

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

Interim Financial Report
31 October 2017

V.S. Industry Berhad

(Company No. 88160-P)

(Incorporated in Malaysia)

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

	31.10.2017 RM'000	31.07.2017 RM'000
Assets		
Property, plant and equipment	824,401	841,043
Prepaid lease payments	96,891	98,359
Investment properties	4,900	4,900
Investment in associates	77,852	76,885
Other investments	39,870	40,268
Prepayments	8,676	7,263
Deferred tax assets	3,172	3,883
Total non-current assets	1,055,762	1,072,601
Inventories	445,446	479,814
Trade and other receivables	1,010,845	996,017
Tax recoverable	1,175	1,302
Cash and cash equivalents	370,020	344,919
Assets held for sale	123,007	--
Total current assets	1,950,493	1,822,052
Total assets	3,006,255	2,894,653
Equity		
Share capital	427,236	369,109
Reserves	717,908	688,437
Equity attributable to owners of the Company	1,145,144	1,057,546
Non-controlling interests	245,389	220,410
Total equity	1,390,533	1,277,956
Liabilities		
Long term payables	4,322	4,322
Loans and borrowings	104,684	119,049
Deferred tax liabilities	75,977	72,945
Total non-current liabilities	184,983	196,316
Trade and other payables	804,575	818,842
Loans and borrowings	539,467	587,832
Taxation	17,176	13,707
Liabilities held for sale	69,521	--
Total current liabilities	1,430,739	1,420,381
Total liabilities	1,615,722	1,616,697
Total equity and liabilities	3,006,255	2,894,653
Net assets per share	0.92	0.88

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

	Individual 3 months ended 31 October		Cumulative 3 months ended 31 October	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Revenue	1,085,147	680,018	1,085,147	680,018
Cost of sales	(969,390)	(587,970)	(969,390)	(587,970)
Gross profit	115,757	92,048	115,757	92,048
Operating expenses	(52,273)	(42,315)	(52,273)	(42,315)
Net other income/(expenses)	(3,116)	606	(3,116)	606
Results from operating activities	60,368	50,339	60,368	50,339
Finance costs	(8,090)	(5,157)	(8,090)	(5,157)
Interest income	1,205	303	1,205	303
Share of profit/(loss) of associates, net of tax	923	8	923	8
Profit before tax	54,406	45,493	54,406	45,493
Tax expense	(17,257)	(15,259)	(17,257)	(15,259)
Profit for the period	37,149	30,234	37,149	30,234
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	(14,685)	14,383	(14,685)	14,383
Total comprehensive income for the period	22,464	44,617	22,464	44,617
Profit attributable to:				
Owners of the Company	45,991	33,508	45,991	33,508
Non-controlling interests	(8,842)	(3,274)	(8,842)	(3,274)
Profit for the period	37,149	30,234	37,149	30,234

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

	Individual 3 months ended 31 October		Cumulative 3 months ended 31 October	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Total comprehensive income attributable to:				
Owners of the Company	30,651	45,646	30,651	45,646
Non-controlling interests	(8,187)	(1,029)	(8,187)	(1,029)
Total comprehensive income for the period	<u>22,464</u>	<u>44,617</u>	<u>22,464</u>	<u>44,617</u>
Basic earnings per ordinary share (sen)	<u>3.51</u>	<u>2.86</u>	<u>3.51</u>	<u>2.86</u>
Diluted earnings per ordinary share (sen)	<u>3.33</u>	<u>2.72</u>	<u>3.33</u>	<u>2.72</u>

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Condensed consolidated statement of changes in equity for the period ended 31 October 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 2016	369,109	183,898	504,539	1,057,546	220,410	1,277,956
Foreign currency translation differences for foreign operations	--	(15,340)	--	(15,340)	655	(14,685)
Profit for the period	--	--	45,991	45,991	(8,842)	37,149
Total comprehensive income for the period	--	(15,340)	45,991	30,651	(8,187)	22,464
Equity settled share-based transactions	9,671	580	3	10,254	262	10,516
Conversion of warrants	48,456	--	--	48,456	--	48,456
Dividends to shareholders	--	--	(12,263)	(12,263)	--	(12,263)
Increase in share capital in subsidiaries	--	--	(1,439)	(1,439)	32,904	31,465
Total transactions with owners of the Group	58,127	580	(13,699)	45,008	33,166	78,174
Realisation of revaluation reserve	--	(676)	676	--	--	--
Effect of change in functional currency of a subsidiary	--	282	11,657	11,939	--	11,939
At 31 October 2017	427,236	168,744	549,164	1,145,144	245,389	1,390,533

