

V.S. Industry Berhad
(Registration No. 198201008437 (88160-P))
(Incorporated in Malaysia)

Interim Financial Report
31 January 2022

V.S. Industry Berhad

(Registration No. 198201008437 (88160-P))

(Incorporated in Malaysia)

Condensed consolidated statement of financial position As at 31 January 2022 – unaudited

	31.01.2022 RM'000	31.07.2021 RM'000
Assets		
Property, plant and equipment	1,080,364	989,519
Right-of-use assets	103,095	103,406
Investments properties	23,114	23,114
Investments in associates	38,366	39,254
Other investments	208,563	205,020
Deferred tax assets	6,355	5,614
Total non-current assets	1,459,857	1,365,927
Inventories	674,400	636,542
Contract assets	178,374	194,962
Trade and other receivables	1,097,104	992,132
Current tax asset	19,596	6,417
Cash and cash equivalents	250,091	402,404
Total current assets	2,219,565	2,232,457
Total assets	3,679,422	3,598,384
Equity		
Share capital	847,980	842,358
Reserves	1,252,288	1,198,155
Equity attributable to owners of the Company	2,100,268	2,040,513
Non-controlling interests	174,206	176,996
Total equity	2,274,474	2,217,509
Liabilities		
Loans and borrowings	158,125	88,855
Loan from a Director	23,351	23,551
Deferred tax liabilities	68,798	68,371
Total non-current liabilities	250,274	180,777
Loans and borrowings	330,776	315,755
Trade and other payables	798,825	846,985
Contract liabilities	21,446	16,750
Due to a Director	--	2,384
Current tax liabilities	3,627	18,224
Total current liabilities	1,154,674	1,200,098
Total liabilities	1,404,948	1,380,875
Total equity and liabilities	3,679,422	3,598,384
Net assets per share	0.55	0.54

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Condensed consolidated statement of comprehensive income for the period ended 31 January 2022 - unaudited

	Individual 3 months ended 31 January		Cumulative 6 months ended 31 January	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Revenue	1,014,111	999,307	1,982,102	1,986,407
Cost of sales	(924,822)	(870,150)	(1,800,791)	(1,726,208)
Gross profit	89,289	129,157	181,311	260,199
Operating expenses	(38,523)	(40,388)	(82,696)	(81,580)
Net other income/(expenses)	5,375	(2,007)	10,399	(1,903)
Results from operating activities	56,141	86,762	109,014	176,716
Finance costs	(2,613)	(2,682)	(5,541)	(5,885)
Interest income	867	1,003	1,798	2,130
Share of profit/(loss) of associates, net of tax	(320)	158	(913)	690
Profit before tax	54,075	85,241	104,358	173,651
Tax expense	(11,764)	(21,663)	(24,297)	(46,203)
Profit for the period	42,311	63,578	80,061	127,448
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	14,422	(10,679)	(564)	(13,875)
Net change in fair value of equity instrument designated at fair value through other comprehensive income	(26,722)	142,104	4,383	176,221
Total comprehensive income for the period	30,011	195,003	83,880	289,794
Profit attributable to:				
Owners of the Company	44,487	63,794	83,879	130,471
Non-controlling interests	(2,176)	(216)	(3,818)	(3,023)
Profit for the period	42,311	63,578	80,061	127,448

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Condensed consolidated statement of comprehensive income for the period ended 31 January 2022 – unaudited (Cont'd)

	Individual 3 months ended 31 January		Cumulative 6 months ended 31 January	
	2022 RM'000	2021 RM'000	2021 RM'000	2021 RM'000
Total comprehensive income attributable to:				
Owners of the Company	29,372	193,309	86,670	286,881
Non-controlling interests	639	1,694	(2,790)	2,913
Total comprehensive income for the period	<u>30,011</u>	<u>195,003</u>	<u>83,880</u>	<u>289,794</u>
Basic earnings per ordinary share (sen)	<u>1.17</u>	<u>1.70</u>	<u>2.20</u>	<u>3.48</u>
Diluted earnings per ordinary share (sen)	<u>1.15</u>	<u>1.66</u>	<u>2.15</u>	<u>3.40</u>

