

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

Interim Financial Report
31 July 2017

V.S. Industry Berhad

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

Condensed consolidated statement of financial position As at 31 July 2017 – unaudited

	31.07.2017 RM'000	31.07.2016 RM'000
Assets		
Property, plant and equipment	839,006	680,719
Prepaid lease payments	97,647	97,118
Investment properties	4,900	4,800
Intangible assets	-	2,718
Investment in associates	76,885	9,628
Other investments	40,268	63,013
Prepayments	7,263	5,983
Deferred tax assets	3,883	9,987
Total non-current assets	1,069,852	873,966
Assets held for sale	2,749	-
Inventories	479,814	306,603
Trade and other receivables	997,830	583,436
Tax recoverable	1,302	2,037
Cash and cash equivalents	344,919	218,401
Total current assets	1,826,614	1,110,477
Total assets	2,896,466	1,984,443
Equity		
Share capital	369,109	235,169
Reserves	688,437	644,734
Equity attributable to owners of the Company	1,057,546	879,903
Non-controlling interests	220,410	185,980
Total equity	1,277,956	1,065,883
Liabilities		
Long term payables	4,322	4,322
Loans and borrowings	119,049	92,473
Deferred tax liabilities	72,945	47,500
Total non-current liabilities	196,316	144,295
Trade and other payables	820,655	440,558
Loans and borrowings	587,832	322,570
Taxation	13,707	11,137
Total current liabilities	1,422,194	774,265
Total liabilities	1,618,510	918,560
Total equity and liabilities	2,896,466	1,984,443
Net assets per share	0.88	0.75

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Condensed consolidated statement of comprehensive income for the period ended 31 July 2017 - unaudited

	Individual 3 months ended 31 July		Cumulative 12 months ended 31 July	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Revenue	983,386	554,204	3,281,350	2,175,626
Cost of sales	(867,524)	(480,924)	(2,822,924)	(1,839,095)
Gross profit	115,862	73,280	458,426	336,531
Operating expenses	(53,721)	(40,998)	(205,597)	(170,881)
Net other income/(expenses)	(10,787)	(23,371)	(8,833)	(11,312)
Results from operating activities	51,354	8,911	243,996	154,338
Finance costs	(6,278)	(3,253)	(23,602)	(15,570)
Interest income	1,335	206	3,514	1,478
Share of profit/(loss) of associates, net of tax	1,411	2,993	(235)	1,620
Profit before tax	47,822	8,857	223,673	141,866
Tax expense	(12,223)	(9,178)	(65,856)	(37,628)
Profit for the period	35,599	(321)	157,817	104,238
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	(2,310)	23,194	35,988	19,191
Surplus on revaluation of properties net of deferred tax	40,742	-	40,742	-
Remeasurement of actuarial gain/loss	174	(472)	174	(472)
Total comprehensive income for the period	74,205	22,401	234,721	122,957
Profit attributable to:				
Owners of the Company	36,806	10,944	156,319	117,928
Non-controlling interests	(1,207)	(11,265)	1,498	(13,690)
Profit for the period	35,599	(321)	157,817	104,238

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Condensed consolidated statement of comprehensive income for the period ended 31 July 2017 – unaudited (Cont'd)

	Individual 3 months ended 31 July		Cumulative 12 months ended 31 July	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Total comprehensive income attributable to:				
Owners of the Company	58,233	35,449	210,813	140,787
Non-controlling interests	15,972	(13,048)	23,908	(17,830)
Total comprehensive income for the period	74,205	22,401	234,721	122,957
Basic earnings per ordinary share (sen)	3.08	0.94	13.23	10.15
Diluted earnings per ordinary share (sen)	2.93	0.90	12.65	9.68

