

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

Interim Financial Report
31 October 2016

V.S. Industry Berhad

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

Condensed consolidated statement of financial position As at 31 October 2016 – unaudited

	31.10.2016 RM'000	31.07.2016 RM'000
Assets		
Property, plant and equipment	707,220	680,719
Prepaid lease payments	98,052	97,118
Investment properties	4,800	4,800
Intangible assets	2,799	2,718
Investment in associates	9,752	9,628
Other investments	64,300	63,013
Prepayments	13,548	5,983
Deferred tax assets	10,320	9,987
Total non-current assets	910,791	873,966
Inventories	307,405	306,603
Trade and other receivables	744,706	583,436
Tax recoverable	1,192	2,037
Cash and cash equivalents	342,938	218,401
Total current assets	1,396,241	1,110,477
Total assets	2,307,032	1,984,443
Equity		
Share capital	235,367	235,169
Reserves	682,579	644,734
Total equity attributable to owners of the Company	917,946	879,903
Non-controlling interests	185,622	185,980
Total equity	1,103,568	1,065,883
Liabilities		
Long term payables	4,322	4,322
Loans and borrowings	107,346	92,473
Deferred tax liabilities	47,986	47,500
Total non-current liabilities	159,654	144,295
Trade and other payables	644,240	440,558
Loans and borrowings	384,237	322,570
Taxation	15,333	11,137
Total current liabilities	1,043,810	774,265
Total liabilities	1,203,464	918,560
Total equity and liabilities	2,307,032	1,984,443
Net assets per share of RM0.20 each	0.78	0.75

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Condensed consolidated statement of comprehensive income for the period ended 31 October 2016 - unaudited

	Individual 3 months ended 31 October		Cumulative 3 months ended 31 October	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Revenue	680,018	612,465	680,018	612,465
Cost of sales	(587,970)	(505,824)	(587,970)	(505,824)
Gross profit	92,048	106,641	92,048	106,641
Operating expenses	(42,315)	(43,674)	(42,315)	(43,674)
Net other income/(expenses)	606	16,153	606	16,153
Results from operating activities	50,339	79,120	50,339	79,120
Finance costs	(5,157)	(4,750)	(5,157)	(4,750)
Interest income	303	632	303	632
Share of profit/(loss) of associates, net of tax	8	(142)	8	(142)
Profit before tax	45,493	74,860	45,493	74,860
Tax expense	(15,259)	(16,186)	(15,259)	(16,186)
Profit for the period	30,234	58,674	30,234	58,674
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	14,383	43,751	14,383	43,751
Total comprehensive income for the period	44,617	102,425	44,617	102,425
Profit attributable to:				
Owners of the Company	33,508	60,177	33,508	60,177
Non-controlling interests	(3,274)	(1,503)	(3,274)	(1,503)
Profit for the period	30,234	58,674	30,234	58,674

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Condensed consolidated statement of comprehensive income for the period ended 31 October 2016 – unaudited (Cont'd)

	Individual 3 months ended 31 October		Cumulative 3 months ended 31 October	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Total comprehensive income attributable to:				
Owners of the Company	45,646	82,275	45,646	82,275
Non-controlling interests	(1,029)	20,150	(1,029)	20,150
Total comprehensive income for the period	44,617	102,425	44,617	102,425
Basic earnings per ordinary share (sen)	2.86	5.22	2.86	5.22
Diluted earnings per ordinary share (sen)	2.72	4.93	2.72	4.93

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Condensed consolidated statement of changes in equity for the period ended 31 October 2016 - 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 2015	235,169	233,210	411,524	879,903	185,980	1,065,883
Foreign currency translation differences for foreign operations	--	12,138	--	12,138	2,245	14,383
Profit for the period	--	--	33,508	33,508	(3,274)	30,234
Total comprehensive income for the period	--	12,138	33,508	45,646	(1,029)	44,617
Equity settled share-based transactions	198	1,565	--	1,763	(128)	1,635
Dividends to shareholders	--	--	(9,366)	(9,366)	--	(9,366)
Increase in share capital in subsidiaries	--	--	--	--	799	799
Total transactions with owners of the Group	198	1,565	(9,366)	(7,603)	671	(6,932)
Realisation of revaluation reserve	--	(467)	467	--	--	--
At 31 October 2016	235,367	246,446	436,133	917,946	185,622	1,103,568

