

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

Interim Financial Report
31 January 2017

V.S. Industry Berhad

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

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

	31.01.2017 RM'000	31.07.2016 RM'000
Assets		
Property, plant and equipment	749,785	680,719
Prepaid lease payments	101,604	97,118
Investment properties	4,800	4,800
Intangible assets	-	2,718
Investment in associates	78,094	9,628
Other investments	45,660	63,013
Prepayments	11,240	5,983
Deferred tax assets	9,959	9,987
Total non-current assets	1,001,142	873,966
Inventories	369,789	306,603
Trade and other receivables	695,784	583,436
Tax recoverable	1,192	2,037
Cash and cash equivalents	430,487	218,401
Total current assets	1,497,252	1,110,477
Total assets	2,498,394	1,984,443
Equity		
Share capital	237,302	235,169
Reserves	753,427	644,734
Equity attributable to owners of the Company	990,729	879,903
Non-controlling interests	200,614	185,980
Total equity	1,191,343	1,065,883
Liabilities		
Long term payables	4,322	4,322
Loans and borrowings	132,544	92,473
Deferred tax liabilities	53,355	47,500
Total non-current liabilities	190,221	144,295
Trade and other payables	646,396	440,558
Loans and borrowings	449,840	322,570
Taxation	20,594	11,137
Total current liabilities	1,116,830	774,265
Total liabilities	1,307,051	918,560
Total equity and liabilities	2,498,394	1,984,443
Net assets per share	0.84	0.75

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

	Individual 3 months ended 31 January		Cumulative 6 months ended 31 January	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Revenue	763,838	501,113	1,443,856	1,113,578
Cost of sales	(643,509)	(415,195)	(1,231,479)	(921,019)
Gross profit	120,329	85,918	212,377	192,559
Operating expenses	(57,010)	(45,072)	(99,325)	(88,746)
Net other income/(expenses)	1,547	(1,129)	2,153	15,024
Results from operating activities	64,866	39,717	115,205	118,837
Finance costs	(5,869)	(4,001)	(11,026)	(8,751)
Interest income	801	376	1,104	1,008
Share of profit/(loss) of associates, net of tax	759	(281)	767	(423)
Profit before tax	60,557	35,811	106,050	110,671
Tax expense	(18,581)	(7,687)	(33,840)	(23,873)
Profit for the period	41,976	28,124	72,210	86,798
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	47,356	(28,318)	61,739	15,433
Total comprehensive income for the period	89,332	(194)	133,949	102,231
Profit attributable to:				
Owners of the Company	35,506	27,500	69,014	87,677
Non-controlling interests	6,470	624	3,196	(879)
Profit for the period	41,976	28,124	72,210	86,798

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

	Individual 3 months ended 31 January		Cumulative 6 months ended 31 January	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Total comprehensive income attributable to:				
Owners of the Company	75,407	13,973	121,053	96,248
Non-controlling interests	13,925	(14,167)	12,896	5,983
Total comprehensive income for the period	89,332	(194)	133,949	102,231
Basic earnings per ordinary share (sen)	3.02	2.37	5.89	7.58
Diluted earnings per ordinary share (sen)	2.89	2.23	5.62	7.16

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Condensed consolidated statement of changes in equity for the period ended 31 January 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 2015	235,169	233,210	411,524	879,903	185,980	1,065,883
Foreign currency translation differences for foreign operations	--	49,935	--	49,935	9,700	59,635
Profit for the period	--	--	69,014	69,014	3,196	72,210
Total comprehensive income for the period	--	49,935	69,014	118,949	12,896	131,845
Equity settled share-based transactions	2,133	8,382	133	10,648	909	11,557
Dividends to shareholders	--	--	(18,771)	(18,771)	--	(18,771)
Increase in share capital in subsidiaries	--	--	--	--	829	829
Total transactions with owners of the Group	2,133	8,382	(18,638)	(8,123)	1,738	(6,385)
Realisation of revaluation reserve	--	(763)	763	--	--	--
Transferred from retained earnings	--	1,473	(1,473)	--	--	--
At 31 January 2017	237,302	292,237	461,190	990,729	200,614	1,191,343

