

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

Interim Financial Report
31 January 2018

V.S. Industry Berhad

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

Condensed consolidated statement of financial position As at 31 January 2018 – unaudited

	31.01.2018 RM'000	31.07.2017 RM'000
Assets		
Property, plant and equipment	842,678	841,043
Prepaid lease payments	84,195	98,359
Investment properties	4,900	4,900
Investment in associates	77,726	76,885
Other investments	60,545	40,268
Prepayments	11,173	7,263
Deferred tax assets	2,787	3,883
Total non-current assets	1,084,004	1,072,601
Inventories	450,248	479,814
Trade and other receivables	1,037,470	996,017
Tax recoverable	1,230	1,302
Cash and cash equivalents	409,770	344,919
Total current assets	1,898,718	1,822,052
Total assets	2,982,722	2,894,653
Equity		
Share capital	532,270	369,109
Reserves	700,294	688,437
Equity attributable to owners of the Company	1,232,564	1,057,546
Non-controlling interests	239,030	220,410
Total equity	1,471,594	1,277,956
Liabilities		
Long term payables	4,322	4,322
Loans and borrowings	103,607	119,049
Deferred tax liabilities	70,393	72,945
Total non-current liabilities	178,322	196,316
Trade and other payables	774,056	818,842
Loans and borrowings	541,598	587,832
Taxation	17,152	13,707
Total current liabilities	1,332,806	1,420,381
Total liabilities	1,511,128	1,616,697
Total equity and liabilities	2,982,722	2,894,653
Net assets per share	0.94	0.88

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Condensed consolidated statement of comprehensive income for the period ended 31 January 2018 - unaudited

	Individual 3 months ended 31 January		Cumulative 6 months ended 31 January	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Revenue	1,113,297	763,838	2,198,444	1,443,856
Cost of sales	(983,401)	(643,509)	(1,952,791)	(1,231,479)
Gross profit	129,896	120,329	245,653	212,377
Operating expenses	(62,594)	(57,010)	(114,867)	(99,325)
Net other income/(expenses)	7,496	1,547	4,380	2,153
Results from operating activities	74,798	64,866	135,166	115,205
Finance costs	(7,833)	(5,869)	(15,923)	(11,026)
Interest income	1,340	801	2,545	1,104
Share of profit/(loss) of associates, net of tax	210	759	1,133	767
Profit before tax	68,515	60,557	122,921	106,050
Tax expense	(12,851)	(18,581)	(30,108)	(33,840)
Profit for the period	55,664	41,976	92,813	72,210
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	(48,871)	45,252	(63,556)	59,635
Total comprehensive income for the period	6,793	87,228	29,257	131,845
Profit attributable to:				
Owners of the Company	45,279	35,506	91,270	69,014
Non-controlling interests	10,385	6,470	1,543	3,196
Profit for the period	55,664	41,976	92,813	72,210

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Condensed consolidated statement of comprehensive income for the period ended 31 January 2018 – unaudited (Cont'd)

	Individual 3 months ended 31 January		Cumulative 6 months ended 31 January	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Total comprehensive income attributable to:				
Owners of the Company	3,724	73,303	34,375	118,949
Non-controlling interests	3,069	13,925	(5,118)	12,896
Total comprehensive income for the period	6,793	87,228	29,257	131,845
Basic earnings per ordinary share (sen)	3.53	3.02	7.30	5.89
Diluted earnings per ordinary share (sen)	3.15	2.89	6.53	5.62

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Condensed consolidated statement of changes in equity for the period ended 31 January 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	--	(57,113)	--	(57,113)	(6,946)	(64,059)
Profit for the period	--	--	91,270	91,270	1,543	92,813
Total comprehensive income for the period	--	(57,113)	91,270	34,157	(5,403)	28,754
Equity settled share-based transactions	16,058	(264)	14	15,808	440	16,248
Conversion of warrants	147,103	--	--	147,103	--	147,103
Dividends to shareholders	--	--	(25,257)	(25,257)	--	(25,257)
Increase in share capital in subsidiaries	--	--	(1,431)	(1,431)	30,848	29,417
Total transactions with owners of the Group	163,161	(264)	(26,674)	136,223	31,288	167,511
Realisation of revaluation reserve	--	(1,114)	1,114	--	--	--
Transferred to retained earnings	--	681	(681)	--	--	--
Effect of change in functional currency of a subsidiary	--	282	11,733	12,015	--	12,015
Disposal of a subsidiary	--	(13,149)	5,772	(7,377)	(7,265)	(14,642)
At 31 January 2018	532,270	113,221	587,073	1,232,564	239,030	1,471,594

	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	--	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

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Condensed consolidated statement of cash flows for the period ended 31 January 2018 - unaudited

