

V.S. Industry Berhad

(Company No. 88160-P)
(Incorporated in Malaysia)

Interim Financial Report
30 April 2013

V.S. Industry Berhad

(Company No. 88160-P)

(Incorporated in Malaysia)

Condensed consolidated statement of financial position As at 30 April 2013 – unaudited

	30.04.2013 RM'000	31.07.2012 RM'000
Assets		
Property, plant and equipment	276,495	274,520
Investment properties	9,300	9,300
Investment in associates	77,630	86,337
Total non-current assets	363,425	370,157
Inventories	115,951	104,577
Trade and other receivables	248,110	317,572
Tax recoverable	2,587	-
Cash and cash equivalents	46,983	58,680
Total current assets	413,631	480,829
Total assets	777,056	850,986
Equity		
Share capital	182,327	182,327
Reserves	220,742	225,164
Total equity attributable to owners of the Company	403,069	407,491
Non-controlling interests	36	430
Total equity	403,105	407,921
Liabilities		
Long term payables	4,322	4,322
Loans and borrowings	36,895	34,592
Deferred tax liabilities	25,766	27,046
Total non-current liabilities	66,983	65,960
Trade and other payables	205,628	272,544
Loans and borrowings	101,340	103,416
Taxation	-	1,145
Total current liabilities	306,968	377,105
Total liabilities	373,951	443,065
Total equity and liabilities	777,056	850,986
Net assets per share of RM1.00 each	2.22	2.25

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Condensed consolidated statement of comprehensive income for the period ended 30 April 2013 - unaudited

	Individual 3 months ended 30 April		Cumulative 9 months ended 30 April	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Continuing operations				
Revenue	242,349	286,897	804,131	835,104
Cost of sales	(222,635)	(251,919)	(730,849)	(731,318)
Gross profit	19,714	34,978	73,282	103,786
Operating expenses	(15,439)	(18,329)	(51,836)	(59,468)
Net other income/(expenses)	(354)	1,739	(4,635)	1,022
Results from operating activities	3,921	18,388	16,811	45,340
Finance costs	(1,249)	(1,486)	(3,967)	(4,701)
Interest income	158	219	665	756
Share of profit/(loss) of associates, net of tax	(2,951)	(1,900)	(2,871)	(4,217)
Profit/(Loss) before tax	(121)	15,221	10,638	37,178
Tax expense	(194)	(4,865)	(3,569)	(11,722)
Profit/(Loss) from continuing operations	(315)	10,356	7,069	25,456
Discontinued operation				
Profit from discontinued operation, net of tax	-	-	-	1,980
Profit/(Loss) for the period	(315)	10,356	7,069	27,436
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	(1,409)	(799)	1,732	(1,745)
Total comprehensive income for the period	(1,724)	9,557	8,801	25,691
Profit/(Loss) attributable to:				
Owners of the Company	38	10,653	7,741	28,885
Non-controlling interests	(353)	(297)	(672)	(1,449)
Profit/(Loss) for the period	(315)	10,356	7,069	27,436

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Condensed consolidated statement of comprehensive income for the period ended 30 April 2013 – unaudited (Cont'd)

	Individual 3 months ended 30 April		Cumulative 9 months ended 30 April	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Total comprehensive income attributable to:				
Owners of the Company	(1,385)	9,856	9,451	27,094
Non-controlling interests	<u>(339)</u>	<u>(299)</u>	<u>(650)</u>	<u>(1,403)</u>
Total comprehensive income for the period	<u>(1,724)</u>	<u>9,557</u>	<u>8,801</u>	<u>25,691</u>
Earnings per ordinary share				
Basic (sen)				
- from continuing operations	0.02	5.88	4.27	14.83
- from discontinued operation	<u>-</u>	<u>-</u>	<u>-</u>	<u>1.09</u>
	<u>0.02</u>	<u>5.88</u>	<u>4.27</u>	<u>15.92</u>
Diluted (sen)				
- from continuing operations	-	5.86	-	-
- from discontinued operation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>anti-dilutive</u>	<u>5.86</u>	<u>anti-dilutive</u>	<u>anti-dilutive</u>

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Condensed consolidated statement of cash flows for the period ended 30 April 2013 - unaudited

