the encouraging order flow from customers, the Board opines that the financial performance of the Group for the remaining quarters will be satisfactory.

16. Profit forecast

Not applicable.

17. Tax expense

	Individual 3 months ended 31 October		Cumulative 3 months ended 31 October	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Tax expense				
Current period	24,952	17,103	24,952	17,103
Deferred tax expense				
Current period	(412)	166	(412)	166
	24,540	17,269	24,540	17,269

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.

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

	31.10.2020 RM'000	31.07.2020 RM'000
Non-current		
Secured		
Term loans	1,906	1,952
Hire purchase liabilities	3,772	4,566
Unsecured		
Term loans	15,467	21,479
	21,145	27,997
Current		
Secured		
Term loan	180	189
Trust receipts	28,447	30,903
Bank overdraft	5,373	6,205
Short term loan	28,746	40,770
Hire purchase liabilities	7,100	8,630

19. Borrowing and debt securities (Cont'd)

	31.10.2020 RM'000	31.07.2020 RM'000
Unsecured		
Term loans	29,518	31,548
Bankers' acceptance	31,765	16,403
Trust receipts	116,249	77,861
Short term loan	11,111	11,518
	258,489	224,027
	279,634	252,024

Borrowings denominated in US Dollar amounted to RM87.5 million (31.7.2020 : RM90.0 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 October	
	2020 RM'000	2019 RM'000
Profit for the period is arrived at after charging/(crediting)		
Depreciation	24,852	23,444
Net foreign exchange loss	467	2,013
Loss/(Gain) on disposal of property, plant and equipment	63	(158)

22. Dividends

(a) A first interim dividend of 1.2 sen per ordinary share was declared on 17 December 2020 for the financial year ending 31 July 2021 and will be paid on 5 March 2021 to shareholders whose names appear on the Company's Record of Depositors on 18 February 2021.

(b) The total dividend per share for the current financial year is 1.2 sen (previous year corresponding period: 1.0 sen).

23. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the current quarter is based on net profit attributable to owners of the Company of RM66.7 million and the weighted average number of ordinary shares of 1,873.389 million.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the current quarter is based on net profit attributable to owners of the Company of RM66.7 million and the weighted average number of ordinary shares, adjusted for the dilutive effects of potential ordinary shares of 1,919.318 million.