

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

Interim Financial Report
31 October 2019

V.S. Industry Berhad

(Registration No. 198201008437 (88160-P))

(Incorporated in Malaysia)

Condensed consolidated statement of financial position As at 31 October 2019 – unaudited

	31.10.2019 RM'000	31.07.2019 RM'000
Assets		
Property, plant and equipment	857,372	888,990
Prepaid lease payments	--	76,137
Right-of-use assets	112,581	--
Investment properties	1,200	1,200
Investment in associates	66,119	64,619
Other investments	104,494	93,539
Prepayments	4,958	4,687
Deferred tax assets	3,591	3,575
Total non-current assets	1,150,315	1,132,747
Inventories	327,987	371,543
Contract assets	132,005	158,904
Trade and other receivables	1,116,936	994,784
Current tax asset	165	165
Cash and cash equivalents	389,244	379,457
Total current assets	1,966,337	1,904,853
Total assets	3,116,652	3,037,600
Equity		
Share capital	768,875	753,077
Reserves	899,432	853,389
Equity attributable to owners of the Company	1,668,307	1,606,466
Non-controlling interests	174,340	177,995
Total equity	1,842,647	1,784,461
Liabilities		
Loans and borrowings	46,041	66,904
Loan from a Director	12,558	10,347
Lease liabilities	10,366	--
Deferred tax liabilities	74,125	74,739
Total non-current liabilities	143,090	151,990
Loans and borrowings	414,014	361,537
Lease liabilities	10,807	--
Trade and other payables	668,409	707,944
Contract liabilities	11,190	10,276
Due to Directors	4,322	4,322
Current tax liabilities	22,173	17,070
Total current liabilities	1,130,915	1,101,149
Total liabilities	1,274,005	1,253,139
Total equity and liabilities	3,116,652	3,037,600
Net assets per share	0.90	0.88

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Condensed consolidated statement of comprehensive income for the period ended 31 October 2019 - unaudited

	Individual 3 months ended 31 October		Cumulative 3 months ended 31 October	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Revenue	1,034,596	1,072,931	1,034,596	1,072,931
Cost of sales	(929,994)	(970,854)	(929,994)	(970,854)
Gross profit	104,602	102,077	104,602	102,077
Operating expenses	(38,298)	(41,245)	(38,298)	(41,245)
Net other income/(expenses)	(448)	(11,096)	(448)	(11,096)
Results from operating activities	65,856	49,736	65,856	49,736
Finance costs	(5,600)	(7,537)	(5,600)	(7,537)
Interest income	1,913	1,619	1,913	1,619
Share of profit/(loss) of associates, net of tax	1,500	1,500	1,500	1,500
Profit before tax	63,669	45,318	63,669	45,318
Tax expense	(17,269)	(16,716)	(17,269)	(16,716)
Profit for the period	46,400	28,602	46,400	28,602
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	2,992	18,763	2,992	18,763
Fair value through other comprehensive income	10,590	(65,741)	10,590	(65,741)
Total comprehensive income for the period	59,982	(18,376)	59,982	(18,376)
Profit attributable to:				
Owners of the Company	48,073	39,810	48,073	39,810
Non-controlling interests	(1,673)	(11,208)	(1,673)	(11,208)
Profit for the period	46,400	28,602	46,400	28,602

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Condensed consolidated statement of comprehensive income for the period ended 31 October 2019 – unaudited (Cont'd)

	Individual 3 months ended 31 October		Cumulative 3 months ended 31 October	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Total comprehensive income attributable to:				
Owners of the Company	63,637	(8,986)	63,637	(8,986)
Non-controlling interests	<u>(3,655)</u>	<u>(9,390)</u>	<u>(3,655)</u>	<u>(9,390)</u>
Total comprehensive income for the period	<u>59,982</u>	<u>(18,376)</u>	<u>59,982</u>	<u>(18,376)</u>
Basic earnings per ordinary share (sen)	<u>2.62</u>	<u>2.32</u>	<u>2.62</u>	<u>2.32</u>
Diluted earnings per ordinary share (sen)	<u>2.61</u>	<u>2.23</u>	<u>2.61</u>	<u>2.23</u>