	9 months ended 30 April	
	2013 RM'000	2012 RM'000
Cash flows from operating activities		
Profit before tax:		
- Continuing operations	10,638	37,178
- Discontinued operation	--	1,980
	<u>10,638</u>	<u>39,158</u>
Adjustments for:		
Depreciation	21,899	21,209
Other non-cash items	186	(980)
Non-operating items	<u>11,742</u>	<u>7,944</u>
Operating profit before changes in working capital	<u>44,465</u>	<u>67,331</u>
Changes in working capital:		
Change in inventories	(11,374)	(15,281)
Change in trade and other receivables	69,409	(52,906)
Change in trade and other payables	(67,348)	23,025
Interest received	666	731
Tax paid	<u>(8,581)</u>	<u>(13,457)</u>
Net cash from operating activities	<u>27,237</u>	<u>9,443</u>
Cash flows from investing activities		
Proceeds from disposal of discontinued operation	--	11,688
Acquisition of property, plant and equipment	(24,482)	(26,617)
Proceeds from disposal of property, plant and equipment	1,644	2,934
Interest received	--	25
Repayment of loan to associate	<u>--</u>	<u>1,899</u>
Net cash (used in)/from investing activities	<u>(22,838)</u>	<u>(10,071)</u>
Cash flows from financing activities		
Bank borrowings	(4,191)	(10,002)
Dividend paid to owners of the Company	(14,497)	(14,507)
Funds from non-controlling interests	240	--
Repurchase of treasury shares	<u>(23)</u>	<u>(514)</u>
Net cash used in financing activities	<u>(18,471)</u>	<u>(25,023)</u>
Exchange differences on translation of the financial statements of foreign operations	<u>1,710</u>	<u>(5,163)</u>
Net change in cash and cash equivalents	<u>(12,362)</u>	<u>(30,814)</u>
Cash and cash equivalents at beginning of period	<u>56,978</u>	<u>71,287</u>
Foreign exchange differences on opening balances	<u>(94)</u>	<u>(106)</u>
Cash and cash equivalents at end of period	<u>44,522</u>	<u>40,367</u>
Cash and cash equivalent comprise:		
Cash and bank balances	32,652	26,356
Deposit with licensed banks	14,331	14,011
Bank overdrafts	<u>(2,461)</u>	<u>--</u>
	<u>44,522</u>	<u>40,367</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 2013 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 2012 are available upon request from the Company's registered office at:

Registered office

Suite 7E, Level 7
Menara Ansar
65, Jalan Trus
80000 Johor Bahru
Johor
Malaysia

These condensed consolidated interim financial statements were approved by the Board of Directors on 25 June 2013.

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 2012.

These are the Group's condensed consolidated interim financial statements for the period covered by the Group's first MFRS framework annual financial statements and MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards* has been applied. The adoption of MFRS 1 has no significant impact on the financial statements.

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 2012.

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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 repurchase of its own shares in the open market as follows:-

Month	No. of shares repurchased	Lowest price paid (RM)	Highest price paid (RM)	Average price paid (RM)	Total consideration (RM)
March 2013	5,000	1.39	1.39	1.39	7,001

As at the date of this interim report, a total of 1,119,336 of the repurchased shares are being held as treasury shares and carried at cost.

7. Dividends paid

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

- (a) a fourth interim single tier dividend of 6 sen per ordinary share of RM1.00 each totalling RM10,872,742 in respect of the financial year ended 31 July 2012 on 25 October 2012; and
- (b) a first interim single tier dividend of 2 sen per ordinary share of RM1.00 each totalling RM3,624,247 in respect of the financial year ending 31 July 2013 on 31 January 2013.

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8. Segment information

(a) Information about reportable segments

	9 months ended 30 April 2013		
	Malaysia RM'000	Indonesia RM'000	Total RM'000
External revenue	723,178	77,160	800,338
Inter-segment revenue	354	--	354
Segment profit/(loss) before tax	15,954	4,702	20,656

	9 months ended 30 April 2012		
	Malaysia RM'000	Indonesia RM'000	Total RM'000
External revenue	731,344	93,049	824,393
Inter-segment revenue	1,812	--	1,812
Segment profit/(loss) before tax	33,454	10,247	43,701

(b) Reconciliation of reportable segment profit or loss

	9 months ended 30 April	
	2013 RM'000	2012 RM'000
Total profit for reportable segments	20,656	43,701
Other non-reportable segments	(1,322)	(2,383)
Elimination of inter-segment profits	53	77
Loss on dilution of interest in an associate	(5,878)	-
Share of profit of associate not included in reportable segments	(2,871)	(4,217)
Consolidated profit before tax	10,638	37,178

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 material changes in the composition of the Group for the current financial year-to-date except for the followings:-

- dilution of interest in an associate in China, from 43.06% to 38.07% pursuant to its 9.69% private placement exercise, employees' share option scheme and exercise of bonus warrants; and
- dissolution of its 87.27% subsidiary, VVS Co., Ltd.