	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 2014	230,848	188,675	357,511	777,034	202,591	979,625
Foreign currency translation differences for foreign operations	--	22,098	--	22,098	21,653	43,751
Profit for the period	--	--	60,177	60,177	(1,503)	58,674
Total comprehensive income for the period	--	22,098	60,177	82,275	20,150	102,425
Equity settled share-based transactions	1,639	6,427	--	8,066	63	8,129
Dividends to shareholders	--	--	(13,875)	(13,875)	--	(13,875)
Increase in share capital in subsidiaries	--	--	--	--	518	518
Total transactions with owners of the Group	1,639	6,427	(13,875)	(5,809)	581	(5,228)
Realisation of revaluation reserve	--	(467)	467	--	--	--
At 31 October 2015	232,487	216,733	404,280	853,500	223,322	1,076,822

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Condensed consolidated statement of cash flows for the period ended 31 October 2016 - unaudited

	3 months ended 31 October	
	2016 RM'000	2015 RM'000
Cash flows from operating activities		
Profit before tax	45,493	74,860
Adjustments for:		
Depreciation and amortisation	17,024	18,199
Other non-cash items	1,074	2,497
Non-operating items	4,399	2,800
Operating profit before changes in working capital	67,990	98,356
Changes in working capital:		
Change in inventories	(458)	11,465
Change in trade and other receivables	(161,490)	(74,177)
Change in trade and other payables	194,474	(4,308)
Interest received	304	632
Tax paid	(10,065)	(4,868)
Net cash (used in)/from operating activities	90,755	27,100
Cash flows from investing activities		
Acquisition of property, plant and equipment	(40,392)	(9,545)
Proceeds from disposal of property, plant and equipment	984	2,941
Increase in pledged deposits placed with licensed banks	(24,108)	(1,284)
Prepayments	(7,565)	(6,664)
Other investments	(434)	-
Net cash (used in)/from investing activities	(71,515)	(14,552)
Cash flows from financing activities		
Bank borrowings	70,657	76,094
Dividend paid to owners of the Company	(9,366)	(13,875)
Proceeds from issuance of shares	694	5,740
Funds from non-controlling interests	799	518
Repurchase of treasury shares	--	--
Net cash (used in)/from financing activities	62,784	68,477
Exchange differences on translation of the financial statements of foreign operations	12,138	22,098
Net change in cash and cash equivalents	94,162	103,123
Cash and cash equivalents at beginning of period	199,230	224,153
Foreign exchange differences on opening balances	5,095	8,095
Cash and cash equivalents at end of period	298,487	335,371
Cash and cash equivalent comprise:		
Cash and bank balances	290,179	329,192
Deposit with licensed banks	20,700	17,467
Bank overdrafts	(12,392)	(11,288)
	298,487	335,371

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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 2016 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 23 December 2016.

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 993,000 ordinary shares of RM0.20 each 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 fourth interim single tier dividend of 0.8 sen per ordinary share of RM0.20 each totalling RM9,366,357 in respect of the financial year ended 31 July 2016 on 28 October 2016.

8. Segment information

(a) Information about reportable segments

	3 months ended 31 October 2016			
	Malaysia	Indonesia	China	Total
	RM'000	RM'000	RM'000	RM'000
External revenue	504,004	43,558	131,541	679,103
Inter-segment revenue	1,458	--	--	1,458
Segment profit/(loss) before tax	45,392	4,813	(4,948)	45,257

	3 months ended 31 October 2015			
	Malaysia	Indonesia	China	Total
	RM'000	RM'000	RM'000	RM'000
External revenue	430,254	30,864	150,236	611,354
Inter-segment revenue	52	--	--	52
Segment profit/(loss) before tax	72,785	3,092	(937)	74,940