	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

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

	3 months ended 31 October	
	2017 RM'000	2016 RM'000
Cash flows from operating activities		
Profit before tax	54,406	45,493
Adjustments for:		
Depreciation and amortisation	19,422	17,024
Other non-cash items	1,885	1,074
Non-operating items	5,146	4,399
Operating profit before changes in working capital	80,859	67,990
Changes in working capital:		
Change in inventories	13,705	(458)
Change in trade and other receivables	(62,993)	(161,490)
Change in trade and other payables	47,361	194,474
Interest received	1,206	304
Tax paid	(10,706)	(10,065)
Net cash (used in)/from operating activities	69,432	90,755
Cash flows from investing activities		
Acquisition of property, plant and equipment	(46,177)	(40,392)
Proceeds from disposal of property, plant and equipment	2,128	984
Change in pledged deposits	6,602	(24,108)
Prepayments	(1,413)	(7,565)
Other investments	-	(434)
Net cash (used in)/from investing activities	(38,860)	(71,515)
Cash flows from financing activities		
Bank borrowings	(37,750)	70,657
Dividend paid to owners of the Company	(12,263)	(9,366)
Proceeds from issuance of shares	58,127	694
Funds from non-controlling interests	31,465	799
Net cash (used in)/from financing activities	39,579	62,784
Exchange differences on translation of the financial statements of foreign operations	(15,340)	12,138
Net change in cash and cash equivalents	54,811	94,162
Cash and cash equivalents at beginning of period	285,654	199,230
Foreign exchange differences on opening balances	(332)	5,095
Cash and cash equivalents at end of period	340,133	298,487
Cash and cash equivalent comprise:		
Cash and bank balances	317,953	290,179
Deposit with licensed banks	22,993	20,700
Bank overdrafts	(813)	(12,392)
	340,133	298,487

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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 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 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 14 December 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 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.

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.

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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 41.49 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 fourth interim dividend of 1.0 sen per ordinary share totalling RM12,263,284 in respect of the financial year ending 31 July 2017 on 27 October 2017.

8. Segment information

(a) Information about reportable segments

	3 months ended 31 October 2017			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	826,907	107,625	150,455	1,084,987
Inter-segment revenue	21	--	--	21
Segment profit/(loss) before tax	64,932	3,973	(15,302)	53,603

	3 months ended 31 October 2016			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total 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

(b) Reconciliation of reportable segment profit or loss

	3 months ended 31 October	
	2017 RM'000	2016 RM'000
Total profit for reportable segments	53,603	45,257
Other non-reportable segments	(120)	228
Share of profit of associate not included in reportable segments	923	8
Consolidated profit before tax	54,406	45,493

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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 October 2017.

12. Capital Commitments

	31.10.2017 RM'000
Property, plant and equipment Contracted but not provided for	<u>43,948</u>

13. Related party transactions

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

	3 months ended 31 October	
	2017 RM'000	2016 RM'000
Subsidiaries in which certain Directors have financial interest		
- Sales	<u>21</u>	<u>548</u>
A company which is wholly owned by close family member of certain Directors		
- Purchases	<u>1,976</u>	<u>547</u>
A company in which spouse of a Director has financial interest		
- Purchases	<u>4,031</u>	<u>14,791</u>
Associates		
- Sales	<u>2,494</u>	<u>824</u>
A company which is controlled by close family member of a Director		
- Sub-contracting fee payable	<u>1,039</u>	<u>1,262</u>
A company which is controlled by a Director		
- Operating lease charges and management fee payable	<u>1,306</u>	<u>812</u>
A company which is controlled by close family member of a key management personnel		
- Repair and maintenance services payable	<u>261</u>	<u>354</u>
Remuneration paid to staff who are close family member of certain Directors	<u>698</u>	<u>640</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 RM1,085.1 million, an increase of RM405.1 million or 59.6% as compared to the previous corresponding quarter on higher contribution from all key markets, particularly the Malaysia operations. This is the first time the quarterly turnover of the Group breached the RM1.0 billion-mark. Profit before tax, meanwhile, stood at RM54.4 million, growing 19.6% or RM8.9 million over the same period.

The improved earnings for the current quarter was mainly attributable to higher sales orders from existing key customers coupled with the net foreign exchange gain of RM2.5 million in the current quarter against net foreign exchange loss of RM0.4 million in the preceding year's corresponding quarter.

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

	Individual Quarter	
	31 October	
	2017	2016
	RM'000	RM'000
Revenue		
Malaysia	826,907	504,004
Indonesia	107,625	43,558
China	150,455	131,541
Profit/(loss) before tax		
Malaysia	64,932	45,392
Indonesia	3,973	4,813
China	(15,302)	(4,948)

Malaysia segment

Malaysia segment posted 64.1% increase in revenue in the current quarter by comparison to previous year corresponding quarter mainly due to higher sales orders from key customers. This is a record quarterly turnover for the Malaysia operations. Meanwhile, profit before tax rose 43.0% over the same period. The lower-than-proportionate growth in profit before tax was largely owing to shift in product mix towards more box-build assembly. Furthermore, there were additional production lines commissioned during the quarter under review, which resulted in higher operating costs (e.g. setup cost, operators' salaries etc.) while production output of the new lines have yet to reach optimal level at the time.