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Condensed consolidated statement of changes in equity for the period ended 31 July 2017 - 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 2016	235,169	233,210	411,524	879,903	185,980	1,065,883
Foreign currency translation differences for foreign operations	--	28,687	--	28,687	7,301	35,988
Remeasurement of actuarial gain/loss	--	--	174	174	--	174
Surplus on revaluation of properties net of deferred tax	--	25,633	--	25,633	15,109	40,742
Profit for the period	--	--	156,319	156,319	1,498	157,817
Total comprehensive income for the period	--	54,320	156,493	210,813	23,908	234,721
Equity settled share-based transactions	20,067	10,170	1,746	31,983	3,620	35,603
Dividends to shareholders	--	--	(65,153)	(65,153)	--	(65,153)
Increase in share capital in subsidiaries	--	--	--	--	1,734	1,734
Acquisition of new subsidiary	--	--	--	--	5,168	5,168
Total transactions with owners of the Group	20,067	10,170	(63,407)	(33,170)	10,522	(22,648)
Realisation of revaluation reserve	--	(1,384)	1,384	--	--	--
Transferred from retained earnings	--	1,455	(1,455)	--	--	--
Transfer in accordance with Section 618(2) of the Companies Act 2016	113,873	(113,873)	--	--	--	--
At 31 July 2017	369,109	183,898	504,539	1,057,546	220,410	1,277,956
	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 2015	230,848	188,675	357,511	777,034	202,591	979,625
Foreign currency translation differences for foreign operations	--	23,331	--	23,331	(4,140)	19,191
Remeasurement of actuarial gain/loss	--	--	(472)	(472)	--	(472)
Profit for the period	--	--	117,928	117,928	(13,690)	104,238
Total comprehensive income for the period	--	23,331	117,456	140,787	(17,830)	122,957
Share buy back	--	(210)	--	(210)	--	(210)
Equity settled share-based transactions	4,321	20,635	--	24,956	174	25,130
Dividends to shareholders	--	--	(63,937)	(63,937)	--	(63,937)
Increase in share capital in subsidiaries	--	--	--	--	2,318	2,318
Change in ownership interests in subsidiaries	--	--	1,273	1,273	(1,273)	--
Total transactions with owners of the Group	4,321	20,425	(62,664)	(37,918)	1,219	(36,699)
Realisation of revaluation reserve	--	(1,343)	1,343	--	--	--
Transferred from retained earnings	--	2,122	(2,122)	--	--	--
At 31 July 2016	235,169	233,210	411,524	879,903	185,980	1,065,883

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Condensed consolidated statement of cash flows for the period ended 31 July 2017 - unaudited

	12 months ended 31 July	
	2017 RM'000	2016 RM'000
Cash flows from operating activities		
Profit before tax	223,673	141,866
Adjustments for:		
Depreciation and amortisation	78,051	72,046
Other non-cash items	32,029	31,923
Non-operating items	17,863	14,258
Operating profit before changes in working capital	351,616	260,093
Changes in working capital:		
Change in inventories	(170,975)	(26,345)
Change in trade and other receivables	(397,101)	(82,824)
Change in trade and other payables	334,354	23,451
Interest received	3,514	1,478
Tax paid	(43,260)	(40,030)
Net cash (used in)/from operating activities	78,148	135,823
Cash flows from investing activities		
Acquisition of property, plant and equipment	(149,760)	(68,914)
Proceeds from disposal of property, plant and equipment	6,656	7,619
Change in pledged deposits	(37,395)	2,992
Prepayments	(1,280)	17,339
Acquisition of subsidiary	(3,570)	-
Other investments	(48,443)	(73,747)
Net cash (used in)/from investing activities	(233,792)	(114,711)
Cash flows from financing activities		
Bank borrowings	245,127	(24,211)
Dividend paid to owners of the Company	(65,153)	(63,937)
Proceeds from issuance of shares	22,415	15,702
Funds from non-controlling interests	1,734	2,318
Repurchase of treasury shares	--	(210)
Net cash (used in)/from financing activities	204,123	(70,338)
Exchange differences on translation of the financial statements of foreign operations	28,687	23,331
Net change in cash and cash equivalents	77,166	(25,895)
Cash and cash equivalents at beginning of period	199,230	224,153
Foreign exchange differences on opening balances	9,258	972
Cash and cash equivalents at end of period	285,654	199,230
Cash and cash equivalent comprise:		
Cash and bank balances	299,060	205,954
Deposit with licensed banks	513	4,496
Bank overdrafts	(13,919)	(11,220)
	285,654	199,230

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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 2017 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 2016 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 27 September 2017.

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 2016.

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 2016.

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 27.99 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 single tier dividend of 0.8 sen per ordinary share totalling RM9,366,357 in respect of the financial year ended 31 July 2016 on 28 October 2016;
- (b) a final single tier dividend of 0.8 sen per ordinary share totalling RM9,404,790 in respect of the financial year ended 31 July 2016 on 25 January 2017;
- (c) a first interim single tier dividend of 1.2 sen per ordinary share totalling RM14,174,984 in respect of the financial year ending 31 July 2017 on 15 March 2017;
- (d) a second interim single tier dividend of 1.2 sen per ordinary share totalling RM14,240,960 in respect of the financial year ending 31 July 2017 on 12 May 2017; and
- (e) a third interim single tier dividend of 1.5 sen per ordinary share totalling RM17,966,288 in respect of the financial year ending 31 July 2017 on 28 July 2017.

