

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

Interim Financial Report
30 April 2016

V.S. Industry Berhad

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

Condensed consolidated statement of financial position As at 30 April 2016 – unaudited

	30.04.2016 RM'000	31.07.2015 RM'000
Assets		
Property, plant and equipment	680,049	664,349
Prepaid lease payments	99,553	99,610
Investment properties	4,700	4,700
Investment in associates	7,005	8,101
Other investments	41,891	-
Intangible assets	2,441	2,333
Prepayments	5,638	45,089
Deferred tax assets	21,283	12,144
Total non-current assets	862,560	836,326
Inventories	260,197	272,755
Trade and other receivables	553,288	500,681
Tax recoverable	860	2,174
Cash and cash equivalents	229,444	243,742
Total current assets	1,043,789	1,019,352
Total assets	1,906,349	1,855,678
Equity		
Share capital	233,761	230,848
Reserves	621,351	546,186
Total equity attributable to owners of the Company	855,112	777,034
Non-controlling interests	198,355	202,591
Total equity	1,053,467	979,625
Liabilities		
Long term payables	4,322	4,322
Loans and borrowings	92,360	123,015
Deferred tax liabilities	54,417	50,783
Total non-current liabilities	151,099	178,120
Trade and other payables	408,251	396,190
Loans and borrowings	276,104	289,193
Taxation	17,428	12,550
Total current liabilities	701,783	697,933
Total liabilities	852,882	876,053
Total equity and liabilities	1,906,349	1,855,678
Net assets per share of RM0.20 each	0.74	0.68

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Condensed consolidated statement of comprehensive income for the period ended 30 April 2016 - unaudited

	Individual 3 months ended 30 April		Cumulative 9 months ended 30 April	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Revenue	507,844	420,100	1,621,422	1,430,042
Cost of sales	<u>(437,152)</u>	<u>(354,043)</u>	<u>(1,358,171)</u>	<u>(1,215,124)</u>
Gross profit	70,692	66,057	263,251	214,918
Operating expenses	(41,137)	(36,055)	(129,883)	(113,116)
Net other income/(expenses)	<u>(2,965)</u>	<u>8,313</u>	<u>12,059</u>	<u>13,875</u>
Results from operating activities	26,590	38,315	145,427	115,677
Finance costs	(3,566)	(3,812)	(12,317)	(13,218)
Interest income	264	218	1,272	751
Share of profit/(loss) of associates, net of tax	<u>(950)</u>	<u>(265)</u>	<u>(1,373)</u>	<u>(597)</u>
Profit before tax	22,338	34,456	133,009	102,613
Tax expense	<u>(4,577)</u>	<u>(10,592)</u>	<u>(28,450)</u>	<u>(27,337)</u>
Profit for the period	<u>17,761</u>	<u>23,864</u>	<u>104,559</u>	<u>75,276</u>
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	<u>(19,436)</u>	<u>(5,087)</u>	<u>(4,003)</u>	<u>29,134</u>
Total comprehensive income for the period	<u>(1,675)</u>	<u>18,777</u>	<u>100,556</u>	<u>104,410</u>
Profit attributable to:				
Owners of the Company	19,307	26,516	106,984	80,036
Non-controlling interests	<u>(1,546)</u>	<u>(2,652)</u>	<u>(2,425)</u>	<u>(4,760)</u>
Profit for the period	<u>17,761</u>	<u>23,864</u>	<u>104,559</u>	<u>75,276</u>

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Condensed consolidated statement of comprehensive income for the period ended 30 April 2016 – unaudited (Cont'd)

	Individual 3 months ended 30 April		Cumulative 9 months ended 30 April	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Total comprehensive income attributable to:				
Owners of the Company	9,090	23,920	105,338	96,139
Non-controlling interests	(10,765)	(5,143)	(4,782)	8,271
Total comprehensive income for the period	(1,675)	18,777	100,556	104,410
Basic earnings per ordinary share (sen)	1.66	2.58*	9.23	7.95*
Diluted earnings per ordinary share (sen)	1.58	-	8.74	-

*Restated for the effects of enlarged share capital pursuant to the share splits

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Condensed consolidated statement of cash flows for the period ended 30 April 2016 - unaudited

