

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

Interim Financial Report
31 October 2021

V.S. Industry Berhad

(Registration No. 198201008437 (88160-P))

(Incorporated in Malaysia)

Condensed consolidated statement of financial position As at 31 October 2021 – unaudited

	31.10.2021 RM'000	31.07.2021 RM'000
Assets		
Property, plant and equipment	1,015,993	989,519
Right-of-use assets	101,451	103,406
Investments properties	23,114	23,114
Investments in associates	38,626	39,254
Other investments	234,251	205,020
Deferred tax assets	5,687	5,614
Total non-current assets	1,419,122	1,365,927
Inventories	628,300	636,542
Contract assets	193,201	194,962
Trade and other receivables	955,170	992,132
Current tax asset	6,417	6,417
Cash and cash equivalents	339,226	402,404
Total current assets	2,122,314	2,232,457
Total assets	3,541,436	3,598,384
Equity		
Share capital	847,084	842,358
Reserves	1,236,160	1,198,155
Equity attributable to owners of the Company	2,083,244	2,040,513
Non-controlling interests	173,567	176,996
Total equity	2,256,811	2,217,509
Liabilities		
Loans and borrowings	93,165	88,855
Loan from a Director	23,054	23,551
Deferred tax liabilities	67,983	68,371
Total non-current liabilities	184,202	180,777
Loans and borrowings	337,559	315,755
Trade and other payables	740,309	846,985
Contract liabilities	18,750	16,750
Due to a Director	2,384	2,384
Current tax liabilities	1,421	18,224
Total current liabilities	1,100,423	1,200,098
Total liabilities	1,284,625	1,380,875
Total equity and liabilities	3,541,436	3,598,384
Net assets per share	0.55	0.54

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Condensed consolidated statement of comprehensive income for the period ended 31 October 2021 - unaudited

	Individual 3 months ended 31 October		Cumulative 3 months ended 31 October	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Revenue	967,991	987,100	967,991	987,100
Cost of sales	(875,969)	(856,058)	(875,969)	(856,058)
Gross profit	92,022	131,042	92,022	131,042
Operating expenses	(44,173)	(41,192)	(44,173)	(41,192)
Net other income/(expenses)	5,024	104	5,024	104
Results from operating activities	52,873	89,954	52,873	89,954
Finance costs	(2,928)	(3,203)	(2,928)	(3,203)
Interest income	931	1,127	931	1,127
Share of profit/(loss) of associates, net of tax	(593)	532	(593)	532
Profit before tax	50,283	88,410	50,283	88,410
Tax expense	(12,533)	(24,540)	(12,533)	(24,540)
Profit for the period	37,750	63,870	37,750	63,870
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	(14,986)	(3,196)	(14,986)	(3,196)
Net change in fair value of equity instrument designated at fair value through other comprehensive income	31,105	34,117	31,105	34,117
Total comprehensive income for the period	53,869	94,791	53,869	94,791
Profit attributable to:				
Owners of the Company	39,392	66,677	39,392	66,677
Non-controlling interests	(1,642)	(2,807)	(1,642)	(2,807)
Profit for the period	37,750	63,870	37,750	63,870

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Condensed consolidated statement of comprehensive income for the period ended 31 October 2021 – unaudited (Cont'd)

	Individual 3 months ended 31 October		Cumulative 3 months ended 31 October	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Total comprehensive income attributable to:				
Owners of the Company	57,298	93,572	57,298	93,572
Non-controlling interests	(3,429)	1,219	(3,429)	1,219
Total comprehensive income for the period	<u>53,869</u>	<u>94,791</u>	<u>53,869</u>	<u>94,791</u>
Basic earnings per ordinary share (sen)	<u>1.03</u>	<u>1.78</u>	<u>1.03</u>	<u>1.78</u>
Diluted earnings per ordinary share (sen)	<u>1.00</u>	<u>1.74</u>	<u>1.00</u>	<u>1.74</u>