	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	--	8,571	--	8,571	6,862	15,433
Profit for the period	--	--	87,677	87,677	(879)	86,798
Total comprehensive income for the period	--	8,571	87,677	96,248	5,983	102,231
Equity settled share-based transactions	2,912	11,968	--	14,880	166	15,046
Dividends to shareholders	--	--	(27,831)	(27,831)	--	(27,831)
Increase in share capital in subsidiaries	--	--	--	--	706	706
Total transactions with owners of the Group	2,912	11,968	(27,831)	(12,951)	872	(12,079)
Realisation of revaluation reserve	--	(763)	763	--	--	--
Transferred from retained earnings	--	1,730	(1,730)	--	--	--
At 31 January 2016	233,760	210,181	416,390	860,331	209,446	1,069,777

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

	6 months ended 31 January	
	2017 RM'000	2016 RM'000
Cash flows from operating activities		
Profit before tax	106,050	110,671
Adjustments for:		
Depreciation and amortisation	37,913	37,127
Other non-cash items	4,709	4,627
Non-operating items	7,950	7,206
Operating profit before changes in working capital	156,622	159,631
Changes in working capital:		
Change in inventories	(63,186)	12,184
Change in trade and other receivables	(109,773)	31,534
Change in trade and other payables	147,396	(31,489)
Interest received	1,105	1,008
Tax paid	(17,655)	(14,172)
Net cash (used in)/from operating activities	114,509	158,696
Cash flows from investing activities		
Acquisition of property, plant and equipment	(66,859)	(40,902)
Proceeds from disposal of property, plant and equipment	4,870	5,090
Change in pledged deposits	(68,890)	2,693
Prepayments	(5,257)	-
Other investments	(47,385)	(4,293)
Net cash (used in)/from investing activities	(183,521)	(37,412)
Cash flows from financing activities		
Bank borrowings	154,641	(40,640)
Dividend paid to owners of the Company	(18,771)	(27,831)
Proceeds from issuance of shares	7,466	10,195
Funds from non-controlling interests	829	706
Net cash (used in)/from financing activities	144,165	(57,570)
Exchange differences on translation of the financial statements of foreign operations	49,935	8,571
Net change in cash and cash equivalents	125,088	72,285
Cash and cash equivalents at beginning of period	199,230	224,153
Foreign exchange differences on opening balances	15,490	5,408
Cash and cash equivalents at end of period	339,808	301,846
Cash and cash equivalent comprise:		
Cash and bank balances	339,956	304,168
Deposit with licensed banks	13,690	9,065
Bank overdrafts	(13,838)	(11,387)
	339,808	301,846

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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 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 28 March 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 10.667 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; and
- (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.

8. Segment information

- (a) Information about reportable segments

	6 months ended 31 January 2017			
	Malaysia	Indonesia	China	Total
	RM'000	RM'000	RM'000	RM'000
External revenue	944,550	77,515	420,751	1,442,816
Inter-segment revenue	1,959	--	--	1,959
Segment profit/(loss) before tax	91,231	5,269	13,897	110,397

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8. Segment information (Cont'd)

	6 months ended 31 January 2016			
	Malaysia	Indonesia	China	Total
	RM'000	RM'000	RM'000	RM'000
External revenue	741,911	56,083	314,408	1,112,402
Inter-segment revenue	52	--	886	938
Segment profit/(loss) before tax	104,573	3,798	3,837	112,208

(b) Reconciliation of reportable segment profit or loss

	6 months ended 31 January	
	2017	2016
	RM'000	RM'000
Total profit for reportable segments	110,397	112,208
Other non-reportable segments	(5,114)	(706)
Elimination of inter-segment profits	-	(408)
Share of profit of associate not included in reportable segments	767	(423)
Consolidated profit before tax	106,050	110,671

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 January 2017.

