

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

Interim Financial Report
31 January 2014

V.S. Industry Berhad

(Company No. 88160-P)

(Incorporated in Malaysia)

Condensed consolidated statement of financial position As at 31 January 2014 – unaudited

	31.01.2014 RM'000	31.07.2013 RM'000
Assets		
Property, plant and equipment	616,641	615,166
Prepaid lease payments	90,704	89,012
Investment properties	3,600	3,600
Investment in associates	9,182	9,021
Deferred tax assets	1,466	1,190
Total non-current assets	721,593	717,989
Inventories	210,659	177,760
Trade and other receivables	417,733	410,526
Tax recoverable	880	880
Cash and cash equivalents	91,713	97,288
Total current assets	720,985	686,454
Total assets	1,442,578	1,404,443
Equity		
Share capital	182,327	182,327
Reserves	308,301	297,319
Total equity attributable to owners of the Company	490,628	479,646
Non-controlling interests	121,581	117,224
Total equity	612,209	596,870
Liabilities		
Long term payables	4,322	4,322
Loans and borrowings	154,783	150,590
Deferred tax liabilities	60,129	60,768
Total non-current liabilities	219,234	215,680
Trade and other payables	369,853	375,276
Loans and borrowings	233,027	211,167
Taxation	8,255	5,450
Total current liabilities	611,135	591,893
Total liabilities	830,369	807,573
Total equity and liabilities	1,442,578	1,404,443
Net assets per share of RM1.00 each	2.71	2.65

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Condensed consolidated statement of comprehensive income for the period ended 31 January 2014 - unaudited

	Individual 3 months ended 31 January		Cumulative 6 months ended 31 January	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Revenue	367,370	233,943	804,633	561,782
Cost of sales	<u>(327,531)</u>	<u>(214,317)</u>	<u>(719,335)</u>	<u>(508,214)</u>
Gross profit	39,839	19,626	85,298	53,568
Operating expenses	(33,136)	(16,680)	(65,528)	(36,397)
Net other income/(expenses)	<u>3,472</u>	<u>(4,726)</u>	<u>4,230</u>	<u>(4,281)</u>
Results from operating activities	10,175	(1,780)	24,000	12,890
Finance costs	(3,711)	(1,124)	(7,705)	(2,718)
Interest income	211	226	410	507
Share of profit/(loss) of associates, net of tax	<u>(251)</u>	<u>2,972</u>	<u>(101)</u>	<u>80</u>
Profit before tax	6,424	294	16,604	10,759
Tax expense	<u>(2,771)</u>	<u>(697)</u>	<u>(5,483)</u>	<u>(3,375)</u>
Profit for the period	<u>3,653</u>	<u>(403)</u>	<u>11,121</u>	<u>7,384</u>
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	<u>18,006</u>	<u>5,104</u>	<u>12,073</u>	<u>3,141</u>
Total comprehensive income for the period	<u>21,659</u>	<u>4,701</u>	<u>23,194</u>	<u>10,525</u>
Profit attributable to:				
Owners of the Company	3,758	40	13,320	7,703
Non-controlling interests	<u>(105)</u>	<u>(443)</u>	<u>(2,199)</u>	<u>(319)</u>
Profit for the period	<u>3,653</u>	<u>(403)</u>	<u>11,121</u>	<u>7,384</u>

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Condensed consolidated statement of comprehensive income for the period ended 31 January 2014 – unaudited (Cont'd)

	Individual 3 months ended 31 January		Cumulative 6 months ended 31 January	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Total comprehensive income attributable to:				
Owners of the Company	14,233	5,152	20,226	10,836
Non-controlling interests	7,426	(451)	2,968	(311)
Total comprehensive income for the period	<u>21,659</u>	<u>4,701</u>	<u>23,194</u>	<u>10,525</u>
Basic earnings per ordinary share (sen)	<u>2.07</u>	<u>0.02</u>	<u>7.35</u>	<u>4.25</u>
Diluted earnings per ordinary share (sen)	<u>anti-dilutive</u>	<u>anti-dilutive</u>	<u>anti-dilutive</u>	<u>anti-dilutive</u>