Indonesia segment

Indonesia segment recorded higher revenue but lower profit before tax for the current quarter mainly due to change from consignment basis to turnkey manufacturing for an existing customer.

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14. Review of performance (cont'd)

China segment

China segment recorded higher loss for the current quarter mainly due to increase in raw material prices and increase in consumption of raw materials associated with pre-production testing for new products which would commence mass production in the coming quarters.

15. Variation of results against preceding quarter

For the current quarter under review, the Group recorded a higher revenue of RM1,085.1 million, an increase of RM101.8 million or 10.3% as compared to the immediate preceding quarter. The Group recorded profit before tax of RM54.4 million as compared to RM47.8 million in the preceding quarter. To recap, the profit before tax in the preceding quarter included impairment losses of RM4.0 million on an investment and revaluation deficits on properties of RM12.0 million. On an adjusted basis, profit before tax in the current quarter would have been 14.7% lower than the preceding quarter, largely dragged down by the losses incurred in China.

16. Current year prospects

Malaysia segment expects the box-build orders from key customers to sustain for the current financial year.

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

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 well for the current financial year.

17. Profit forecast

Not applicable.

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18. Tax expense

	Individual 3 months ended 31 October		Cumulative 3 months ended 31 October	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Tax expense				
Malaysia - Current period	13,089	12,852	13,089	12,852
Overseas - Current period	726	2,521	726	2,521
	<u>13,815</u>	<u>15,373</u>	<u>13,815</u>	<u>15,373</u>
Deferred tax expense				
Malaysia - Current period	3,751	114	3,751	114
Overseas - Current period	(309)	(228)	(309)	(228)
	<u>3,442</u>	<u>(114)</u>	<u>3,442</u>	<u>(114)</u>
	<u>17,257</u>	<u>15,259</u>	<u>17,257</u>	<u>15,259</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

	31.10.2017 RM'000	31.07.2017 RM'000
Non-current		
<i>Secured</i>		
Term loans	27,385	34,040
Finance lease liabilities	18,702	18,792
<i>Unsecured</i>		
Term loans	58,597	66,217
	<u>104,684</u>	<u>119,049</u>
Current		
<i>Secured</i>		
Term loan	25,670	26,035
Bank overdraft	813	13,919
Short term loan	-	19,080
Trust receipts	57,724	88,410
Finance lease liabilities	6,544	6,922

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20. Borrowing and debt securities (cont'd)

Unsecured

Term loans	63,942	34,566
Bankers' acceptance	176,774	202,356
Trust receipts	179,398	167,142
Short term loan	18,602	14,402
Revolving credit	10,000	15,000
	<u>539,467</u>	<u>587,832</u>
	<u>644,151</u>	<u>706,881</u>

Borrowings denominated in US Dollar amounted to RM190.4 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	
	31 October	
	2017	2016
	RM'000	RM'000
Profit for the period is arrived at after charging/(crediting)		
Depreciation and amortisation	19,422	17,024
Net foreign exchange (gain)/loss	(2,546)	370
Loss on disposal of property, plant and equipment	132	103

23. Dividends

- (a) A first interim dividend of 1.5 sen per ordinary share amounting to approximately RM18.6 million was declared on 14 December 2017 for the financial year ending 2018 and will be paid on 12 March 2018 to shareholders whose names appear on the Company's Record of Depositors on 23 February 2018.
- (b) The total dividend per share for the current financial year is 1.5 sen (previous year corresponding period: 1.2 sen).

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24. Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share for the current quarter are based on net profit attributable to owners of the Company of RM46.0 million and the weighted average number of ordinary shares of 1,311.403 million.

(b) *Diluted earnings per share*

The calculation of diluted earnings per share for the current quarter are based on net profit attributable to owners of the Company of RM46.0 million and the weighted average number of ordinary shares, adjusted for the dilutive effects of potential ordinary shares of 1,380.256 million.

25. Disclosure of realised and unrealised profits/losses

	Current Quarter 31.10.2017	Preceding Quarter 31.07.2017
Total retained earnings of the Company and its subsidiaries		
- Realised	406,237	365,712
- Unrealised	(19,631)	(14,274)
	<u>386,606</u>	<u>351,438</u>
Total share of retained earnings from associates		
- Realised	(4,244)	(5,167)
	<u>382,362</u>	<u>346,271</u>
Consolidation adjustments	166,802	158,268
Total group retained earnings as per consolidated accounts	<u>549,164</u>	<u>504,539</u>