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8. Segment information (Cont'd)

(b) Reconciliation of reportable segment profit or loss

	3 months ended 31 October	
	2016 RM'000	2015 RM'000
Total profit for reportable segments	45,257	74,940
Other non-reportable segments	228	(251)
Elimination of inter-segment profits	-	313
Share of profit of associate not included in reportable segments	8	(142)
Consolidated profit before tax	<u>45,493</u>	<u>74,860</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 except for the completion of the second tranche subscription in NEP Holdings (Malaysia) Berhad ("NEP") on 2 November 2016 whereby the Company holds 20% equity interest in NEP and hence NEP has become an associate of the Company.

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 2016.

12. Capital Commitments

	31.10.2016 RM'000
Property, plant and equipment Contracted but not provided for	<u>13,099</u>

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13. Related party transactions

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

	3 months ended 31 October	
	2016 RM'000	2015 RM'000
Subsidiaries in which certain Directors have financial interest		
- Sales	548	955
A company which is wholly owned by close family member of certain Directors		
- Purchases	547	170
A company in which spouse of a Director has financial interest		
- Purchases	14,791	8,599
Associates		
- Sales	824	2,723
A company which is controlled by close family member of a Director		
- Sub-contracting fee payable	1,262	1,156
A company which is controlled by a Director		
- Operating lease charges and management fee payable	812	1,336
A company which is controlled by close family member of a key management personnel		
- Repair and maintenance services payable	354	64
Remuneration paid to staff who are close family member of certain Directors	640	454

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 RM680.0 million, an increase of RM67.5 million or 11.0% as compared to the previous corresponding quarter. Profit before tax stood at RM45.5 million, dropped by 39.2% or RM29.4 million over the same period.

The lower earnings for the current quarter was mainly attributable to high initial start up cost incurred by the Malaysian operations in preparation for the upcoming substantial box built order for the second half of the financial year 2017. In addition, the Group also registered net foreign exchange loss of RM0.4 million in the current quarter against net foreign exchange gain of RM14.6 million in the preceding year's corresponding quarter.

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

	Individual Quarter	
	31 October	
	2016	2015
	RM'000	RM'000
Revenue		
Malaysia	504,004	430,254
Indonesia	43,558	30,864
China	131,541	150,236
Profit/(loss) before tax		
Malaysia	45,392	72,785
Indonesia	4,813	3,092
China	(4,948)	(937)

Malaysia segment

Malaysia segment recorded an increase of 17% or RM73.8 million in revenue for the current quarter as compared to previous corresponding quarter due to higher sales orders from our key customers. However, lower profit before tax of RM45.4 million was recorded in the current quarter as compared to RM72.8 million previously, mainly owing to high initial start-up cost incurred in preparation for the upcoming substantial box built order anticipated from a key customer. To further elaborate, close to 1,000 new foreign factory operators were hired in the current quarter. Arising from the new hiring, the hiring agency costs, foreign employee levies, training costs and salary costs were incurred. At the same time, the corresponding revenue stream from this batch of workers would only commence gradually from second financial quarter onwards. Apart from increased salary costs, hiring and training costs, the Group also incurred some setup costs in preparing the plant for the forthcoming new orders.

Indonesia segment

Indonesia segment continued to perform well, and recorded higher profit before tax in tandem with higher sales orders from key customers.

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14. Review of performance (Cont'd)

China segment

China segment recorded higher loss in the current quarter against the preceding year's corresponding quarter due to lower sales and higher raw materials incurred arising from a weaker RMB against USD during the period under review.

15. Variation of results against preceding quarter

For the current quarter under review, the Group recorded a higher profit before tax of RM45.5 million as compared to profit before tax of RM8.9 million in the preceding quarter mainly attributable to higher sales contributed by the Malaysia operations and the absence of impairment loss, as explained in the following:-

	Current quarter RM'000	Preceding quarter RM'000
Net foreign exchange (gain)/loss	370	(3,321)
Impairment loss:		
- Other investments	--	7,623
- Deposits	--	21,767

16. Current year prospects

Following the award of the vertical integration status by the Group's key UK-based customer in May 2016, the Group expects to gradually receive much more box built orders which on a collective basis are expected to contribute to substantial growth in revenue. However, in the initial period, the Group would incur some costs as explained above. In this respect, the Group expects to perform much better in the second half of financial year 2017 as the production volume and efficiency will pick up.

