

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

Interim Financial Report
30 April 2018

V.S. Industry Berhad

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

Condensed consolidated statement of financial position As at 30 April 2018 – unaudited

	30.04.2018 RM'000	31.07.2017 RM'000
Assets		
Property, plant and equipment	882,947	841,043
Prepaid lease payments	84,143	98,359
Investment properties	4,900	4,900
Investment in associates	76,974	76,885
Other investments	60,864	40,268
Prepayments	10,516	7,263
Deferred tax assets	2,781	3,883
Total non-current assets	1,123,125	1,072,601
Inventories	485,146	479,814
Trade and other receivables	979,362	996,017
Tax recoverable	1,260	1,302
Cash and cash equivalents	394,725	344,919
Total current assets	1,860,493	1,822,052
Total assets	2,983,618	2,894,653
Equity		
Share capital	568,729	369,109
Reserves	685,213	688,437
Equity attributable to owners of the Company	1,253,942	1,057,546
Non-controlling interests	237,043	220,410
Total equity	1,490,985	1,277,956
Liabilities		
Long term payables	4,322	4,322
Loans and borrowings	92,473	119,049
Deferred tax liabilities	72,004	72,945
Total non-current liabilities	168,799	196,316
Trade and other payables	723,417	818,842
Loans and borrowings	587,755	587,832
Taxation	12,662	13,707
Total current liabilities	1,323,834	1,420,381
Total liabilities	1,492,633	1,616,697
Total equity and liabilities	2,983,618	2,894,653
Net assets per share	0.94	0.88

V.S. Industry Berhad

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

Condensed consolidated statement of comprehensive income for the period ended 30 April 2018 - unaudited

	Individual 3 months ended 30 April		Cumulative 9 months ended 30 April	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Revenue	879,811	854,108	3,078,255	2,297,964
Cost of sales	(806,291)	(723,921)	(2,759,082)	(1,955,400)
Gross profit	73,520	130,187	319,173	342,564
Operating expenses	(50,098)	(52,551)	(164,965)	(151,876)
Net other income/(expenses)	10,532	(199)	14,912	1,954
Results from operating activities	33,954	77,437	169,120	192,642
Finance costs	(6,567)	(6,298)	(22,490)	(17,324)
Interest income	1,802	1,075	4,347	2,179
Share of profit/(loss) of associates, net of tax	(791)	(2,413)	342	(1,646)
Profit before tax	28,398	69,801	151,319	175,851
Tax expense	(6,758)	(19,793)	(36,866)	(53,633)
Profit for the period	21,640	50,008	114,453	122,218
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	10,333	(23,441)	(53,223)	38,298
Total comprehensive income for the period	31,973	26,567	61,230	160,516
Profit attributable to:				
Owners of the Company	21,055	50,499	112,325	119,513
Non-controlling interests	585	(491)	2,128	2,705
Profit for the period	21,640	50,008	114,453	122,218

V.S. Industry Berhad

(Company No. 88160-P)

(Incorporated in Malaysia)

Condensed consolidated statement of comprehensive income for the period ended 30 April 2018 – unaudited (Cont'd)

	Individual 3 months ended 30 April		Cumulative 9 months ended 30 April	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Total comprehensive income attributable to:				
Owners of the Company	30,473	31,527	64,848	152,580
Non-controlling interests	1,500	(4,960)	(3,618)	7,936
Total comprehensive income for the period	<u>31,973</u>	<u>26,567</u>	<u>61,230</u>	<u>160,516</u>
Basic earnings per ordinary share (sen)	<u>1.59</u>	<u>4.26</u>	<u>8.80</u>	<u>10.16</u>
Diluted earnings per ordinary share (sen)	<u>1.46</u>	<u>4.06</u>	<u>7.98</u>	<u>9.71</u>

V.S. Industry Berhad

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

Condensed consolidated statement of changes in equity for the period ended 30 April 2018 - 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 2017	369,109	183,898	504,539	1,057,546	220,410	1,277,956
Foreign currency translation differences for foreign operations	--	(47,477)	--	(47,477)	(5,746)	(53,223)
Profit for the period	--	--	112,325	112,325	2,128	114,453
Total comprehensive income for the period	--	(47,477)	112,325	64,848	(3,618)	61,230
Equity settled share-based transactions	16,857	599	14	17,470	823	18,293
Conversion of warrants	182,763	--	--	182,763	--	182,763
Dividends to shareholders	--	--	(64,953)	(64,953)	--	(64,953)
Increase in share capital in subsidiaries	--	--	(3,727)	(3,727)	26,693	22,966
Total transactions with owners of the Group	199,620	599	(68,666)	131,553	27,516	159,069
Realisation of revaluation reserve	--	(1,582)	1,582	--	--	--
Transferred from retained earnings	--	676	(676)	--	--	--
Effect of change in functional currency of a subsidiary	--	333	11,733	12,066	--	12,066
Disposal of a subsidiary	--	(13,002)	931	(12,071)	(7,265)	(19,336)
At 30 April 2018	568,729	123,445	561,768	1,253,942	237,043	1,490,985