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Condensed consolidated statement of changes in equity for the period ended 31 January 2022 - 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
<i>At 1 August 2021</i>	842,358	247,842	950,313	2,040,513	176,996	2,217,509
Foreign currency translation differences for foreign operations	--	(1,592)	--	(1,592)	1,028	(564)
Net change in fair value of equity instrument designated at FVOCI	--	4,383	--	4,383	--	4,383
Profit for the period	--	--	83,879	83,879	(3,818)	80,061
Total comprehensive income for the period	--	2,791	83,879	86,670	(2,790)	83,880
Equity settled share-based transactions	4,353	1,311	--	5,664	--	5,664
Conversion of warrants	1,269	--	--	1,269	--	1,269
Dividends to shareholders	--	--	(38,170)	(38,170)	--	(38,170)
Changes in ownership interests in a subsidiary	--	--	4,322	4,322	--	4,322
Total transactions with owners of the Group	5,622	1,311	(33,848)	(26,915)	--	(26,915)
Realisation of revaluation reserve	--	(1,213)	1,213	--	--	--
<i>At 31 January 2022</i>	847,980	250,731	1,001,557	2,100,268	174,206	2,274,474

	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
<i>At 1 August 2020</i>	782,947	120,724	805,345	1,709,016	167,587	1,876,603
Foreign currency translation differences for foreign operations	--	(19,811)	--	(19,811)	5,936	(13,875)
Net change in fair value of equity investment designated at FVOCI	--	176,221	--	176,221	--	176,221
Transfer upon disposal of equity investment designated at FVOCI	--	(2,885)	2,885	--	--	--
Profit for the period	--	--	130,471	130,471	(3,023)	127,448
Total comprehensive income for the period	--	153,525	133,356	286,881	2,913	289,794
Equity settled share-based transactions	31,631	(3,990)	--	27,641	--	27,641
Dividends to shareholders	--	--	(15,042)	(15,042)	--	(15,042)
Total transactions with owners of the Group	31,631	(3,990)	(15,042)	12,599	--	12,599
Realisation of revaluation reserve	--	(1,195)	1,195	--	--	--
<i>At 31 January 2021</i>	814,578	269,064	924,854	2,008,496	170,500	2,178,996

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Condensed consolidated statement of cash flows for the period ended 31 January 2022 - unaudited

	6 months ended 31 January	
	2022 RM'000	2021 RM'000
Cash flows from operating activities		
Profit before tax	104,358	173,651
Adjustments for:		
Depreciation	59,444	49,439
Other non-cash items	2,048	9,134
Non-operating items	4,228	2,567
Operating profit before changes in working capital	<u>170,078</u>	<u>234,791</u>
Changes in working capital:		
Change in inventories	(37,858)	(57,026)
Change in contract assets	16,588	(8,766)
Change in trade and other receivables	(104,972)	(118,362)
Change in trade and other payables	(67,383)	142,738
Change in contract liabilities	4,696	9,556
Interest received	1,798	2,130
Tax paid	(52,387)	(30,141)
Net cash (used in)/from operating activities	<u>(69,440)</u>	<u>174,920</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment	(127,306)	(121,236)
Proceeds from disposal of property, plant and equipment	1,428	2,146
Net proceeds on disposal of other investments	--	4,216
Changes in pledged deposits	24,941	15,143
Prepayments	--	3,584
Other investments	--	(203)
Dividend received from an associate	--	3,000
Net cash (used in)/from investing activities	<u>(100,937)</u>	<u>(93,350)</u>
Cash flows from financing activities		
Bank borrowings	79,178	35,741
Dividend paid to owners of the Company	(38,170)	(15,042)
Proceeds from issuance of shares	4,278	20,487
(Repayment)/Loan from a Director	(200)	(966)
Net cash (used in)/from financing activities	<u>45,086</u>	<u>40,220</u>
Exchange differences on translation of the financial statements of foreign operations	<u>(1,592)</u>	<u>(19,811)</u>
Net change in cash and cash equivalents	<u>(126,883)</u>	<u>101,979</u>
Cash and cash equivalents at beginning of period	<u>371,377</u>	<u>361,208</u>
Foreign exchange differences on opening balances	<u>(489)</u>	<u>763</u>
Cash and cash equivalents at end of period	<u>244,005</u>	<u>463,950</u>
Cash and cash equivalent comprise:		
Cash and cash equivalent in the statements of financial position	250,091	485,906
Less: Pledged deposits	<u>(6,086)</u>	<u>(21,956)</u>
	<u>244,005</u>	<u>463,950</u>

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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 2022 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 2021 are available upon request from the Company's registered office at:

Registered office

Suite 9D, Level 9
Menara Ansar
65, Jalan Trus
80000 Johor Bahru
Johor
Malaysia

These condensed consolidated interim financial statements were approved by the Board of Directors on 25 March 2022.