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Condensed consolidated statement of changes in equity for the period ended 31 October 2021 - 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 2021	842,358	247,842	950,313	2,040,513	176,996	2,217,509
Foreign currency translation differences for foreign operations	--	(13,199)	--	(13,199)	(1,787)	(14,986)
Net change in fair value of equity instrument designated at FVOCI	--	31,105	--	31,105	--	31,105
Profit for the period	--	--	39,392	39,392	(1,642)	37,750
Total comprehensive income for the period	--	17,906	39,392	57,298	(3,429)	53,869
Equity settled share-based transactions	4,726	(210)	--	4,516	--	4,516
Dividends to shareholders	--	--	(19,083)	(19,083)	--	(19,083)
Total transactions with owners of the Group	4,726	(210)	(19,083)	(14,567)	--	(14,567)
Realisation of revaluation reserve	--	(691)	691	--	--	--
At 31 October 2021	847,084	264,847	971,313	2,083,244	173,567	2,256,811

	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 instrument designated at FVOCI	--	34,117	--	34,117	--	34,117
Transfer upon disposal of equity investment designated at FVOCI	--	(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

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Condensed consolidated statement of cash flows for the period ended 31 October 2021 - unaudited

	3 months ended 31 October	
	2021 RM'000	2020 RM'000
Cash flows from operating activities		
Profit before tax	50,283	88,410
Adjustments for:		
Depreciation	29,206	24,852
Other non-cash items	745	3,728
Non-operating items	2,807	1,230
Operating profit before changes in working capital	83,041	118,220
Changes in working capital:		
Change in inventories	8,242	24,146
Change in contract assets	1,761	8,912
Change in trade and other receivables	36,962	(135,884)
Change in trade and other payables	(104,372)	53,775
Change in contract liabilities	2,000	7,159
Interest received	932	1,127
Tax paid	(29,797)	(5,951)
Net cash (used in)/from operating activities	(1,231)	71,504
Cash flows from investing activities		
Acquisition of property, plant and equipment	(53,991)	(24,918)
Proceeds from disposal of property, plant and equipment	1,122	1,364
Net proceeds on disposal of other investments	--	4,216
Changes in pledged deposits	6,170	8,663
Prepayments	--	113
Other investments	--	(1,346)
Net cash (used in)/from investing activities	(46,699)	(11,908)
Cash flows from financing activities		
Bank borrowings	22,968	25,553
Dividend paid to owners of the Company	(19,083)	(15,042)
Proceeds from issuance of shares	3,168	23,308
(Repayment)/Loan from a Director	(497)	(341)
Net cash (used in)/from financing activities	6,556	33,478
Exchange differences on translation of the financial statements of foreign operations	(13,199)	(7,222)
Net change in cash and cash equivalents	(54,573)	85,852
Cash and cash equivalents at beginning of period	371,377	361,208
Foreign exchange differences on opening balances	(2,435)	763
Cash and cash equivalents at end of period	314,369	447,823
Cash and cash equivalent comprise:		
Cash and cash equivalent in the statements of financial position	339,226	481,632
Less: Pledged deposits	(24,857)	(28,436)
Bank overdrafts	--	(5,373)
	314,369	447,823

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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 three months period ended 31 October 2021 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 2021 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 16 December 2021.

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 2021.

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 2021.

3. Seasonal or cyclical factors

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

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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 7.48 million ordinary shares pursuant to the exercise of share options under the Company's Employees Share Option Scheme and conversion of Warrants.

7. Dividends paid

Since the end of the previous financial year, the Company paid a fourth interim dividend of 0.5 sen per ordinary share totalling RM19,082,901 in respect of the financial year ended 31 July 2021 on 29 October 2021.