	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	--	33,067	--	33,067	5,231	38,298
Profit for the period	--	--	119,513	119,513	2,705	122,218
Total comprehensive income for the period	--	33,067	119,513	152,580	7,936	160,516
Equity settled share-based transactions	6,443	11,304	134	17,881	2,170	20,051
Dividends to shareholders	--	--	(32,946)	(32,946)	--	(32,946)
Increase in share capital in subsidiaries	--	--	--	--	1,522	1,522
Total transactions with owners of the Group	6,443	11,304	(32,812)	(15,065)	3,692	(11,373)
Realisation of revaluation reserve	--	(1,059)	1,059	--	--	--
Transferred from retained earnings	--	1,440	(1,440)	--	--	--
Transfer in accordance with Section 618(2) of the Companies Act 2016	113,873	(113,873)	--	--	--	--
At 30 April 2017	355,485	164,089	497,844	1,017,418	197,608	1,215,026

V.S. Industry Berhad

(Company No. 88160-P)

(Incorporated in Malaysia)

Condensed consolidated statement of cash flows for the period ended 30 April 2018 - unaudited

	9 months ended 30 April	
	2018 RM'000	2017 RM'000
Cash flows from operating activities		
Profit before tax	151,319	175,851
Adjustments for:		
Depreciation and amortisation	60,174	56,581
Other non-cash items	5,661	9,418
Non-operating items	16,075	15,591
Operating profit before changes in working capital	233,229	257,441
Changes in working capital:		
Change in inventories	(25,467)	(84,929)
Change in trade and other receivables	(10,976)	(230,389)
Change in trade and other payables	(28,935)	177,442
Interest received	4,321	2,179
Tax paid	(37,774)	(30,472)
Net cash (used in)/from operating activities	134,398	91,272
Cash flows from investing activities		
Acquisition of property, plant and equipment	(138,849)	(113,211)
Proceeds from disposal of property, plant and equipment	3,384	5,863
Change in pledged deposits	2,355	(49,106)
Prepayments	(3,253)	(3,639)
Other investments	(20,596)	(46,072)
Net cash (used in)/from investing activities	(156,959)	(206,165)
Cash flows from financing activities		
Bank borrowings	(15,650)	121,862
Dividend paid to owners of the Company	(64,953)	(32,946)
Proceeds from issuance of shares	199,620	11,774
Funds from non-controlling interests	22,966	1,522
Net cash (used in)/from financing activities	141,983	102,212
Exchange differences on translation of the financial statements of foreign operations	(47,477)	33,067
Net change in cash and cash equivalents	71,945	20,386
Cash and cash equivalents at beginning of period	285,654	199,230
Foreign exchange differences on opening balances	(6,613)	11,219
Cash and cash equivalents at end of period	350,986	230,835
Cash and cash equivalent comprise:		
Cash and bank balances	322,817	239,738
Deposit with licensed banks	28,917	4,410
Bank overdrafts	(748)	(13,313)
	350,986	230,835

V.S. Industry Berhad

(Company No. 88160-P)

(Incorporated in Malaysia)

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 2018 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 2017 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 June 2018.

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 2017.

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 2017.

3. Seasonal or cyclical factors

The Group's operations are not significantly affected by any seasonal or cyclical factors.

V.S. Industry Berhad

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

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 129.75 million ordinary shares pursuant to the exercise of share options under the Company's Employees Share Option Scheme and conversion of Warrants.

7. Dividends paid

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

- (a) a fourth interim dividend of 1.0 sen per ordinary share totalling RM12,263,284 in respect of the financial year ended 31 July 2017 on 27 October 2017;
- (b) a final dividend of 1.0 per ordinary share totalling RM12,994,134 in respect of the financial year ended 31 July 2017 on 30 January 2018;
- (c) a first interim dividend of 1.5 per ordinary share totalling RM19,781,797 in respect of the financial year ending 31 July 2018 on 12 March 2018; and
- (d) a second interim dividend of 1.5 per ordinary share totalling RM19,914,165 in respect of the financial year ending 31 July 2018 on 27 April 2018.