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11. Contingent liabilities and contingent assets

The Group does not have any contingent liabilities and contingent assets as at 30 April 2013.

12. Capital Commitments

	30.04.2013 RM'000
Property, plant and equipment Contracted but not provided for	<u>11,337</u>

13. Related party transactions

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

	9 months ended 30 April	
	2013 RM'000	2012 RM'000
Associates		
- Sales commission income/sales	--	208
- Purchases	815	1,046
- Purchase of plant and equipment	--	3,811
- Interest receivable	--	25
	<u> </u>	<u> </u>
A company in which certain Directors have substantial financial interest		
- Rental payable	174	174
	<u> </u>	<u> </u>
A company which is wholly owned by close family member of certain Directors		
- Sales commission income/sales	1,153	247
- Purchases	1,736	1,546
	<u> </u>	<u> </u>
Companies in which a major shareholder has financial interest		
- Purchases	3,324	3,478
	<u> </u>	<u> </u>
Remuneration paid to staff who are close family member of certain Directors	619	553
	<u> </u>	<u> </u>

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 lower revenue of RM242.3 million as compared to RM286.9 million in the preceding year's corresponding quarter, whilst the Group incurred a loss before tax of RM0.1 million as compared to profit before tax of RM15.2 million previously.

The loss before tax was mainly due to lower sales generated by the Malaysian and Indonesian operations coupled with lower gross margin caused by increased competition in the electronic manufacturing services sector and higher share of loss from associate in China.

For the nine months period ended 30 April 2013, the Group recorded a revenue of RM804.1 million as compared to RM835.1 million of the corresponding period of the preceding year, whilst profit before tax was RM10.6 million versus RM37.2 million previously.

The lower profit before tax for the financial period was mainly due to lower sales generated by the Malaysian and Indonesian operations coupled with lower gross margin caused by increased competition in the electronic manufacturing services sector and loss of RM5.9 million arising from dilution of interest from 43.06% to 38.07% in associate in China due to its 9.69% private placement exercise, employees' share option scheme and exercise of bonus warrants.

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

	Individual Quarter		Cummulative Quarter	
	30 April		30 April	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Revenue				
Malaysia	218,198	256,330	723,178	731,344
Indonesia	23,825	27,197	77,160	93,049
Profit before tax				
Malaysia	2,617	15,602	15,954	33,454
Indonesia	934	2,142	4,702	10,247

Malaysia segment

The lower profit before tax in both the current quarter and cumulative quarter was mainly due to lower sales orders from key customers and lower gross margin caused by increased competition in the electronic manufacturing services sector.

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Indonesia segment

The lower profit before tax in both the current quarter and cumulative quarter was mainly attributable to lower sales orders from key customers.

15. Variation of results against preceding quarter

For the current quarter under review, the Group recorded a loss before tax of RM0.1 million as compared to profit before tax of RM0.3 million in the preceding quarter. This was mainly due to the followings:-

	Current Quarter 30 April 2013 RM'000	Preceding Quarter 31 January 2013 RM'000
(Loss) on dilution of interest in an associate	-	(5,878)
Share of profit/(loss) of associate	(2,951)	2,972

16. Current year prospects

The Board is mindful of the continuing challenges faced by the global economy, thus expects the prospects for the remaining quarters of the current financial year to be challenging. This is coupled with the implementation of the minimum wage for workers effective from 1 January 2013.

17. Profit forecast

Not applicable.

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18. Tax expense

	Individual 3 months ended 30 April		Cumulative 9 months ended 30 April	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Tax expense				
Malaysian - Current period	338	3,698	3,488	7,250
Overseas - Current period	275	570	1,355	2,726
	<u>613</u>	<u>4,268</u>	<u>4,843</u>	<u>9,976</u>
Deferred tax expense				
Malaysian - Current period	(419)	567	(1,274)	1,603
Overseas - Current period	-	30	-	143
	<u>(419)</u>	<u>597</u>	<u>(1,274)</u>	<u>1,746</u>
	<u>194</u>	<u>4,865</u>	<u>3,569</u>	<u>11,722</u>

The effective tax rate for the financial year-to-date is higher than the statutory tax rate due to non-deductible expenses and share of loss of associate.