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Condensed consolidated statement of cash flows for the period ended 31 October 2019 - unaudited

	3 months ended 31 October	
	2019 RM'000	2018 RM'000
Cash flows from operating activities		
Profit before tax	63,669	45,318
Adjustments for:		
Depreciation and amortisation	23,444	23,202
Other non-cash items	(82)	1,621
Non-operating items	2,238	4,027
Operating profit before changes in working capital	<u>89,269</u>	<u>74,168</u>
Changes in working capital:		
Change in inventories	43,556	(51,464)
Change in contract assets	26,899	25,511
Change in trade and other receivables	(122,152)	(131,103)
Change in trade and other payables	(37,808)	34,256
Change in contract liabilities	914	70
Interest received	1,913	1,619
Tax paid	(12,796)	(10,027)
Net cash (used in)/from operating activities	<u>(10,205)</u>	<u>(56,970)</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment	(33,983)	(44,249)
Proceeds from disposal of property, plant and equipment	1,359	474
Change in pledged deposits	2,172	(12,467)
Prepayments	(271)	2,116
Other investments	(365)	(6,587)
Net cash (used in)/from investing activities	<u>(31,088)</u>	<u>(60,713)</u>
Cash flows from financing activities		
Bank borrowings	47,245	(19,740)
Dividend paid to owners of the Company	(14,749)	(10,406)
Proceeds from issuance of shares	12,955	60,291
Loan from a Director	2,211	--
Net cash (used in)/from financing activities	<u>47,662</u>	<u>30,145</u>
Exchange differences on translation of the financial statements of foreign operations	<u>4,974</u>	<u>16,945</u>
Net change in cash and cash equivalents	<u>11,343</u>	<u>(70,593)</u>
Cash and cash equivalents at beginning of period	<u>329,640</u>	<u>362,849</u>
Foreign exchange differences on opening balances	<u>725</u>	<u>3,952</u>
Cash and cash equivalents at end of period	<u><u>341,708</u></u>	<u><u>296,208</u></u>
Cash and cash equivalent comprise:		
Cash and bank balances	344,898	292,850
Deposit with licensed banks	6,569	15,592
Bank overdrafts	(9,759)	(12,234)
	<u>341,708</u>	<u>296,208</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 three months period ended 31 October 2019 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 2019 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 12 December 2019.

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 2019.

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 2019, except for the adoption of MFRS 16, *Leases*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. Accordingly, the Group prepares its financial statements with adoption of MFRS 16 in its financial statements for the financial year ending 31 July 2020.

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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.

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 22.95 million ordinary shares pursuant to the exercise of share options under the Company's Employees Share Option Scheme.

7. Dividends paid

Since the end of the previous financial year, the Company paid a fourth interim dividend of 0.8 sen per ordinary share totalling RM14,748,879 in respect of the financial year ended 31 July 2019 on 31 October 2019.

8. Segment information

(a) Information about reportable segments

	3 months ended 31 October 2019			
	Malaysia	Indonesia	China	Total
	RM'000	RM'000	RM'000	RM'000
External revenue	879,866	70,220	73,538	1,023,624
Inter-segment revenue	3,685	--	567	4,252
Segment profit/(loss) before tax	64,680	1,085	(3,097)	62,668

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8. Segment information (Cont'd)

(a) Information about reportable segments (Cont'd)

	3 months ended 31 October 2018			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	884,064	75,304	112,210	1,071,578
Inter-segment revenue	--	--	1,086	1,086
Segment profit/(loss) before tax	65,933	(1,273)	(20,363)	44,297

(b) Reconciliation of reportable segment profit or loss

	3 months ended 31 October	
	2019 RM'000	2018 RM'000
Total profit for reportable segments	62,668	44,297
Other non-reportable segments	(499)	(479)
Share of profit of associate not included in reportable segments	1,500	1,500
Consolidated profit before tax	63,669	45,318

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 2019.