8. Segment information

- (a) Information about reportable segments

	9 months ended 30 April 2018			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	2,287,057	241,952	547,128	3,076,137
Inter-segment revenue	48	--	--	48
Segment profit/(loss) before tax	139,886	4,231	7,753	151,870

V.S. Industry Berhad

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

8. Segment information (Cont'd)

	9 months ended 30 April 2017			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	1,557,343	111,707	626,659	2,295,709
Inter-segment revenue	2,709	--	1,197	3,906
Segment profit/(loss) before tax	157,222	6,715	19,139	183,076

(b) Reconciliation of reportable segment profit or loss

	9 months ended 30 April	
	2018 RM'000	2017 RM'000
Total profit for reportable segments	151,870	183,076
Other non-reportable segments	(893)	(5,579)
Share of profit of associate not included in reportable segments	342	(1,646)
Consolidated profit before tax	151,319	175,851

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 bonus issue on the basis of one (1) bonus share for every four (4) existing shares held on 8 May 2018.

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 30 April 2018.

12. Capital Commitments

	30.04.2018 RM'000
Property, plant and equipment Contracted but not provided for	6,726

V.S. Industry Berhad

(Company No. 88160-P)

(Incorporated in Malaysia)

13. Related party transactions

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

	9 months ended	
	30 April	
	2018	2017
	RM'000	RM'000
Subsidiaries in which certain Directors have financial interest		
- Purchases	-	928
- Sales	48	669
	<u>48</u>	<u>669</u>
A company which is wholly owned by close family member of certain Directors		
- Purchases	3,246	2,290
	<u>3,246</u>	<u>2,290</u>
A company in which spouse of a Director has financial interest		
- Purchases	6,739	27,787
	<u>6,739</u>	<u>27,787</u>
Associates		
- Sales	2,492	2,953
	<u>2,492</u>	<u>2,953</u>
A company which is controlled by close family member of a Director		
- Sub-contracting fee payable	3,203	4,012
	<u>3,203</u>	<u>4,012</u>
A company which is controlled by a Director		
- Operating lease charges and management fee payable	3,827	3,761
	<u>3,827</u>	<u>3,761</u>
A company which is controlled by close family member of a key management personnel		
- Repair and maintenance services payable	548	722
	<u>548</u>	<u>722</u>
Remuneration paid to staff who are close family member of certain Directors		
	<u>2,485</u>	<u>2,249</u>

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

V.S. Industry Berhad

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

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 RM879.8 million, a marginal increase of RM25.7 million or 3.01% as compared to the previous corresponding quarter. Profit before tax, meanwhile, decreased 59.3% or RM41.4 million to RM28.4 million over the same period.

For the nine months period ended 30 April 2018, the Group recorded a revenue of RM3,078.3 million as compared to the corresponding period of the preceding year of RM2,298.0 million. Profit before tax stood at RM151.3 million, a decline of 14.0% or RM24.5 million over the same period.

The reduced earnings for the current quarter and cumulative period was mainly attributable to lower gross margin caused by higher raw material prices as well as labour costs, coupled with the followings:-

	Individual Quarter 30 April		Cumulative Quarter 30 April	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Net foreign exchange (gain)/loss	(11,682)	474	(22,103)	(6,394)

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

	Individual Quarter 30 April		Cumulative Quarter 30 April	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Revenue				
Malaysia	693,462	612,793	2,287,057	1,557,343
Indonesia	54,433	34,192	241,952	111,707
China	131,912	205,908	547,128	626,659
Profit/(loss) before tax				
Malaysia	28,457	65,991	139,886	157,222
Indonesia	(1,173)	1,446	4,231	6,715
China	1,423	5,242	7,753	19,139

Malaysia segment

Malaysia segment posted 13.2% increase in revenue in the current quarter by comparison to previous year corresponding quarter mainly due to higher sales orders from key MNC customers, which offset the decline in revenue from a major US customer.

V.S. Industry Berhad

(Company No. 88160-P)

(Incorporated in Malaysia)

14. Review of performance (cont'd)

The lower profit before tax over the same period was largely owing to significant reduction in earnings contribution from the US customer following the planned cessation of production for certain models that had reached end of product lifecycle, as explained earlier in our preceding quarter's results under the "Current Year Prospects" section.

Meanwhile, other factors such as operational efficiency for the box-built assembly lines that has yet to achieve desired level, set-up and testing costs associated with an upcoming new production line and higher labour costs affected the gross profit margin.