	9 months ended 30 April	
	2016 RM'000	2015 RM'000
Cash flows from operating activities		
Profit before tax	133,009	102,613
Adjustments for:		
Depreciation and amortisation	55,045	46,572
Other non-cash items	6,965	3,841
Non-operating items	11,076	11,657
Operating profit before changes in working capital	<u>206,095</u>	<u>164,683</u>
Changes in working capital:		
Change in inventories	12,558	14,012
Change in trade and other receivables	(12,775)	10,045
Change in trade and other payables	2,494	(107,339)
Interest received	1,272	751
Tax paid	(27,763)	(20,748)
Net cash (used in)/from operating activities	<u>181,881</u>	<u>61,404</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment	(72,413)	(47,662)
Proceeds from disposal of property, plant and equipment	6,678	2,089
Increase in pledged deposits placed with licensed banks	5,084	(605)
Other investments	(41,891)	--
Net cash (used in)/from investing activities	<u>(102,542)</u>	<u>(46,178)</u>
Cash flows from financing activities		
Bank borrowings	(56,614)	(42,817)
Dividend paid to owners of the Company	(45,274)	(24,823)
Proceeds from issuance of shares	10,198	32,939
Funds from non-controlling interests	1,505	69,092
Repurchase of treasury shares	(210)	(46)
Net cash (used in)/from financing activities	<u>(90,395)</u>	<u>34,345</u>
Exchange differences on translation of the financial statements of foreign operations	<u>(1,646)</u>	<u>16,103</u>
Net change in cash and cash equivalents	<u>(12,702)</u>	<u>65,674</u>
Cash and cash equivalents at beginning of period	<u>224,153</u>	<u>107,643</u>
Foreign exchange differences on opening balances	<u>1,550</u>	<u>7,753</u>
Cash and cash equivalents at end of period	<u>213,001</u>	<u>181,070</u>
Cash and cash equivalent comprise:		
Cash and bank balances	219,417	184,465
Deposit with licensed banks	4,168	3,983
Bank overdrafts	(10,584)	(7,378)
	<u>213,001</u>	<u>181,070</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 nine months period ended 30 April 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 2015 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 29 June 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 2015.

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 2015.

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 following:-

(a) Issuance of shares

14,567,300 ordinary shares of RM0.20 each were issued during the financial year-to-date pursuant to the exercise of share options under the Company's Employees Share Option Scheme.

(b) Share repurchase

The shares repurchased during the financial year to date and are being held as treasury shares are as follows:-

Month	No. of shares repurchased	Lowest price paid (RM)	Highest price paid (RM)	Average price paid (RM)	Total consideration (RM)
February 2016	170,000	1.16	1.33	1.23	209,836

As at the date of this interim report, a total of 5,916,680 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 fourth interim single tier dividend of 1.2 sen per ordinary share of RM0.20 each totalling RM13,874,758 in respect of the financial year ended 31 July 2015 on 30 October 2015;

(b) a final single tier dividend of 1.2 sen per ordinary share of RM0.20 each totalling RM13,956,554 in respect of the financial year ended 31 July 2015 on 29 January 2016;

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- (c) a first interim single tier dividend of 1.5 sen per ordinary share of RM0.20 each totalling RM17,443,324 in respect of the financial year ending 31 July 2016 on 11 March 2016; and
- (d) a second interim single tier dividend of 0.8 sen per ordinary share of RM0.20 each totalling RM9,303,109 in respect of the financial year ending 31 July 2016 on 13 May 2016.

8. Segment information

- (a) Information about reportable segments

	9 months ended 30 April 2016			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	1,098,209	82,371	438,989	1,619,569
Inter-segment revenue	1,394	--	867	2,261
Segment profit/(loss) before tax	127,937	4,788	2,780	135,505

	9 months ended 30 April 2015			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	989,340	58,022	381,196	1,428,558
Inter-segment revenue	944	--	6,160	7,104
Segment profit/(loss) before tax	111,962	(3,317)	(4,453)	104,192

- (b) Reconciliation of reportable segment profit or loss

	9 months ended 30 April	
	2016 RM'000	2015 RM'000
Total profit for reportable segments	135,505	104,192
Other non-reportable segments	(1,057)	113
Elimination of inter-segment profits	(66)	(1,095)
Share of profit of associate not included in reportable segments	(1,373)	(597)
Consolidated profit before tax	133,009	102,613

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.