8. Segment information

(a) Information about reportable segments

	3 months ended 31 October 2021			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	854,514	79,406	31,939	965,859
Segment profit/(loss) before tax	50,379	2,109	(3,170)	49,318
	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

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8. Segment information (Cont'd)

(b) Reconciliation of reportable segment profit or loss

	3 months ended 31 October	
	2021	2020
	RM'000	RM'000
Total profit for reportable segments	49,318	87,036
Other non-reportable segments	1,558	842
Share of profit of associate not included in reportable segments	(593)	532
Consolidated profit before tax	<u>50,283</u>	<u>88,410</u>

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 2021.

12. Capital commitments

	31.10.2021
	RM'000
Property, plant and equipment Contracted but not provided for	<u>11,822</u>

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13. Related party transactions

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

	3 months ended 31 October	
	2021 RM'000	2020 RM'000
Subsidiaries in which certain Directors have financial interest		
- Purchase of plant and equipment	667	--
Companies which are wholly owned by close family member of certain Directors		
- Purchases	1,112	910
A company in which spouse of a Director has financial interest		
- Purchases	4,337	3,980
- Sales	759	499
A company which is controlled by close family member of a Director		
- Sub-contracting fee payable	--	502
A company which is controlled by a Director		
- Operating lease charges and management fee payable	236	198
A company which is controlled by close family member of a key management personnel		
- Repair and maintenance services payable	71	15
A company which is wholly owned by a Director		
- Rental receivable	38	75
A company which is wholly owned by close family member of a Director		
- Sales	250	--
Remuneration paid to staff who are close family member of certain Directors	306	292

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

14. Review of performance

For the current quarter under review, the Group recorded a revenue of RM968.0 million, a decrease of RM19.1 million as compared to the previous year corresponding quarter largely due to lower contribution from the operations in Malaysia. Profit before tax was lower at RM50.3 million, a decline of RM38.2 million over the same period. The performance was affected by lower orders for Printed Circuit Board Assembly (“PCBA”) from key customers during the current quarter, coupled with disruption in component supply. The impact was partially offset by production of box-built for a new customer.

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

	Individual Quarter 31 October	
	2021 RM'000	2020 RM'000
Revenue		
Malaysia	854,514	873,391
Indonesia	79,406	68,396
China	31,939	42,173
Profit/(Loss) before tax		
Malaysia	50,379	92,041
Indonesia	2,109	508
China	(3,170)	(5,513)

Malaysia segment

Malaysian segment posted a marginal decrease in revenue of RM18.9 million in the current quarter by comparison to previous year corresponding quarter due to lower PCBA orders. Meanwhile, profit before tax dropped by RM41.7 million over the preceding year corresponding quarter, affected by a combination of factors that included increase in labour and raw materials costs, higher depreciation from new facilities, setup costs for the Industrial Vaccination Centre (PPVIN) under the PIKAS initiative at one of the VS factories and the vaccination cost for the entire workforce. Mass production for a new key customer has commenced during the quarter under review but has yet to achieve optimal level. This, along with disruptions to supply chain, had led to lower operational efficiency.

Indonesia segment

Indonesia segment continued to record healthy performance with profit before tax of RM2.1 million for the quarter under review as compared to previous year corresponding quarter, in tandem with the increase in sales order from a key customer.

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14. Review of performance (Cont'd)

China segment

China segment registered a lower revenue for the current quarter as operations remained under-utilised in the absence of large orders, given the highly challenging operating landscape in China. Operating loss, however, continued to narrow with lower expenses incurred following a series of streamlining initiatives.

15. Variation of results against preceding quarter

	Current Quarter 31 October 2021 RM'000	Preceding Quarter 31 July 2021 RM'000
Revenue	967,991	941,117
Profit before tax	50,283	55,863
Profit attributable to owners of the Company	39,392	41,497

For the current quarter under review, the Group recorded lower profit before tax despite higher revenue mainly attributable to the increase in costs from various factors as mentioned above.

16. Current year prospects

The current challenging operating environment brought about by the Covid-19 pandemic and geopolitical uncertainties, among others, are expected to prevail. The much talked about disruption in global supply chain has also resulted in component shortage, tight supply in global logistics and longer lead time, affecting many industries including electronics manufacturing services. In addition, the Group faces some pressures given the rising cost environment.