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8. Segment information

(a) Information about reportable segments

	12 months ended 31 July 2017			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	2,294,381	182,285	803,451	3,280,117
Inter-segment revenue	2,984	--	1,172	4,156
Segment profit/(loss) before tax	204,035	(5,066)	17,426	216,395

	12 months ended 31 July 2016			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	1,489,440	118,967	565,229	2,173,636
Inter-segment revenue	1,508	--	853	2,361
Segment profit/(loss) before tax	162,927	7,098	(18,917)	151,108

(b) Reconciliation of reportable segment profit or loss

	12 months ended 31 July	
	2017 RM'000	2016 RM'000
Total profit for reportable segments	216,395	151,108
Other non-reportable segments	6,540	(12,533)
Elimination of inter-segment profits	973	1,671
Share of profit of associate not included in reportable segments	(235)	1,620
Consolidated profit before tax	223,673	141,866

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 except for the acquisition of 60% shareholding in Skreen Fabric (M) Sdn. Bhd..

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11. Contingent liabilities and contingent assets

The Group does not have any contingent liabilities and contingent assets as at 31 July 2017.

12. Capital Commitments

	31.07.2017 RM'000
Property, plant and equipment	
Contracted but not provided for	<u>47,888</u>

13. Related party transactions

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

	12 months ended 31 July	
	2017 RM'000	2016 RM'000
Subsidiaries in which certain Directors have financial interest		
- Purchase	1,207	879
- Sales	<u>913</u>	<u>1,415</u>
A company which is wholly owned by close family member of certain Directors		
- Purchases	<u>3,187</u>	<u>1,146</u>
A company in which spouse of a Director has financial interest		
- Purchases	<u>31,408</u>	<u>32,376</u>
Associates		
- Sales	<u>5,184</u>	<u>4,509</u>
A company which is controlled by close family member of a Director		
- Sub-contracting fee payable	<u>4,641</u>	<u>3,937</u>
A company which is controlled by a Director		
- Operating lease charges and management fee payable	<u>5,012</u>	<u>5,068</u>
A company which is controlled by close family member of a key management personnel		
- Repair and maintenance services payable	<u>981</u>	<u>221</u>
Remuneration paid to staff who are close family member of certain Directors	<u>2,918</u>	<u>2,455</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 revenue of RM983.4 million, an increase of RM429.2 million or 77.4% as compared to the previous corresponding quarter. Profit before tax stood at RM47.8 million, grew by 439.9% or RM39.0 million over the same period.

For the financial year ended 31 July 2017, the Group recorded revenue of RM3,281.4 million as compared to RM2,175.6 million recorded in the preceding year. Profit before tax stood at RM223.7 million, grew by 57.7% or RM81.8 million over the same period.

The improved earnings for the current quarter and cumulative quarter was mainly attributable to higher sales orders from existing key customers coupled with the followings:-

	3 months ended 31 July		12 months ended 31 July	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Net foreign exchange (gain)/loss	(2,546)	(3,321)	(8,940)	(10,394)
Impairment loss on:				
- Property	12,009	-	12,009	-
- Other investments	4,042	7,623	4,042	7,623
- Deposits	-	21,767	-	21,767

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

	Individual Quarter 31 July		Cumulative Quarter 31 July	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Revenue				
Malaysia	737,038	391,231	2,294,381	1,489,440
Indonesia	70,578	36,596	182,285	118,967
China	176,792	126,240	803,451	565,229
Profit/(loss) before tax				
Malaysia	46,813	34,990	204,035	162,927
Indonesia	(11,781)	2,310	(5,066)	7,098
China	(1,713)	(21,697)	17,426	(18,917)

Malaysia segment

Malaysia segment recorded higher profit before tax for the current quarter and cumulative quarter mainly due to higher sales orders from key customers.

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14. Review of performance (Cont'd)

Indonesia segment

Indonesia segment recorded higher revenue for the current quarter and cumulative quarter mainly due to provision of turnkey manufacturing services for an existing customer. The turnkey arrangement also necessitated a change in billing practice which explained the increase in revenue.

Loss incurred for the current quarter and cumulative quarter was mainly due to impairment on factory building of RM11.7 million following revaluation exercise carried out in this current financial year.

China segment

China segment recorded lower loss and profit before tax for the current quarter and cumulative quarter respectively mainly due to higher sales orders and the absence of impairment loss of RM21.8 million that was recorded in the preceding year.

15. Variation of results against preceding quarter

For the current quarter under review, the Group recorded a higher revenue of RM983.4 million, an increase of RM129.3 million or 15.1% as compared to the immediate preceding quarter. However, the Group posted a lower profit before tax of RM47.8 million as compared to profit before tax of RM69.8 million in the preceding quarter mainly attributable to lower gross profit margin resulting from weakening of US Dollar against Ringgit Malaysia and the followings:-

	Current quarter RM'000
Impairment loss on:	
- Property	12,009
- Other investment	4,042

16. Current year prospects

With the Group's vertical integration capabilities, it has received substantially higher box-build orders from key customers, particularly during the second half of the financial year ended 31 July 2017. The trend of rising orders is expected to sustain going into the next financial year. To cope with the potential new orders from existing and new customers, the Group has added more production space by constructing a new factory cum warehouse.