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10. Changes in composition of the Group

There are no major changes in the composition of the Group for the financial year-to-date except for the incorporation of wholly owned subsidiaries, V S International Venture Pte. Ltd. and Guardian South East Asia Pte. Ltd..

11. Contingent liabilities and contingent assets

The Group does not have any contingent liabilities and contingent assets as at 30 April 2016.

12. Capital Commitments

	30.04.2016 RM'000
Property, plant and equipment Contracted but not provided for	<u>5,974</u>

13. Related party transactions

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

	9 months ended 30 April	
	2016 RM'000	2015 RM'000
Subsidiaries in which certain Directors have financial interest		
- Purchases	759	4,161
- Sales	1,342	946
A company which is wholly owned by close family member of certain Directors		
- Purchases	863	2,712
A company in which spouse of a Director has financial interest		
- Purchases	22,619	9,222
Associates		
- Sales	4,375	4,791
A company which is controlled by close family member of a Director		
- Sub-contracting fee payable	3,557	2,020
A company which is controlled by a Director		
- Operating lease charges and management fee payable	3,864	3,327
A company which is controlled by close family member of a key management personnel		
- Repair and maintenance services payable	134	265
Remuneration paid to staff who are close family member of certain Directors	1,836	1,228

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 revenue of RM507.8 million, an increase of 20.9% or RM87.7 million as compared to RM420.1 million recorded in the preceding year corresponding quarter. Profit before tax was RM22.3 million, a decrease of 35.2% or RM12.1 million over the corresponding period.

For the nine months period ended 30 April 2016, the Group recorded revenue of RM1,621.4 million, an increase of 13.4% or RM191.4 million as compared to RM1,430 million recorded in the preceding year corresponding period. Profit before tax was RM133.0 million, grew by 29.6% or RM30.4 million over the corresponding period.

Despite increase in revenue, the Group recorded lower profit before tax for the current quarter under review which was mainly due to lower gross profit margin resulting from weakening of US Dollar against Ringgit Malaysia during this quarter coupled with foreign exchange loss.

The earnings for the current and cumulative quarter were also affected by the following:-

	3 months ended 30 April		9 months ended 30 April	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Net foreign exchange (gain)/ loss	5,770	(7,993)	(7,073)	(13,215)

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

	Individual Quarter 30 April		Cumulative Quarter 30 April	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Revenue				
Malaysia	356,298	284,069	1,098,209	989,340
Indonesia	26,288	18,691	82,371	58,022
China	124,581	116,671	438,989	381,196
Profit/(Loss) before tax				
Malaysia	23,364	40,216	127,937	111,962
Indonesia	990	(2,613)	4,788	(3,317)
China	(1,057)	(2,956)	2,780	(4,453)

Malaysia segment

Malaysia segment recorded lower profit before tax for the current quarter mainly due to lower gross profit margin resulting from weakening of US Dollar against Ringgit Malaysia coupled with foreign exchange loss.

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Malaysia segment recorded higher profit before tax for the cumulative quarter mainly due to higher sales from key customers.

Indonesia segment

Indonesia segment recorded profit before tax for the current quarter and cumulative quarter mainly due to higher sales orders from key customers.

China segment

China segment recorded lower loss for the current quarter mainly due to higher sales.

China segment recorded profit before tax for the cumulative quarter mainly due to higher sales.

15. Variation of results against preceding quarter

For the current quarter under review, the Group recorded a lower profit before tax of RM22.3 million as compared to profit before tax of RM35.8 million in the preceding quarter mainly attributable to lower gross profit margin resulting from weakening of US Dollar against Ringgit Malaysia during the quarter and the following:-

	Current quarter RM'000	Preceding quarter RM'000
Net foreign exchange (gain)/loss	5,770	1,765

16. Current year prospects

The Group's operational environment remains strong in Malaysia. With continued strong support from the existing customers and new potential customers, the Board is optimistic that the Group will perform satisfactorily for the current financial year.

17. Profit forecast

Not applicable.

