

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

Interim Financial Report
31 July 2022

V.S. Industry Berhad

(Registration No. 198201008437 (88160-P))

(Incorporated in Malaysia)

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

	31.07.2022 RM'000	31.07.2021 RM'000
Assets		
Property, plant and equipment	1,214,528	989,519
Right-of-use assets	107,374	103,406
Investments properties	24,100	23,114
Investments in associates	4,952	39,254
Other investments	157,699	205,020
Deferred tax assets	5,270	5,614
Total non-current assets	1,513,923	1,365,927
Inventories	925,659	636,542
Contract assets	137,933	194,962
Trade and other receivables	1,093,133	992,132
Current tax asset	31,864	6,417
Cash and cash equivalents	278,607	402,404
Total current assets	2,467,196	2,232,457
Total assets	3,981,119	3,598,384
Equity		
Share capital	855,306	842,358
Reserves	1,337,943	1,198,155
Equity attributable to owners of the Company	2,193,249	2,040,513
Non-controlling interests	170,673	176,996
Total equity	2,363,922	2,217,509
Liabilities		
Loans and borrowings	123,789	88,855
Lease liabilities	1,392	--
Loan from a Director	24,719	23,551
Deferred tax liabilities	103,651	68,371
Total non-current liabilities	253,551	180,777
Loans and borrowings	476,284	315,755
Lease liabilities	2,312	--
Trade and other payables	860,385	846,985
Contract liabilities	23,543	16,750
Due to a Director	--	2,384
Current tax liabilities	1,122	18,224
Total current liabilities	1,363,646	1,200,098
Total liabilities	1,617,197	1,380,875
Total equity and liabilities	3,981,119	3,598,384
Net assets per share (RM)	0.57	0.54

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

	Individual 3 months ended 31 July		Cumulative 12 months ended 31 July	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Revenue	1,004,369	941,096	3,914,059	4,002,281
Cost of sales	(873,899)	(826,773)	(3,509,411)	(3,475,042)
Gross profit	130,470	114,323	404,648	527,239
Operating expenses	(43,436)	(37,107)	(161,901)	(169,029)
Net other income/(expenses)	(50,158)	(20,478)	(31,124)	(21,094)
Results from operating activities	36,876	56,738	211,623	337,116
Finance costs	(3,933)	(3,125)	(12,285)	(11,287)
Interest income	423	911	2,596	3,964
Share of profit/(loss) of associates, net of tax	808	1,339	(520)	(663)
Profit before tax	34,174	55,863	201,414	329,130
Tax expense	(12,426)	(14,115)	(51,515)	(87,513)
Profit for the period	21,748	41,748	149,899	241,617
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	11,355	29,069	39,907	24,779
Net change in fair value of equity instrument designated at fair value through other comprehensive income	(37,275)	(50,917)	(69,575)	124,144
Remeasurement of actuarial loss	(41)	(337)	(41)	(337)
Surplus on revaluation of properties, net of deferred tax	83,430	--	83,430	--
Disposal of equity investment designated at fair value through other comprehensive income	167	--	167	--
Total comprehensive income for the period	79,384	19,563	203,787	390,203
Profit attributable to:				
Owners of the Company	34,570	41,497	169,743	245,351
Non-controlling interests	(12,822)	251	(19,844)	(3,734)
Profit for the period	21,748	41,748	149,899	241,617

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

	Individual 3 months ended 31 July		Cumulative 12 months ended 31 July	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Total comprehensive income attributable to:				
Owners of the Company	80,208	13,794	210,110	380,794
Non-controlling interests	<u>(824)</u>	<u>5,769</u>	<u>(6,323)</u>	<u>9,409</u>
Total comprehensive income for the period	<u>79,384</u>	<u>19,563</u>	<u>203,787</u>	<u>390,203</u>
Basic earnings per ordinary share (sen)	<u>0.90</u>	<u>1.09</u>	<u>4.45</u>	<u>6.50</u>
Diluted earnings per ordinary share (sen)	<u>0.89</u>	<u>1.06</u>	<u>4.38</u>	<u>6.41</u>