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 2021.

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 2021.

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 8.13 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 0.5 sen per ordinary share totalling RM19,082,901 in respect of the financial year ended 31 July 2021 on 29 October 2021; and
- (b) a final dividend of 0.5 sen per ordinary share totalling RM19,086,889 in respect of the financial year ended 31 July 2021 on 31 January 2022.

8. Segment information

- (a) Information about reportable segments

	6 months ended 31 January 2022			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	1,750,124	168,477	55,800	1,974,401
Segment profit/(loss) before tax	104,398	6,129	(8,680)	101,847

	6 months ended 31 January 2021			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	1,719,572	173,560	86,799	1,979,931
Segment profit/(loss) before tax	171,519	5,234	(6,128)	170,625

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8. Segment information (Cont'd)

(b) Reconciliation of reportable segment profit or loss

	6 months ended 31 January	
	2022 RM'000	2021 RM'000
Total profit for reportable segments	101,847	170,625
Other non-reportable segments	3,424	2,336
Share of profit of associate not included in reportable segments	(913)	690
Consolidated profit before tax	<u>104,358</u>	<u>173,651</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.

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 2022.

12. Capital commitments

	31.01.2022 RM'000
Property, plant and equipment Contracted but not provided for	<u>9,001</u>

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13. Related party transactions

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

	6 months ended 31 January	
	2022 RM'000	2021 RM'000
Subsidiaries in which certain Directors have financial interest		
- Purchase of plant and equipment	667	930
Companies which are wholly owned by close family member of certain Directors		
- Purchases	2,144	2,693
A company in which spouse of a Director has financial interest		
- Purchases	10,183	8,191
- Sales	1,340	1,055
Associates		
- Sales	450	--
A company which is controlled by close family member of a Director		
- Sub-contracting fee payable	--	505
A company which is controlled by a Director		
- Operating lease charges and management fee payable	477	451
A company which is controlled by close family member of a key management personnel		
- Repair and maintenance services payable	154	44
A company which is wholly owned by a Director		
- Rental receivable	75	150
A company which is wholly owned by close family member of a Director		
- Sales of plant and equipment	351	--
Remuneration paid to staff who are close family member of certain Directors	965	776

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 RM1,014.1 million, an increase of RM14.8 million as compared to the previous year corresponding quarter. Profit before tax was lower at RM54.1 million, a decline of RM31.2 million over the same period.

For the six months period ended 31 January 2022, the Group recorded a comparable revenue of RM1,982.1 million as compared to RM1,986.4 million in the preceding year corresponding period. Profit before tax stood at RM104.4 million, which was 39.9% or RM69.3 million lower over the same period.

The performance was affected by lower orders for Printed Circuit Board Assembly (“PCBA”) from key customers during the current quarter, coupled with disruption in global supply chain which affected supply of components. The impact was partially offset by contribution from box-built assembly for a new customer.

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

	Individual Quarter		Cumulative Quarter	
	31 January		31 January	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Revenue				
Malaysia	895,610	846,181	1,750,124	1,719,572
Indonesia	89,071	105,164	168,477	173,560
China	23,861	44,626	55,800	86,799
Profit/(Loss) before tax				
Malaysia	54,019	79,478	104,398	171,519
Indonesia	4,020	4,726	6,129	5,234
China	(5,510)	(615)	(8,680)	(6,128)

Malaysia segment

For the current quarter and cumulative quarters, Malaysia segment posted a 5.8% and 1.8% increase in revenue respectively due to higher sales orders from key customers. Meanwhile, profit before tax dropped by 32.0% and 39.1% respectively over the same period. The reduced profitability was affected by a combination of factors that included increase in labour and raw materials costs, as well as higher depreciation incurred from new facilities while mass production for a new key customer has yet to achieve optimal level. These, along with worker shortage issue and disruptions to supply chain (in particular, component shortage), had led to lower operational efficiency.

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14. Review of performance (Cont'd)

Indonesia segment

For the quarter under review, Indonesia segment recorded lower revenue and profit before tax of RM89.1 million and RM4.0 million respectively, as compared to the same period last year. This was due to lower sales orders received from customers. On cumulative basis, profit before tax was 17.1% higher at RM6.1 million despite a 2.9% drop in revenue as the segment registered strong profitability in the preceding quarter (1st quarter).