On its operations in China, the Group's Hong Kong listed subsidiary, V.S. International Group Limited, has recently completed a Rights Issue raising proceeds of HKD105.8 million which shall be used to expand the operations in China and tap into its growing domestic sales.

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16. Current year prospects (Cont'd)

Prospects of the Group remain positive underpinned by factors mentioned above. Nevertheless, the Group is also cognizant of the challenges at the macro-environment level, which include fluctuations in USD/RM foreign exchange rate and changes in regulations which may impact operating costs.

Notwithstanding the challenging environment, with prudent management, coupled with continued strong support from existing as well as newly acquired customers, the Board is optimistic that the Group will achieve better performance for the next financial year.

17. Profit forecast

Not applicable.

18. Tax expense

	Individual 3 months ended 31 July		Cumulative 12 months ended 31 July	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Tax expense				
Malaysia - Current year	(1,860)	2,237	39,154	29,772
- Prior years	214	(4)	214	(4)
Overseas - Current year	(379)	1,026	7,796	8,182
- Prior years	944	-	944	-
	<u>(1,081)</u>	<u>3,259</u>	<u>48,108</u>	<u>37,950</u>
Deferred tax expense				
Malaysia - Current year	15,398	5,564	20,543	(217)
- Prior years	236	(32)	236	(32)
Overseas - Current year	(2,330)	387	(3,031)	(73)
	<u>13,304</u>	<u>5,919</u>	<u>17,748</u>	<u>(322)</u>
	<u>12,223</u>	<u>9,178</u>	<u>65,856</u>	<u>37,628</u>

The effective tax rate of the Group for the financial year-to-date was higher than the statutory tax rate mainly due to non-deductible expenses.

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

	31.07.2017 RM'000	31.07.2016 RM'000
Non-current		
<i>Secured</i>		
Term loans	34,040	52,290
Finance lease liabilities	18,792	9,787
<i>Unsecured</i>		
Term loans	66,217	30,396
	<u>119,049</u>	<u>92,473</u>
Current		
<i>Secured</i>		
Term loan	26,035	24,392
Bank overdraft	13,919	10,730
Short term loan	19,080	18,369
Trust receipts	88,410	38,345
Finance lease liabilities	6,922	4,233
<i>Unsecured</i>		
Term loans	34,566	19,802
Bank overdraft	--	490
Bankers' acceptance	202,356	94,176
Trust receipts	167,142	93,649
Short term loan	14,402	10,284
Revolving credit	15,000	8,100
	<u>587,832</u>	<u>322,570</u>
	<u>706,881</u>	<u>415,043</u>

Borrowings denominated in US Dollar amounted to RM168.4 million
(31.7.2016 : RM120.7 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		12 months ended	
	31 July		31 July	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Profit for the period is arrived at after charging/(crediting)				
Depreciation and amortisation	21,470	17,001	78,051	72,046
Net foreign exchange (gain)/loss	(2,546)	(3,321)	(8,940)	(10,394)
(Gain)/Loss on disposal of property, plant and equipment	1,007	466	1,413	266
Plant and equipment written off	--	8	25	92
Impairment loss on:				
- Property	12,009	--	12,009	--
- Other investments	4,042	7,623	4,042	7,623
- Deposits	--	21,767	--	21,767
Derivative (gain)/loss on currency forward contracts	--	(11)	--	258

23. Dividends

- (a) A fourth interim single tier dividend of 1.0 sen per ordinary share amounting to approximately RM12.1 million was declared on 27 September 2017 for the financial year ended 31 July 2017 and will be paid on 27 October 2017 to shareholders whose names appear on the Company's Record of Depositors on 16 October 2017.
- (b) The Board is proposing for the shareholders' approval at the forthcoming Annual General Meeting, a final single tier dividend of 1.0 sen per ordinary share for the financial year ended 31 July 2017. 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 5.9 sen (previous year corresponding period: 4.7 sen).

24. 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 RM36.8 million and RM156.3 million respectively and the weighted average number of ordinary shares of 1,193.989 million and 1,181.414 million respectively.

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24. Earnings per share (Cont'd)

(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 RM36.8 million and RM156.3 million respectively and the weighted average number of ordinary shares, adjusted for the dilutive effects of potential ordinary shares of 1,256.101 million and 1,235.890 million respectively.

25. Disclosure of realised and unrealised profits/losses

	Current Quarter 31.07.2017	Preceding Quarter 30.04.2017
Total retained profits of the Company and its subsidiaries		
- Realised	384,749	339,085
- Unrealised	(14,274)	393
	<hr/> 370,475	<hr/> 339,478
Total share of retained profit from associates		
- Realised	(6,787)	(8,198)
	<hr/> 363,688	<hr/> 331,280
Consolidation adjustments	140,851	166,564
Total group retained profit as per consolidated accounts	<hr/> <hr/> 504,539	<hr/> <hr/> 497,844