	6 months ended 31 January	
	2018 RM'000	2017 RM'000
Cash flows from operating activities		
Profit before tax	122,921	106,050
Adjustments for:		
Depreciation and amortisation	40,636	37,913
Other non-cash items	4,024	4,709
Non-operating items	10,915	7,950
Operating profit before changes in working capital	178,496	156,622
Changes in working capital:		
Change in inventories	9,558	(63,186)
Change in trade and other receivables	(68,910)	(109,773)
Change in trade and other payables	36,977	147,396
Interest received	2,545	1,105
Tax paid	(28,113)	(17,655)
Net cash (used in)/from operating activities	130,553	114,509
Cash flows from investing activities		
Acquisition of property, plant and equipment	(131,074)	(66,859)
Proceeds from disposal of property, plant and equipment	4,941	4,870
Net proceeds on disposal of a subsidiary	39,590	-
Change in pledged deposits	14,815	(68,890)
Prepayments	(3,910)	(5,257)
Other investments	(20,277)	(47,385)
Net cash (used in)/from investing activities	(95,915)	(183,521)
Cash flows from financing activities		
Bank borrowings	(43,897)	154,641
Dividend paid to owners of the Company	(25,257)	(18,771)
Proceeds from issuance of shares	163,161	7,466
Funds from non-controlling interests	29,417	829
Net cash (used in)/from financing activities	123,424	144,165
Exchange differences on translation of the financial statements of foreign operations	(57,113)	49,935
Net change in cash and cash equivalents	100,949	125,088
Cash and cash equivalents at beginning of period	285,654	199,230
Foreign exchange differences on opening balances	(7,364)	15,490
Cash and cash equivalents at end of period	379,239	339,808
Cash and cash equivalent comprise:		
Cash and bank balances	291,424	339,956
Deposit with licensed banks	87,815	13,690
Bank overdrafts	-	(13,838)
	379,239	339,808

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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 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 March 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.

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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 107.61 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; and
- (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.

8. Segment information

- (a) Information about reportable segments

	6 months ended 31 January 2018			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	1,593,595	187,519	415,216	2,196,330
Inter-segment revenue	48	--	--	48
Segment profit/(loss) before tax	111,429	5,404	6,330	123,163

	6 months ended 31 January 2017			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total 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)

(b) Reconciliation of reportable segment profit or loss

	6 months ended 31 January	
	2018 RM'000	2017 RM'000
Total profit for reportable segments	123,163	110,397
Other non-reportable segments	(1,375)	(5,114)
Share of profit of associate not included in reportable segments	1,133	767
Consolidated profit before tax	<u>122,921</u>	<u>106,050</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 2018.

12. Capital Commitments

	31.01.2018 RM'000
Property, plant and equipment Contracted but not provided for	<u>9,563</u>

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13. Related party transactions

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

	6 months ended 31 January	
	2018 RM'000	2017 RM'000
Subsidiaries in which certain Directors have financial interest		
- Purchases	-	225
- Sales	48	639
A company which is wholly owned by close family member of certain Directors		
- Purchases	2,644	1,286
A company in which spouse of a Director has financial interest		
- Purchases	5,596	23,277
Associates		
- Sales	2,507	844
A company which is controlled by close family member of a Director		
- Sub-contracting fee payable	2,467	2,409
A company which is controlled by a Director		
- Operating lease charges and management fee payable	2,567	2,497
A company which is controlled by close family member of a key management personnel		
- Repair and maintenance services payable	341	501
Remuneration paid to staff who are close family member of certain Directors	1,532	1,587

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 RM1,113.3 million, an increase of RM349.5 million or 45.8% as compared to the previous corresponding quarter. Profit before tax, meanwhile, stood at RM68.5 million, growing 13.1% or RM8.0 million over the same period.

For the six months period ended 31 January 2018, the Group recorded a revenue of RM2,198.4 million, an increase of RM754.6 million or 52.3% as compared to the corresponding period of the preceding year of RM1,443.9 million. Profit before tax stood at RM122.9 million, growing by 15.9% or RM16.9 million over the same period.

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

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

	Individual Quarter		Cumulative Quarter	
	31 January		31 January	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Revenue				
Malaysia	766,688	440,546	1,593,595	944,550
Indonesia	79,894	33,957	187,519	77,515
China	264,761	289,210	415,216	420,751
Profit/(loss) before tax				
Malaysia	46,497	45,839	111,429	91,231
Indonesia	1,431	456	5,404	5,269
China	21,632	18,845	6,330	13,897

Malaysia segment

Malaysia segment posted 74.0% increase in revenue in the current quarter by comparison to previous year corresponding quarter mainly due to higher sales orders from key customers. Meanwhile, the profit before tax remained comparable over the same period as operational efficiency for the box-built assembly has yet to achieve the desired level. There were start-up costs with new assembly lines that came on-stream progressively, and these new assembly lines would also take time to reach optimal production level. This factor, coupled with the weakening of US Dollar against Ringgit Malaysia, had affected gross profit margin.