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Condensed consolidated statement of changes in equity for the period ended 31 January 2014 - 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 2013	182,327	71,002	226,317	479,646	117,224	596,870
Foreign currency translation differences for foreign operations	--	6,906	--	6,906	5,167	12,073
Profit for the period	--	--	13,320	13,320	(2,199)	11,121
Total comprehensive income for the period	--	6,906	13,320	20,226	2,968	23,194
Share buy back	--	(6)	--	(6)	--	(6)
Equity settled share-based transactions	--	485	--	485	270	755
Dividends to shareholders	--	--	(9,422)	(9,422)	--	(9,422)
Increase in share capital in subsidiaries	--	--	--	--	818	818
Dilution arising from new issue of shares in a subsidiary	--	--	(301)	(301)	301	--
Total transactions with owners of the Group	--	479	(9,723)	(9,244)	1,389	(7,855)
Realisation of revaluation reserve	--	(662)	662	--	--	--
At 31 January 2014	182,327	77,725	230,576	490,628	121,581	612,209

	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 2012	182,327	72,949	152,215	407,491	430	407,921
Foreign currency translation differences for foreign operations	--	3,133	--	3,133	8	3,141
Profit for the period	--	--	7,703	7,703	(319)	7,384
Total comprehensive income for the period	--	3,133	7,703	10,836	(311)	10,525
Share buy back	--	(16)	--	(16)	--	(16)
Equity settled share-based transactions	--	422	--	422	13	435
Share option lapsed in an associate	--	(12)	12	--	--	--
Dividends to shareholders	--	--	(14,497)	(14,497)	--	(14,497)
Increase in share capital in a subsidiary	--	--	--	--	246	246
Total transactions with owners of the Group	--	394	(14,485)	(14,091)	259	(13,832)
Realisation of revaluation reserve	--	(437)	437	--	--	--
At 31 January 2013	182,327	76,039	145,870	404,236	378	404,614

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Condensed consolidated statement of cash flows for the period ended 31 January 2014 - unaudited

	6 months ended 31 January	
	2014 RM'000	2013 RM'000
Cash flows from operating activities		
Profit before tax	16,604	10,759
Adjustments for:		
Depreciation	30,406	14,537
Other non-cash items	1,577	3
Non-operating items	6,678	7,782
Operating profit before changes in working capital	55,265	33,081
Changes in working capital:		
Change in inventories	(32,899)	10,183
Change in trade and other receivables	(7,207)	107,036
Change in trade and other payables	(13,616)	(100,439)
Interest received	410	507
Tax paid	(3,593)	(6,407)
Net cash (used in)/from operating activities	(1,640)	43,961
Cash flows from investing activities		
Acquisition of property, plant and equipment	(23,551)	(14,106)
Proceeds from disposal of property, plant and equipment	647	1,549
Decrease in pledged deposit placed with licensed bank	334	--
Net cash (used in)/from investing activities	(22,570)	(12,557)
Cash flows from financing activities		
Bank borrowings	20,109	(39,250)
Dividend paid to owners of the Company	(9,422)	(14,497)
Funds from non-controlling interests	818	246
Repurchase of treasury shares	(6)	(16)
Net cash (used in)/from financing activities	11,499	(53,517)
Exchange differences on translation of the financial statements of foreign operations	6,906	3,133
Net change in cash and cash equivalents	(5,805)	(18,980)
Cash and cash equivalents at beginning of period	77,843	56,978
Foreign exchange differences on opening balances	1,607	198
Cash and cash equivalents at end of period	73,645	38,196
Cash and cash equivalent comprise:		
Cash and bank balances	70,583	28,445
Deposit with licensed banks	12,048	11,269
Bank overdrafts	(8,986)	(1,518)
	73,645	38,196

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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 six months period ended 31 January 2014 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 2013 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 26 March 2014.

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 2013.

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 2013.