On a brighter note, there are several positive catalysts in favour of the Group. Overall demand by customers remains robust and is largely expected to sustain in the coming quarters. The Group is also currently in discussion with key customers on potential new orders, which if materialize, will contribute to future earnings. At the same time, the business development team continues to receive enquiries from prospective MNC customers and are following up on some shortlisted names.

In terms of labour adequacy, efforts are ongoing to step up hiring of locals following the ban on bringing in foreign workers since last year. The overall situation, while challenging, is manageable at this juncture.

The new facilities at I-Park @ Senai Airport City that sit on a total land area of approximately 413,682 square feet ("sf.") have recently commenced operations, with production utilisation expected to pick up gradually in the coming quarters. These production floor spaces at I-Park have been fully allocated to existing customers.

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16. Current year prospects (Cont'd)

In order to cater for future capacity expansion, the Group had in November 2021 acquired 3 parcels of adjacent land measuring 386,381 sf. or 8.9 acres in Senai, Johor for RM30.0 million. The land is strategically located within close proximity of its existing facilities in I-Park @ Senai Airport City. This would enable close management control be maintained as and when the land is utilized for production in the future.

Over in Indonesia, the performance is expected to sustain based on current order visibility. As for operations in China, both cost management initiatives as well as discussions with prospective customers are still ongoing.

On balance, the Board is cautiously optimistic on the outlook of the Group and opines that the financial performance of the Group for the remaining quarters to be satisfactory.

17. Profit forecast

Not applicable.

18. Tax expense

	Individual 3 months ended 31 October		Cumulative 3 months ended 31 October	
	2021	2020	2021	2020
	RM'000	RM'000	RM'000	RM'000
Tax expense				
Current period	12,754	24,952	12,878	24,952
Deferred tax expense				
Current period	(221)	(412)	(221)	(412)
	<u>12,533</u>	<u>24,540</u>	<u>12,533</u>	<u>24,540</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 the taxable profits made by other entities within the Group, in addition to certain non-deductible expenses for tax purposes.

19. Status of uncompleted corporate proposals

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

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20. Borrowing and debt securities

	31.10.2021 RM'000	31.07.2021 RM'000
Non-current		
<i>Secured</i>		
Hire purchase liabilities	1,382	2,033
<i>Unsecured</i>		
Term loans	91,783	86,822
	<u>93,165</u>	<u>88,855</u>
Current		
<i>Secured</i>		
Trust receipts	23,584	20,767
Short term loan	--	14,309
Hire purchase liabilities	2,645	2,822
<i>Unsecured</i>		
Term loans	22,831	24,523
Bankers' acceptance	86,316	74,208
Trust receipts/Onshore loans	189,688	167,867
Short term loan	12,495	11,259
	<u>337,559</u>	<u>315,755</u>
	<u>430,724</u>	<u>404,610</u>

Borrowings denominated in US Dollar amounted to RM188.6 million (31.7.2021: RM228.4 million).

21. 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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22. Profit for the period

	3 months ended	
	31 October	
	2021	2020
	RM'000	RM'000
Profit for the period is arrived at after charging/(crediting)		
Depreciation	29,206	24,852
Net foreign exchange (gain)/loss	(3,266)	467
Loss/(Gain) on disposal of property, plant and equipment	(718)	63

23. Dividends

- (a) A first interim dividend of 0.4 sen per ordinary share was declared on 16 December 2021 for the financial year ending 31 July 2022 and will be paid on 4 March 2022 to shareholders whose names appear on the Company's Record of Depositors on 18 February 2022.
- (b) The total dividend per share for the current financial year is 0.4 sen (previous year corresponding period: 1.2 sen).

24. 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 RM39.4 million and the weighted average number of ordinary shares of 3,814.080 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 RM39.4 million and the weighted average number of 3,950.318 million.