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12. Related party transactions

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

	3 months ended 31 October	
	2019 RM'000	2018 RM'000
Subsidiaries in which certain Directors have financial interest		
- Purchases	1,068	828
A company which is wholly owned by close family member of certain Directors		
- Purchases	1,074	2,243
A company in which spouse of a Director has financial interest		
- Purchases	4,115	1,796
A company which is controlled by close family member of a Director		
- Sub-contracting fee payable	934	772
A company which is controlled by a Director		
- Operating lease charges and management fee payable	724	1,225
A company which is controlled by close family member of a key management personnel		
- Repair and maintenance services payable	189	256
Remuneration paid to staff who are close family member of certain Directors	291	317

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

13. Review of performance

For the current quarter under review, the Group recorded a revenue of RM1,034.6 million, a decrease of RM38.3 million as compared to the previous year corresponding quarter, largely due to lower contribution from China. Profit before tax, meanwhile, increased 40.5% or RM18.4 million to RM63.7 million over the same period.

The improved earnings for the current quarter was mainly attributable to much smaller losses from the operations in China following restructuring and streamlining of operations by adopting an asset-light and lower-cost model, coupled with the absence of loss on disposal of a subsidiary amounting to RM5.4 million recognized in the preceding year corresponding quarter.

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

	Individual Quarter 31 October	
	2019 RM'000	2018 RM'000
Revenue		
Malaysia	879,866	884,064
Indonesia	70,220	75,304
China	73,538	112,210
Profit/(loss) before tax		
Malaysia	64,680	65,933
Indonesia	1,085	(1,273)
China	(3,097)	(20,363)

Malaysia segment

Malaysia segment posted a marginal decrease in revenue of RM4.2 million in the current quarter by comparison to previous year corresponding quarter. In tandem with the decrease in revenue, profit before tax dropped by RM1.3 million over the preceding year corresponding quarter. Profit before tax margin was relatively stable.

Indonesia segment

Indonesia segment recorded profit before tax of RM1.1 million for the quarter under review as compared to loss before tax of RM1.3 million in the preceding year corresponding quarter mainly due to better product sales mix.

China segment

China segment recorded a lower revenue for the current quarter as a result of lower sale orders completed. Losses narrowed significantly during the quarter under review due to lower operating expenses incurred following streamlining activities and adopting an asset-light model with lower gearing structure. Additionally, there was also the absence of loss on disposal of a subsidiary amounting to RM5.4 million recognized in the preceding year corresponding quarter.

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14. Variation of results against preceding quarter

	Current Quarter 31 October 2019 RM'000	Preceding Quarter 31 July 2019 RM'000
Revenue	1,034,596	1,038,168
Profit before tax	63,669	48,892
Profit attributable to owners of the Company	48,073	56,263

For the current quarter under review, the Group recorded a higher profit before tax of RM63.7 million as compared to RM48.9 million in the preceding quarter, mainly attributable to the absence of impairment loss on plant and equipment of RM22.1 million provided by the operations in China as well as refund of investment cost of RM7.9 million from an associate.

15. Current year prospects

The overall consumer and business sentiments remain subdued amidst the ongoing US-China trade tension and fear of potential global economic growth slowdown in the next two years. This led to uncertainties with many adopting a wait-and see attitude. With the tough environment expected to prevail, the Group is focusing its efforts to contain cost, optimize productivity and enhance value creation for its customers.

Meanwhile, the business development taskforce in Malaysia continues to engage with prospective customers to negotiate terms while pursuing various sales leads arising from trade diversion activities. As mentioned previously, there is silver lining to the ongoing US-China trade war as many MNC brand owners are relocating their manufacturing base from China to Southeast Asia, with Malaysia being one of the choice locations. As one of the leading Electronics Manufacturing Services (EMS) providers in Malaysia as well as in the region, the Group stands to benefit from this diversion. It is also opportune that the Group has ready production facility to take up these new businesses. Management is positive that it could secure more new customers in the near future.