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12. Capital Commitments

	31.01.2017 RM'000
Property, plant and equipment	
Contracted but not provided for	<u>12,500</u>

13. Related party transactions

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

	6 months ended 31 January	
	2017	2016
	RM'000	RM'000
Subsidiaries in which certain Directors have financial interest		
- Purchase	225	322
- Sales	639	1,023
A company which is wholly owned by close family member of certain Directors		
- Purchases	<u>1,286</u>	<u>575</u>
A company in which spouse of a Director has financial interest		
- Purchases	<u>23,277</u>	<u>15,154</u>
Associates		
- Sales	<u>844</u>	<u>3,369</u>
A company which is controlled by close family member of a Director		
- Sub-contracting fee payable	<u>2,409</u>	<u>2,718</u>
A company which is controlled by a Director		
- Operating lease charges and management fee payable	<u>2,497</u>	<u>2,632</u>
A company which is controlled by close family member of a key management personnel		
- Repair and maintenance services payable	<u>501</u>	<u>110</u>
Remuneration paid to staff who are close family member of certain Directors	<u>1,587</u>	<u>1,178</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 RM763.8 million, an increase of RM262.7 million or 52.4% as compared to the previous corresponding quarter. Profit before tax stood at RM60.6 million, grew by 69.1% or RM24.7 million over the same period.

For the six months period ended 31 January 2017, the Group recorded a revenue of RM1,443.9 million as compared to the corresponding period of the preceding year of RM1,113.6 million. Profit before tax stood at RM106.1 million, dropped by 4.2% or RM4.6 million over the same period.

The improved earnings for the current quarter was mainly attributable to higher sales orders from key customers.

The lower earnings for the cumulative quarter despite higher revenue 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 coupled with the followings:-

	6 months ended	
	31 January	
	2017	2016
	RM'000	RM'000
Net foreign exchange (gain)/loss	(6,868)	(12,843)
Impairment on intangible assets	2,865	--

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

	Individual Quarter		Cumulative Quarter	
	31 January		31 January	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Revenue				
Malaysia	440,546	311,657	944,550	741,911
Indonesia	33,957	25,219	77,515	56,083
China	289,210	164,172	420,751	314,408
Profit/(loss) before tax				
Malaysia	45,839	31,788	91,231	104,573
Indonesia	456	706	5,269	3,798
China	18,845	4,774	13,897	3,837

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14. Review of performance (Cont'd)

Malaysia segment

For the current quarter, Malaysia segment recorded higher profit before tax mainly due to higher sales orders from key customers, including the new box built orders from key customers mentioned below.

For the cumulative quarter, Malaysia segment recorded lower profit before tax despite increase in revenue mainly owing to high initial start-up cost incurred in preparation for the upcoming substantial box built orders placed by key customers. To further elaborate, close to 1,000 new foreign factory operators were hired in the previous 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 only commence gradually from current 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

For the current quarter, Indonesia segment recorded lower profit before tax mainly due to higher operating expenses was incurred.

For the cumulative quarter, Indonesia segment recorded higher profit before tax in tandem with higher sales from key customers.

China segment

China segment recorded higher profit before tax for the current quarter and cumulative quarter mainly due to higher sales orders from a key customer, following the commencement of mass production of a new product for this customer, which has received very encouraging sales response from the end-user consumers.

15. Variation of results against preceding quarter

For the current quarter under review, the Group recorded a higher profit before tax of RM60.6 million as compared to profit before tax of RM45.5 million in the preceding quarter mainly attributable to higher sales contributed by the Malaysia and China operations and the followings:-

	Current quarter RM'000	Preceding quarter RM'000
Net foreign exchange (gain)/loss	(7,238)	370
Impairment loss on intangible assets	2,865	--

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16. Current year prospects

Following the award of the vertical integration status by the Group's key 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 has commenced mass production of a new product for a key customer in China and this has contributed to higher plant utilization rate. The Group continues to strive to secure new and replenishment sales orders from its customers, and expect performance to be satisfactory going forward.