For the cumulative quarters, Malaysia segment recorded lower profit before tax despite higher sales orders from key customers, largely owing to similar reasons mentioned above.

Indonesia segment

Indonesia segment recorded higher revenue for the current quarter and cumulative quarters mainly due to change from consignment basis to turnkey manufacturing for an existing customer. The loss before tax incurred for the quarter under review was attributed to underutilisation of production capacity.

China segment

China segment recorded lower revenue for the current quarter as a result of lower sales orders completed. Consequently, lower profit was recorded in line with the decline in revenue.

For the cumulative quarters, China segment registered lower profit before tax on the back of lower sales, increase in raw material costs and labour costs, and coupled with competitive operating environment which reduced the ability to pass-through costs to customers.

15. Variation of results against preceding quarter

For the current quarter under review, the Group recorded a lower profit before tax of RM28.4 million as compared to RM68.5 million in the preceding quarter mainly due to lower revenue of RM879.8 million, a decrease of RM233.5 million or 21.0% as compared to the immediate preceding quarter. Key factor behind the reduction in revenue and profit was the drop in sales orders from a US customer following the planned discontinuation of certain products that had reached its end of product lifecycle.

V.S. Industry Berhad

(Company No. 88160-P)

(Incorporated in Malaysia)

16. Current year prospects

Malaysia segment expects the box-built orders from key customers to sustain for the current financial year. Much efforts are being put in place to increase the overall operational efficiency and the results would be gradually discernible in the coming quarters. Additionally, the Group has since commenced production of new replacement model for the US customer and this would contribute from next quarter onwards.

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 perform satisfactorily for the current financial year.

17. Profit forecast

Not applicable.

V.S. Industry Berhad

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

18. Tax expense

	Individual 3 months ended 30 April		Cumulative 9 months ended 30 April	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Tax expense				
Malaysia - Current period	5,749	17,151	29,202	41,014
Overseas - Current period	(473)	1,956	1,681	8,175
	<u>5,276</u>	<u>19,107</u>	<u>30,883</u>	<u>49,189</u>
Deferred tax expense				
Malaysia - Current period	1,746	923	6,786	5,145
Overseas - Current period	(264)	(237)	(803)	(701)
	<u>1,482</u>	<u>686</u>	<u>5,983</u>	<u>4,444</u>
	<u>6,758</u>	<u>19,793</u>	<u>36,866</u>	<u>53,633</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.

20. Borrowing and debt securities

	30.04.2018 RM'000	31.07.2017 RM'000
Non-current		
<i>Secured</i>		
Term loans	13,941	34,040
Finance lease liabilities	17,880	18,792
<i>Unsecured</i>		
Term loans	<u>60,652</u>	<u>66,217</u>
	92,473	119,049
Current		
<i>Secured</i>		
Term loan	23,616	26,035
Trust receipts	107,886	88,410
Finance lease liabilities	7,724	6,922
Bank overdraft	748	13,919
Short term loan	-	19,080

V.S. Industry Berhad

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

20. Borrowing and debt securities (cont'd)

Unsecured

Term loans	58,402	34,566
Bankers' acceptance	148,770	202,356
Trust receipts	188,448	167,142
Short term loan	18,294	14,402
Revolving credit	33,867	15,000
	<u>587,755</u>	<u>587,832</u>
	<u>680,228</u>	<u>706,881</u>

Borrowings denominated in US Dollar amounted to RM278.1 million (31.7.2017 : RM168.4 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		9 months ended	
	30 April		30 April	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Profit for the period is arrived at after charging/(crediting)				
Depreciation and amortisation	19,538	18,668	60,174	56,581
Net foreign exchange (gain)/loss	(11,682)	474	(22,103)	(6,394)
(Gain)/Loss on disposal of property, plant and equipment	(79)	159	480	406

23. Dividends

- A third interim dividend of 0.5 sen per ordinary share amounting to approximately RM8.4 million was declared on 28 June 2018 for the financial year ending 31 July 2018 and will be paid on 31 July 2018 to shareholders whose names appear on the Company's Record of Depositors on 16 July 2018.
- The total dividend per share for the current financial year is 3.5 sen (previous year corresponding period: 3.9 sen).

V.S. Industry Berhad

(Company No. 88160-P)

(Incorporated in Malaysia)

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 RM21.1 million and RM112.3 million respectively and the weighted average number of ordinary shares of 1,325.900 million and 1,276.037 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 RM21.1 million and RM112.3 million respectively and the weighted average number of ordinary shares, adjusted for the dilutive effects of potential ordinary shares of 1,444.623 million and 1,407.235 million respectively.