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 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)
September 2013	5,000	1.29	1.27	1.28	6,439

As at the date of this interim report, a total of 1,129,336 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 second interim single tier dividend of 3.0 sen per ordinary share of RM1.00 each totalling RM5,436,071 in respect of the financial year ended 31 July 2013 on 30 October 2013; and
- (b) a first interim single tier dividend of 2.2 sen per ordinary share of RM1.00 each totalling RM3,986,446 in respect of the financial year ending 31 July 2014 on 28 January 2014.

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8. Segment information

(a) Information about reportable segments

	6 months ended 31 January 2014			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	496,632	32,505	274,890	804,027
Segment profit/(loss) before tax	18,569	1,044	(1,960)	17,653

	6 months ended 31 January 2013			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	504,980	53,335	--	558,315
Inter-segment revenue	354	--	--	354
Segment profit/(loss) before tax	13,337	3,768	--	17,105

(b) Reconciliation of reportable segment profit or loss

	6 months ended 31 January	
	2014 RM'000	2013 RM'000
Total profit for reportable segments	17,653	17,105
Other non-reportable segments	(1,462)	(601)
Elimination of inter-segment profits	413	53
Loss on dilution of interest in an associate	-	(5,878)
Share of profit of associate not included in reportable segments	-	80
Consolidated profit before tax	16,604	10,759

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 changes in the composition of the Group for the current quarter and financial year-to-date.

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11. Contingent liabilities and contingent assets

The Group does not have any contingent liabilities and contingent assets as at 31 January 2014.

12. Capital Commitments

	31.01.2014 RM'000
Property, plant and equipment	
Contracted but not provided for	<u>899</u>

13. Related party transactions

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

	6 months ended 31 January	
	2014 RM'000	2013 RM'000
Subsidiaries in which certain Directors have financial interest		
- Purchases	<u>2,941</u>	<u>793</u>
A company which is wholly owned by close family member of certain Directors		
- Sales commission income/sales	486	852
- Purchases	<u>2,665</u>	<u>1,154</u>
A company in which certain Directors have substantial financial interest		
- Rental payable	<u>58</u>	<u>116</u>
Companies in which a major shareholder has financial interest		
- Purchases	<u>3,634</u>	<u>2,185</u>
Associates		
- Sales	<u>1,086</u>	<u>-</u>
A company which is controlled by close family member of a Director		
- Sub-contracting fee payable	<u>3,410</u>	<u>-</u>
A company which is controlled by a Director		
- Operating lease charges and management fee payable	<u>2,120</u>	<u>-</u>
A company which is controlled by close family member of a key management personnel		
- Repair and maintenance services payable	<u>222</u>	<u>-</u>
Remuneration paid to staff who are close family member of certain Directors	<u>746</u>	<u>462</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 higher revenue of RM367.4 million as compared to RM233.9 million in the preceding year's corresponding quarter, whilst profit before tax was RM6.4 million versus RM0.3 million previously.

For the six months period ended 31 January 2014, the Group recorded a revenue of RM804.6 million as compared to RM561.8 million of the corresponding period of the preceding year, whilst profit before tax was RM16.6 million versus RM10.8 million.

The higher revenue for the current quarter and financial period under review was mainly attributable to consolidation of V.S. International Group Limited and its subsidiaries, effective 10 July 2013.

The higher profit before tax for the current quarter and financial period under review was mainly due to improved sales mix for the Malaysian operations and the followings:-

	3 months ended 31 January		6 months ended 31 January	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Net foreign exchange (gain)/loss	516	(499)	809	(1,469)
Derivative (gain)/loss on currency forward contracts	(2,237)	(119)	(3,113)	850
Loss on dilution of interest in an associate	-	5,878	-	5,878

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

	Individual Quarter 31 January		Cumulative Quarter 31 January	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Revenue				
Malaysia	219,975	205,547	496,632	504,980
Indonesia	15,793	28,056	32,505	53,335
China	131,282	-	274,890	-
Profit/(loss) before tax				
Malaysia	4,786	2,852	18,569	13,337
Indonesia	246	1,213	1,044	3,768
China	1,169	-	(1,960)	-

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Malaysia segment

The higher profit before tax in the current quarter was mainly due to higher sales to key customers.