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18. Tax expense

	Individual 3 months ended 30 April		Cumulative 9 months ended 30 April	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Tax expense				
Malaysia - Current period	4,808	10,888	27,535	29,805
Overseas - Current period	1,624	1,933	7,156	4,933
	<u>6,432</u>	<u>12,821</u>	<u>34,691</u>	<u>34,783</u>
Deferred tax expense				
Malaysia - Current period	(1,573)	(2,005)	(5,781)	(6,838)
Overseas - Current period	(282)	(224)	(460)	(563)
	<u>(1,855)</u>	<u>(2,229)</u>	<u>(6,241)</u>	<u>(7,401)</u>
	<u>4,577</u>	<u>10,592</u>	<u>28,450</u>	<u>27,337</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 utilisation of tax incentive in relation to the enhanced export incentive.

19. Status of uncompleted corporate proposals

- (a) There are no outstanding uncompleted corporate proposals as at the date of this quarterly report.
- (b) The status of the utilisation of the proceeds raised from the private placement is as follows:

<u>Purpose</u>	<u>Proposed utilisation RM'000</u>	<u>Actual utilisation RM'000</u>
Working capital	78,321	78,169
Estimated expenses	500	652 ⁽¹⁾
Total gross proceeds	<u>78,821</u>	<u>78,821</u>

Note: ⁽¹⁾ Additional expenses were due to other incidental cost incurred in connection to the private placement.

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20. Borrowing and debt securities

	30.04.2016	31.07.2015
	RM'000	RM'000
Non-current		
<i>Secured</i>		
Term loans	56,071	71,925
Finance lease liabilities	1,855	2,929
<i>Unsecured</i>		
Term loans	34,434	48,161
	<u>92,360</u>	<u>123,015</u>
Current		
<i>Secured</i>		
Term loan	23,424	21,735
Bank overdraft	10,188	8,253
Short term loan	18,096	18,421
Trust receipts	40,688	30,195
Finance lease liabilities	1,899	2,250
<i>Unsecured</i>		
Term loans	19,331	18,723
Bank overdraft	396	393
Bankers' acceptance	82,458	81,613
Trust receipts	67,662	88,997
Short term loan	6,962	13,613
Revolving credit	5,000	5,000
	<u>276,104</u>	<u>289,193</u>
	<u>368,464</u>	<u>412,208</u>

Borrowings denominated in US Dollar amounted to RM189.4 million (31.7.2015 : RM217.7 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		9 months ended	
	30 April		30 April	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Profit for the period is arrived at after charging/(crediting)				
Depreciation and amortisation	17,918	15,757	55,045	46,572
Net foreign exchange (gain)/loss	5,770	(7,993)	(7,073)	(13,215)
(Gain)/Loss on disposal of property, plant and equipment	313	(218)	(200)	709
Plant and equipment written off	3	1,061	84	1,061
Derivative (gain)/loss on currency forward contracts	(6)	(371)	269	(386)

23. Dividends

- (a) A third interim single tier dividend of 0.8 sen per ordinary share of RM0.20 each amounting to approximately RM9.4 million was declared on 29 June 2016 for the financial year ending 31 July 2016 and will be paid on 28 July 2016 to shareholders whose names appear on the Company's Record of Depositors on 15 July 2016.
- (b) The total dividend per share for the current financial year is 3.1 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 RM19.3 million and RM107.0 million respectively and the weighted average number of ordinary shares of 1,163.062 million and 1,159.305 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 RM19.3 million and RM107.0 million respectively and the weighted average number of ordinary shares, adjusted for the dilutive effects of potential ordinary shares of 1,220.255 million and 1,223.386 million respectively.

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25. Disclosure of realised and unrealised profits/losses

	Current Quarter 30.04.2016	Preceding Quarter 31.01.2016
Total retained profits of the Company and its subsidiaries		
- Realised	264,850	265,363
- Unrealised	10,759	10,225
	<hr/> 275,609	<hr/> 275,588
Total share of retained profit from associates		
- Realised	(7,925)	(6,975)
	<hr/> 267,684	<hr/> 268,613
Consolidation adjustments	151,989	147,777
Total group retained profit as per consolidated accounts	<hr/> <hr/> 419,673	<hr/> <hr/> 416,390