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Condensed consolidated statement of changes in equity for the period ended 31 July 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
At 1 August 2021	842,358	247,842	950,313	2,040,513	176,996	2,217,509
Foreign currency translation differences for foreign operations	--	38,268	--	38,268	1,639	39,907
Remeasurement of actuarial loss	--	--	(41)	(41)	--	(41)
Surplus on revaluation of properties net of deferred tax	--	71,324	--	71,324	12,106	83,430
Net change in fair value of equity instrument designated at FVOCI	--	(69,351)	--	(69,351)	(224)	(69,575)
Disposal of equity investment designated at FVOCI	--	--	167	167	--	167
Profit for the period	--	--	169,743	169,743	(19,844)	149,899
Total comprehensive income for the period	--	40,241	169,869	210,110	(6,323)	203,787
Equity settled share-based transactions	11,679	9,382	--	21,061	--	21,061
Conversion of warrants	1,269	--	--	1,269	--	1,269
Dividends to shareholders	--	--	(84,026)	(84,026)	--	(84,026)
Changes in ownership interests in a subsidiary	--	--	4,322	4,322	--	4,322
Total transactions with owners of the Group	12,948	9,382	(79,704)	(57,374)	--	(57,374)
Realisation of revaluation reserve	--	(2,257)	2,257	--	--	--
At 31 July 2022	855,306	295,208	1,042,735	2,193,249	170,673	2,363,922

	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 2020	782,947	120,724	805,345	1,709,016	167,587	1,876,603
Foreign currency translation differences for foreign operations	--	11,524	--	11,524	13,255	24,779
Remeasurement of actuarial loss	--	--	(337)	(337)	--	(337)
Net change in fair value of equity investment designated at FVOCI	--	124,256	--	124,256	(112)	124,144
Transfer upon disposal of equity investment designated at FVOCI	--	(2,888)	2,888	--	--	--
Profit for the period	--	--	245,351	245,351	(3,734)	241,617
Total comprehensive income for the period	--	132,892	247,902	380,794	9,409	390,203
Equity settled share-based transactions	59,411	(2,970)	--	56,441	--	56,441
Dividends to shareholders	--	--	(105,738)	(105,738)	--	(105,738)
Total transactions with owners of the Group	59,411	(2,970)	(105,738)	(49,297)	--	(49,297)
Realisation of revaluation reserve	--	(2,975)	2,975	--	--	--
Transferred to retained earnings	--	171	(171)	--	--	--
At 31 July 2021	842,358	247,842	950,313	2,040,513	176,996	2,217,509

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

	12 months ended 31 July	
	2022 RM'000	2021 RM'000
Cash flows from operating activities		
Profit before tax	201,414	329,130
Adjustments for:		
Depreciation	121,445	101,471
Other non-cash items	70,011	45,099
Non-operating items	9,385	8,610
Operating profit before changes in working capital	<u>402,255</u>	<u>484,310</u>
Changes in working capital:		
Change in inventories	(295,463)	(303,071)
Change in contract assets	57,029	(91,314)
Change in trade and other receivables	(104,831)	(110,821)
Change in trade and other payables	(44,766)	232,267
Change in contract liabilities	6,793	9,197
Interest received	2,596	3,964
Tax paid	(85,228)	(100,665)
Net cash (used in)/from operating activities	<u>(61,615)</u>	<u>123,867</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment	(215,121)	(233,283)
Proceeds from disposal of property, plant and equipment	7,503	6,304
Net proceeds on disposal of other investments	167	4,219
Changes in pledged deposits	27,063	6,072
Prepayments	--	3,813
Other investments	(14,254)	(7,078)
Dividend received from an associate	--	3,000
Net cash (used in)/from investing activities	<u>(194,642)</u>	<u>(216,953)</u>
Cash flows from financing activities		
Bank borrowings	187,706	147,817
Dividend paid to owners of the Company	(84,026)	(105,738)
Proceeds from issuance of shares	10,585	42,097
Loan/ (Repayment) from/to a Director	1,168	(63)
Net cash (used in)/from financing activities	<u>115,433</u>	<u>84,113</u>
Exchange differences on translation of the financial statements of foreign operations	38,268	11,524
Net change in cash and cash equivalents	<u>(102,556)</u>	<u>2,551</u>
Cash and cash equivalents at beginning of period	<u>371,377</u>	<u>361,208</u>
Foreign exchange differences on opening balances	5,822	7,618
Cash and cash equivalents at end of period	<u>274,643</u>	<u>371,377</u>
Cash and cash equivalent comprise:		
Cash and cash equivalent in the statements of financial position	278,607	402,404
Less: Pledged deposits	(3,964)	(31,027)
	<u>274,643</u>	<u>371,377</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 twelve months period ended 31 July 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 27 September 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 8.32 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;
- (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;
- (c) a first interim dividend of 0.4 sen per ordinary share totalling RM15,269,566 in respect of the financial year ending 31 July 2022 on 4 March 2022;
- (d) a second interim dividend of 0.4 sen per ordinary share totalling RM15,270,278 in respect of the financial year ending 31 July 2022 on 29 April 2022; and
- (e) a third interim dividend of 0.4 sen per ordinary share totalling RM15,316,140 in respect of the financial year ending 31 July 2022 on 29 July 2022.