China segment

China segment registered a lower revenue for the current quarter and cumulative quarters as operations remained under-utilised in the absence of large orders. Operating loss for the quarter was higher by comparison to preceding year corresponding quarter as the revenue base was insufficient to cover the fixed cost, in addition to challenges faced from rising cost structure and difficult operating landscape in the country.

15. Variation of results against preceding quarter

	Current Quarter 31 January 2022 RM'000	Preceding Quarter 31 October 2021 RM'000
Revenue	1,014,111	967,991
Profit before tax	54,075	50,283
Profit attributable to owners of the Company	44,487	39,392

For the current quarter under review, the Group recorded a higher profit before tax in line with the increase in revenue, coupled with the absence of one-off setup costs for the Industrial Vaccination Centre (PPVIN) and the vaccination cost for the entire workforce.

16. Current year prospects

The current challenging operating environment brought about by the Covid-19 pandemic and geopolitical uncertainties, among others, are expected to prevail. Various issues such as shortages in labour, component parts and shipping containers continue to plague many industries globally, including electronics manufacturing services. This has resulted in a rising cost environment with pressure on profit margins.

On a positive note, overall demand by customers remains strong and is largely expected to sustain in the coming quarters. Mass production for the new key customer is expected to ramp up once labour sufficiency issue is resolved.

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16. Current year prospects (Cont'd)

Efforts are ongoing to step up hiring of locals following the ban on bringing in foreign workers since 2020. The overall labour situation continues to be taxing. Meanwhile, the Group has in February 2022 appointed PwC Consulting Associates (M) Sdn Bhd to conduct an independent third-party review of VS' labour practices, with the scope covering its whole workforce. Any further material development in this regard shall be announced from time to time.

Over in Indonesia, the performance is expected to sustain based on current order visibility. As for operations in China, the situation remains highly challenging especially given the strict measures taken by authority to manage rising Covid-19 cases. Cost management remains a key focus while efforts to secure new customers are still underway.

On balance, the Board is cautiously optimistic on the outlook of the Group and opines that the financial performance of the Group for the remaining quarters to be satisfactory.

17. Profit forecast

Not applicable.

18. Tax expense

	Individual 3 months ended 31 January		Cumulative 6 months ended 31 January	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Tax expense				
Current period	12,380	22,113	25,134	47,065
Deferred tax expense				
Current period	(616)	(450)	(837)	(862)
	<u>11,764</u>	<u>21,663</u>	<u>24,297</u>	<u>46,203</u>

The effective tax rate of the Group for the financial year-to-date was lower than the statutory tax rate mainly due to the recognition of tax incentive in relation to the reinvestment allowance.

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

	31.01.2022 RM'000	31.07.2021 RM'000
Non-current		
<i>Secured</i>		
Hire purchase liabilities	904	2,033
<i>Unsecured</i>		
Term loans	157,221	86,822
	<u>158,125</u>	<u>88,855</u>
Current		
<i>Secured</i>		
Trust receipts	3,222	20,767
Short term loan	1,890	14,309
Hire purchase liabilities	2,436	2,822
<i>Unsecured</i>		
Term loans	22,399	24,523
Bankers' acceptance	110,117	74,208
Trust receipts/Onshore loans	175,270	167,867
Short term loan	15,442	11,259
	<u>330,776</u>	<u>315,755</u>
	<u>488,901</u>	<u>404,610</u>

Borrowings denominated in US Dollar amounted to RM180.0 million (31.7.2021: RM228.4 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.

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22. Profit for the period

	3 months ended		6 months ended	
	31 January		31 January	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Profit for the period is arrived at after charging/(crediting)				
Depreciation	30,238	24,587	59,444	49,439
Net foreign exchange (gain)/loss	(4,091)	1,710	(7,357)	2,177
Loss/(Gain) on disposal of property, plant and equipment	(42)	1,718	(760)	1,781

23. Dividends

- (a) A second interim dividend of 0.4 sen per ordinary share was declared on 25 March 2022 for the financial year ending 31 July 2022 and will be paid on 29 April 2022 to shareholders whose names appear on the Company's Record of Depositors on 15 April 2022.
- (b) The total dividend per share for the current financial year is 0.8 sen (previous year corresponding period: 2.4 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 RM44.5 million and RM83.9 million respectively and the weighted average number of ordinary shares of 3,816.947 million and 3,815.514 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 RM44.5 million and RM83.9 million respectively and the weighted average number of ordinary shares, adjusted for the dilutive effects of potential ordinary shares of 3,871.404 million and 3,901.907 million respectively.