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.

17. Profit forecast

Not applicable.

18. Tax expense

	Individual 3 months ended 31 January		Cumulative 6 months ended 31 January	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Tax expense				
Malaysia - Current period	11,011	6,917	23,863	22,727
Overseas - Current period	3,698	3,131	6,219	5,532
	<u>14,709</u>	<u>10,048</u>	<u>30,082</u>	<u>28,259</u>
Deferred tax expense				
Malaysia - Current period	4,108	(2,428)	4,222	(4,208)
Overseas - Current period	(236)	67	(464)	(178)
	<u>3,872</u>	<u>(2,361)</u>	<u>3,758</u>	<u>(4,386)</u>
	<u>18,581</u>	<u>7,687</u>	<u>33,840</u>	<u>23,873</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.

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19. Status of uncompleted corporate proposals

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

20. Borrowing and debt securities

	31.01.2017 RM'000	31.07.2016 RM'000
Non-current		
<i>Secured</i>		
Term loans	43,676	52,290
Finance lease liabilities	8,988	9,787
<i>Unsecured</i>		
Term loans	79,880	30,396
	<u>132,544</u>	<u>92,473</u>
Current		
<i>Secured</i>		
Term loan	26,571	24,392
Bank overdraft	13,763	10,730
Short term loan	66,947	18,369
Trust receipts	51,098	38,345
Finance lease liabilities	4,370	4,233
<i>Unsecured</i>		
Term loans	36,038	19,802
Bank overdraft	75	490
Bankers' acceptance	114,902	94,176
Trust receipts	120,222	93,649
Short term loan	10,854	10,284
Revolving credit	5,000	8,100
	<u>449,840</u>	<u>322,570</u>
	<u>582,384</u>	<u>415,043</u>

Borrowings denominated in US Dollar amounted to RM153.6 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		6 months ended	
	31 January		31 January	
	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	20,889	18,928	37,913	37,127
Net foreign exchange (gain)/loss	(7,238)	1,765	(6,868)	(12,843)
(Gain)/Loss on disposal of property, plant and equipment	144	(414)	247	(513)
Plant and equipment written off	20	18	20	81
Derivative (gain)/loss on currency forward contracts	-	300	-	275
Impairment on intangible assets	2,865	-	2,865	-

23. Dividends

- (a) A second interim single tier dividend of 1.2 sen per ordinary share amounting to approximately RM14.2 million was declared on 28 March 2017 for the financial year ending 31 July 2017 and will be paid on 12 May 2017 to shareholders whose names appear on the Company's Record of Depositors on 28 April 2017.
- (b) The total dividend per share for the current financial year is 2.4 sen (previous year corresponding period: 2.3 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 RM35.5 million and RM69.0 million respectively and the weighted average number of ordinary shares of 1,174.506 million and 1,172.458 million respectively.

(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 RM35.5 million and RM69.0 million respectively and the weighted average number of ordinary shares, adjusted for the dilutive effects of potential ordinary shares of 1,230.056 million and 1,227.516 million respectively.

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25. Disclosure of realised and unrealised profits/losses

	Current Quarter 31.01.2017	Preceding Quarter 31.10.2016
Total retained profits of the Company and its subsidiaries		
- Realised	304,959	269,959
- Unrealised	1,495	6,264
	<hr/> 306,454	<hr/> 276,223
Total share of retained profit from associates		
- Realised	(5,785)	(6,544)
	<hr/> 300,669	<hr/> 269,679
Consolidation adjustments	160,521	166,454
	<hr/> 461,190	<hr/> 436,133
Total group retained profit as per consolidated accounts	<hr/> <hr/> 461,190	<hr/> <hr/> 436,133