On its operations in China, the Group expects improved performance going forward as it has since commenced mass production of a new product for a key customer in China and this contributes to higher plant utilization rate.

On a macro basis, the Group is also aware of the increasing challenging operating environment in view of the volatile USD/RM foreign exchange rate.

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 current financial year.

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17. Profit forecast

Not applicable.

18. Tax expense

	Individual 3 months ended 31 October		Cumulative 3 months ended 31 October	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Tax expense				
Malaysia - Current period	12,852	15,810	12,852	15,810
Overseas - Current period	2,521	2,401	2,521	2,401
	<u>15,373</u>	<u>18,211</u>	<u>15,373</u>	<u>18,211</u>
Deferred tax expense				
Malaysia - Current period	114	(1,780)	114	(1,780)
Overseas - Current period	(228)	(245)	(228)	(245)
	<u>(114)</u>	<u>(2,025)</u>	<u>(114)</u>	<u>(2,025)</u>
	<u>15,259</u>	<u>16,186</u>	<u>15,259</u>	<u>16,186</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

	31.10.2016	31.07.2016
	RM'000	RM'000
Non-current		
<i>Secured</i>		
Term loans	47,766	52,290
Finance lease liabilities	9,166	9,787
<i>Unsecured</i>		
Term loans	50,414	30,396
	<u>107,346</u>	<u>92,473</u>
Current		
<i>Secured</i>		
Term loan	25,223	24,392
Bank overdraft	12,392	10,730
Short term loan	35,620	18,369
Trust receipts	42,683	38,345
Finance lease liabilities	4,225	4,233
<i>Unsecured</i>		
Term loans	26,677	19,802
Bank overdraft	-	490
Bankers' acceptance	119,844	94,176
Trust receipts	97,244	93,649
Short term loan	10,429	10,284
Revolving credit	9,900	8,100
	<u>384,237</u>	<u>322,570</u>
	<u>491,583</u>	<u>415,043</u>

Borrowings denominated in US Dollar amounted to RM125.7 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	
	31 October	
	2016	2015
	RM'000	RM'000
Profit for the period is arrived at after charging/(crediting)		
Depreciation and amortisation	17,024	18,199
Net foreign exchange (gain)/loss	370	(14,608)
(Gain)/Loss on disposal of property, plant and equipment	103	(99)
Plant and equipment written off	-	63
Derivative (gain)/loss on currency forward contracts	-	(25)

23. Dividends

- (a) A first interim single tier dividend of 1.2 sen per ordinary share of RM0.20 each amounting to approximately RM14.0 million was declared on 23 December 2016 for the financial year ending 31 July 2017 and will be paid on 15 March 2017 to shareholders whose names appear on the Company's Record of Depositors on 28 February 2017.
- (b) The total dividend per share for the current financial year is 1.2 sen (previous year corresponding period: 1.5 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 RM33.5 million and the weighted average number of ordinary shares of 1,170.410 million and.

(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 RM33.5 million and the weighted average number of ordinary shares, adjusted for the dilutive effects of potential ordinary shares of 1,230.626 million.

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25. Disclosure of realised and unrealised profits/losses

	Current Quarter 31.10.2016	Preceding Quarter 31.07.2016
Total retained profits of the Company and its subsidiaries		
- Realised	269,959	249,222
- Unrealised	6,264	6,024
	<hr/> 276,223	<hr/> 255,246
Total share of retained profit from associates		
- Realised	(6,544)	(4,932)
	<hr/> 269,679	<hr/> 250,314
Consolidation adjustments	166,454	161,210
Total group retained profit as per consolidated accounts	<hr/> <hr/> 436,133	<hr/> <hr/> 411,524