19. Status of uncompleted corporate proposals

On 28 March 2013, the Company made an announcement on the voluntary unconditional partial cash offer to acquire up to 224,890,025 ordinary shares of V.S. International Group Limited (“VSIG”) from the qualifying shareholders, to acquire up to 250,731 outstanding share options from the qualifying option holders and to acquire up to 17,738,083 outstanding bonus warrants from the qualifying warrant holders.

Subsequently on 7 June 2013, the Company announced that the composite offer document in relation to the partial cash offer has been dispatched to the qualifying shareholders, qualifying option holders and qualifying warrant holders of VSIG. The offer period is from 7 June 2013 to 28 June 2013.

It is expected to complete by July 2013.

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20. Borrowing and debt securities

	30.04.2013 RM'000	31.07.2012 RM'000
Non-current		
Secured		
Finance lease liabilities	287	667
Unsecured		
Term loans	36,608	33,925
	<u>36,895</u>	<u>34,592</u>
Current		
Secured		
Finance lease liabilities	592	1,136
Unsecured		
Term loans	12,995	14,328
Bank overdraft	2,461	1,702
Revolving credit	-	5,000
Bankers' acceptance	84,384	80,337
Short term loan	908	913
	<u>101,340</u>	<u>103,416</u>
	<u>138,235</u>	<u>138,008</u>

Borrowings denominated in US Dollar amounted to RM3.9 million.
(31.7.2012 : RM17.3 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.

22. Profit for the period

	3 months ended 30 April		9 months ended 30 April	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Profit for the period is arrived at after charging/(crediting)				
Depreciation of property, plant and equipment	7,362	7,099	21,899	21,209
Net foreign exchange (gain)/loss	(43)	(1,593)	(1,512)	(216)
(Gain)/Loss on disposal of property, plant and equipment	(34)	(81)	(484)	(389)
Derivative (gain)/loss	660	114	1,510	490
Loss on dilution of interest in an associate	5,878	-	5,878	-

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23. Dividends

- (a) No dividend is proposed for the current quarter.
- (b) The total dividend per share for the current financial year is 2.0 sen (previous year corresponding period : 9.0 sen).

24. Earnings per share

(a) Basic earnings per share

Profit attributable to owners of the Company

	3 months ended 30 April 2013			9 months ended 30 April 2013		
	Continuing operations RM'000	Discontinued operation RM'000	Total RM'000	Continuing operations RM'000	Discontinued operation RM'000	Total RM'000
Profit attributable to owners	38	-	38	7,741	-	7,741

	3 months ended 30 April 2012			9 months ended 30 April 2012		
	Continuing operations RM'000	Discontinued operation RM'000	Total RM'000	Continuing operations RM'000	Discontinued operation RM'000	Total RM'000
Profit attributable to owners	10,653	-	10,653	26,905	1,980	28,885

Weighted average number of ordinary shares

	3 months ended		9 months ended	
	30 April 2013 '000	30 April 2012 '000	30 April 2013 '000	30 April 2012 '000
Issued ordinary shares at 1 August	181,223	181,574	181,223	181,574
Effect of shares repurchased	(13)	(248)	(10)	(177)
Weighted average number of ordinary shares at 30 April	<u>181,210</u>	<u>181,326</u>	<u>181,213</u>	<u>181,397</u>
Basic earnings per ordinary share (sen)				
- from continuing operations	0.02	5.88	4.27	14.83
- from discontinued operation	-	-	-	1.09
	<u>0.02</u>	<u>5.88</u>	<u>4.27</u>	<u>15.92</u>

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(b) Diluted earnings per share

No disclosure is made for the diluted earnings per share for the current quarter and financial year-to-date as it is anti-dilutive.

Profit attributable to owners of the Company (diluted)

	Continuing operations RM'000	3 months ended 30 April 2012 Discontinued operation RM'000	Total RM'000
Profit attributable to owners (diluted)	10,653	-	10,653

Weighted average number of ordinary shares (diluted)

	3 months ended 30 April 2012 '000
Weighted average number of ordinary shares (basic)	181,326
Effect of share options on issue	386
Weighted average number of ordinary shares at 30 April (diluted)	181,712

25. Disclosure of realised and unrealised profits/losses

	Current Quarter 30.04.2013	Preceding Quarter 31.01.2013
Total retained profits of the Company and its subsidiaries		
- Realised	120,276	117,410
- Unrealised	(17,578)	(17,471)
	102,698	99,939
Total share of retained profit from associates		
- Realised	14,856	18,046
- Unrealised	(1,690)	(2,026)
	115,864	115,959
Consolidation adjustments	30,264	29,911
Total group retained profit as per consolidated accounts	146,128	145,870