The higher profit before tax despite decrease in revenue in cumulative quarter was mainly due to improved sales mix.

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.

China segment

The associate, V.S. International Group Limited became a subsidiary effective 10 July 2013.

15. Variation of results against preceding quarter

For the current quarter under review, the Group recorded a lower profit before tax of RM6.4 million as compared to profit before tax of RM10.2 million in the preceding quarter. This was mainly due to lower revenue generated.

16. Current year prospects

The Board is mindful of the continuing challenges faced by the global economy. While the Group is experiencing reducing orders from an existing key customer due to extreme competition, it has developed a new key customer in recent years which is expected to contribute significantly to the future growth of the Group.

17. Profit forecast

Not applicable.

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18. Tax expense

	Individual 3 months ended 31 January		Cumulative 6 months ended 31 January	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Tax expense				
Malaysia – Current period	3,431	545	5,056	3,150
Overseas – Current period	897	364	2,036	1,080
	4,328	909	7,092	4,230
Deferred tax expense				
Malaysia – Current period	(1,368)	(212)	(1,237)	(855)
Overseas – Current period	(189)	-	(372)	-
	(1,557)	(212)	(1,609)	(855)
	<u>2,771</u>	<u>697</u>	<u>5,483</u>	<u>3,375</u>

The effective tax for the financial year-to-date is higher than the statutory tax rate due to on-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

	31.01.2014 RM'000	31.07.2013 RM'000
Non-current		
<i>Secured</i>		
Term loans	90,796	94,584
Finance lease liabilities	175	251
<i>Unsecured</i>		
Term loans	63,812	55,755
	<u>154,783</u>	<u>150,590</u>
Current		
<i>Secured</i>		
Term loan	13,371	12,974
Bank overdraft	8,225	10,029
Short term loan	38,341	26,438
Trust receipts	34,726	24,038
Finance lease liabilities	146	395
<i>Unsecured</i>		
Term loans	24,521	20,243
Bank overdraft	761	-
Bankers' acceptance	78,915	81,794
Trust receipts	3,539	13,317
Short term loan	20,682	16,939
Revolving credit	9,800	5,000
	<u>233,027</u>	<u>211,167</u>
	<u>387,810</u>	<u>361,757</u>

Borrowings denominated in US Dollar amounted to RM148.3 million.
(31.7.2013 : RM143.6 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		6 months ended	
	31 January		31 January	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Profit for the period is arrived at after charging/(crediting)				
Depreciation of property, plant and equipment	14,901	7,387	30,406	14,537
Net foreign exchange (gain)/loss	516	(499)	809	(1,469)
(Gain)/Loss on disposal of property, plant and equipment	(168)	(237)	(204)	(450)
Derivative (gain)/loss on currency forward contracts	(2,237)	(119)	(3,113)	850
Allowance for slow moving inventories	1,571	-	2,054	-
Loss on dilution of interest in an associate	-	5,878	-	5,878

23. Dividends

- (a) No dividend is proposed for the current quarter.
- (b) The total dividend per share for the current financial year is 2.2 sen (previous year corresponding period: 2.0 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 shareholders of RM3.8 million and RM13.3 respectively and the weighted average number of ordinary shares of 181,203,000 and 181,204,000 respectively.

(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.

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25. Disclosure of realised and unrealised profits/losses

	Current Quarter 31.01.2014	Preceding Quarter 31.10.2013
Total retained profits of the Company and its subsidiaries		
- Realised	125,842	128,780
- Unrealised	(16,259)	(17,460)
	<u>109,583</u>	<u>111,320</u>
Total share of retained profit from associates		
- Realised	(4,972)	(4,972)
	<u>104,611</u>	<u>106,348</u>
Consolidation adjustments	125,965	124,976
Total group retained profit as per consolidated accounts	<u><u>230,576</u></u>	<u><u>231,324</u></u>