Over in China, the Group's operations remains highly challenging. The US-China trade tension, while beneficial to Malaysia, is affecting business sentiment in China, adding further pressure to the operations there. The issue of under-utilization of capacity is expected to prevail. On a brighter note, following the streamlining exercise in the past financial year that involved strengthening financial position by adopting an asset-light model and lower-gearing structure and higher liquidity, the operations are now much leaner with lower operating expenditures.

The Board opines that the financial performance of the Group for the remaining quarters to be satisfactory. Despite the short-term challenges, the Board remains positive on the long-term prospects of the Group, underpinned by solid fundamentals, robust relationships with existing customers, strong execution skills, recent addition of new key customers and potential future contract wins.

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16. Profit forecast

Not applicable.

17. Tax expense

	Individual 3 months ended 31 October		Cumulative 3 months ended 31 October	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Tax expense				
Current period	17,103	21,267	17,103	21,267
Deferred tax expense				
Current period	166	(4,551)	166	(4,551)
	<u>17,269</u>	<u>16,716</u>	<u>17,269</u>	<u>16,716</u>

The effective tax rate of the Group for the financial year-to-date was higher than the statutory tax rate mainly due to losses of certain subsidiaries cannot be offset against taxable profits made by other subsidiaries and certain non-deductible expenses for tax purposes.

18. Status of uncompleted corporate proposals

There are no outstanding uncompleted corporate proposals as at the date of this quarterly report.

19. Borrowing and debt securities

	31.10.2019 RM'000	31.07.2019 RM'000
Non-current		
<i>Secured</i>		
Term loans	2,088	2,146
Finance lease liabilities	--	12,660
<i>Unsecured</i>		
Term loans	43,953	52,098
	<u>46,041</u>	<u>66,904</u>

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19. Borrowing and debt securities (Cont'd)

	31.10.2019 RM'000	31.07.2019 RM'000
Current		
<i>Secured</i>		
Term loan	217	4,341
Trust receipts	32,419	52,703
Finance lease liabilities	--	11,865
Bank overdraft	9,759	9,868
Short term loan	52,795	27,141
<i>Unsecured</i>		
Term loans	31,345	31,224
Bankers' acceptance	61,600	69,379
Trust receipts	204,140	130,630
Short term loan	21,739	24,386
	<u>414,014</u>	<u>361,537</u>
	<u>460,055</u>	<u>428,441</u>

Borrowings denominated in US Dollar amounted to RM201.2 million (31.7.2019 : RM195.2 million).

20. 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.

21. Profit for the period

	3 months ended 31 October	
	2019 RM'000	2018 RM'000
Profit for the period is arrived at after charging/(crediting)		
Depreciation and amortisation	23,444	23,202
Net foreign exchange (gain)/loss	2,013	6,402
(Gain)/Loss on disposal of property, plant and equipment	(158)	(218)

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22. Dividends

- (a) A first interim dividend of 1.0 sen per ordinary share amounting to approximately RM18.5 million was declared on 12 December 2019 for the financial year ending 31 July 2020 and will be paid on 6 March 2020 to shareholders whose names appear on the Company's Record of Depositors on 18 February 2020.
- (b) The total dividend per share for the current financial year is 1.0 sen (previous year corresponding period: 1.0 sen).

23. Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share for the current quarter is based on net profit attributable to owners of the Company of RM48.1 million and the weighted average number of ordinary shares of 1,836.518 million.

(b) *Diluted earnings per share*

The calculation of diluted earnings per share for the current is based on net profit attributable to owners of the Company of RM48.1 million and the weighted average number of ordinary shares, adjusted for the dilutive effects of potential ordinary shares of 1,843.498 million.

24. Comparatives

The following figures have been reclassified to conform with current year's presentation:

	As restated RM'000	As previously stated RM'000
Revenue	1,072,931	1,075,617
Cost of sales	(970,854)	(959,027)
Operating expenses	(41,245)	(55,758)