For the cumulative quarters, Malaysia segment recorded higher profit before tax mainly due to higher sales orders from key customers. The lower-than-proportionate growth in profit before tax was largely owing to the same reasons mentioned above.

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14. Review of performance (cont'd)

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.

China segment

China segment recorded higher profit for the current quarter, despite having lower revenue, mainly due to change in sales mix and contribution from new customers.

For the cumulative quarters, China segment recorded lower profit before tax mainly due to increase in raw material costs and labour costs coupled with keen competition in the market which reduced the ability to pass-through increased costs to its customers.

15. Variation of results against preceding quarter

For the current quarter under review, the Group recorded revenue of RM1,113.3 million, an increase of RM28.2 million or 2.6% as compared to the immediate preceding quarter. Meanwhile, profit before tax increased by RM14.1 million or 25.9% to RM68.5 million as compared to RM54.4 million in the preceding quarter. The higher-than-proportionate improvement in profit before tax was mainly due to profit contribution from China, against losses incurred in the preceding quarter.

16. Current year prospects

For Malaysia segment, the Group expects the box-built orders from certain key customers to sustain for the current financial year. With the new production lines that came on-stream reach optimal production progressively, operational efficiency is expected to improve gradually as well.

On the other hand, the Group expects the production volume for a key US customer to be lower in the current financial year due to planned cessation of production for certain models that had reached end of product lifecycle. These will be replaced by new models but the production is only slated to commence production progressively from fourth quarter of current financial year onwards.

Overall prospects of the Group remain positive underpinned by sustained orders from our customers. 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 that may affect 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 achieve satisfactory performance for the current financial year.

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17. Profit forecast

Not applicable.

18. Tax expense

	Individual 3 months ended 31 January		Cumulative 6 months ended 31 January	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Tax expense				
Malaysia - Current period	10,364	11,011	23,453	23,863
Overseas - Current period	1,428	3,698	2,154	6,219
	<u>11,792</u>	<u>14,709</u>	<u>25,607</u>	<u>30,082</u>
Deferred tax expense				
Malaysia - Current period	1,289	4,108	5,040	4,222
Overseas - Current period	(230)	(236)	(539)	(464)
	<u>1,059</u>	<u>3,872</u>	<u>4,501</u>	<u>3,758</u>
	<u>12,851</u>	<u>18,581</u>	<u>30,108</u>	<u>33,840</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 except for the proposed bonus issue on the basis of one (1) bonus share for every four (4) existing shares held which is currently pending the approval from the shareholders.

20. Borrowing and debt securities

	31.01.2018 RM'000	31.07.2017 RM'000
Non-current		
Secured		
Term loans	19,621	34,040
Finance lease liabilities	15,636	18,792
Unsecured		
Term loans	<u>68,350</u>	<u>66,217</u>
	<u>103,607</u>	<u>119,049</u>

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20. Borrowing and debt securities (Cont'd)

	31.01.2018 RM'000	31.07.2017 RM'000
Current		
<i>Secured</i>		
Term loan	23,400	26,035
Trust receipts	49,009	88,410
Finance lease liabilities	7,637	6,922
Bank overdraft	-	13,919
Short term loan	-	19,080
<i>Unsecured</i>		
Term loans	64,505	34,566
Bankers' acceptance	174,244	202,356
Trust receipts	175,840	167,142
Short term loan	17,515	14,402
Revolving credit	29,448	15,000
	<u>541,598</u>	<u>587,832</u>
	<u>645,205</u>	<u>706,881</u>

Borrowings denominated in US Dollar amounted to RM210.5 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 January		6 months ended 31 January	
	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	21,214	20,889	40,636	37,913
Net foreign exchange (gain)/loss	(7,875)	(7,238)	(10,421)	(6,868)
Loss on disposal of property, plant and equipment	427	144	559	247

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23. Dividends

- (a) A second interim dividend of 1.5 sen per ordinary share amounting to approximately RM20.0 million was declared on 28 March 2018 for the financial year ending 31 July 2018 and will be paid on 27 April 2018 to shareholders whose names appear on the Company's Record of Depositors on 12 April 2018.
- (b) The total dividend per share for the current financial year is 3.0 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 RM45.3 million and RM91.3 million respectively and the weighted average number of ordinary shares of 1,282.176 million and 1,251.105 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 RM45.3 million and RM91.3 million respectively and the weighted average number of ordinary shares, adjusted for the dilutive effects of potential ordinary shares of 1,437.022 million and 1,397.652 million respectively.