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8. Segment information

(a) Information about reportable segments

	12 months ended 31 July 2022			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	3,483,445	327,755	79,700	3,890,900
Inter-segment revenue	138	--	--	138
Segment profit/(loss) before tax	230,742	8,364	(37,445)	201,661

	12 months ended 31 July 2021			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	3,475,385	350,010	160,896	3,986,291
Inter-segment revenue	302	--	21	323
Segment profit/(loss) before tax	323,309	11,045	(10,199)	324,155

(b) Reconciliation of reportable segment profit or loss

	12 months ended 31 July	
	2022 RM'000	2021 RM'000
Total profit for reportable segments	201,661	324,155
Other non-reportable segments	273	5,638
Share of profit of associate not included in reportable segments	(520)	(663)
Consolidated profit before tax	201,414	329,130

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.

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11. Contingent liabilities and contingent assets

The Group does not have any contingent liabilities and contingent assets as at 31 July 2022 other than the following:-

The Company and the Executive Chairman of the Company had on 8 August 2022 received a Writ and Statement of Claim dated 2 August 2022 filed in the Kuala Lumpur High Court (“KLHC Suit”) by NEP Holdings (Malaysia) Berhad (“NEP”), Lim Chang Huat (“LCH”) and Lim Chee Kon (“LCK”) (Plaintiffs).

NEP, LCH and LCK allege that Clauses 7.7, 20.1(a), (c), (d) and (g) of Shareholders Agreement dated 25 July 2016 (“SA”) entered into by the Company with NEP, LCH and LCK have been breached and further alleges that there has been a breach of fiduciary duties on the part of the Executive Chairman of the Company. In their Statement of Claim, NEP, LCH and LCK are seeking general damages, exemplary damages and aggravated damages arising from these alleged breaches all of which have not been quantified.

The financial impact could not be ascertained at this juncture as the damages arising from alleged breaches have not been quantified by the Plaintiffs.

The solicitor is of the view that the Company have a good defence on the litigations and will vigorously oppose to the claim.

12. Capital commitments

	31.07.2022
	RM'000
Property, plant and equipment Contracted but not provided for	<u>10,261</u>

13. Related party transactions

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

	12 months ended	
	31 July	
	2022	2021
	RM'000	RM'000
Subsidiaries in which certain Directors have financial interest		
- Purchases	--	22
- Purchase of plant and equipment	<u>667</u>	<u>930</u>
Companies which are wholly owned by close family member of certain Directors		
- Purchases	<u>3,338</u>	<u>5,415</u>

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13. Related party transactions (Cont'd)

	12 months ended 31 July	
	2022 RM'000	2021 RM'000
A company in which spouse of a Director has financial interest		
- Purchases	27,136	13,939
- Sales	<u>1,340</u>	<u>2,547</u>
Associates		
- Sales	<u>453</u>	<u>1,092</u>
A company which is controlled by close family member of a Director		
- Sub-contracting fee payable	<u>--</u>	<u>523</u>
A company which is controlled by a Director		
- Operating lease charges and management fee payable	<u>960</u>	<u>919</u>
A company which is controlled by close family member of a key management personnel		
- Repair and maintenance services payable	<u>207</u>	<u>91</u>
A company which is wholly owned by a Director		
- Rental receivable	<u>150</u>	<u>263</u>
A company which is wholly owned by close family member of a Director		
- Sales of plant and equipment	<u>353</u>	<u>--</u>
Remuneration paid to staff who are close family member of certain Directors	<u>1,650</u>	<u>1,419</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 RM1,004.4 million, an increase of 6.7% or RM63.3 million as compared to the previous year corresponding quarter. Profit before tax was lower at RM34.2 million, a decline of RM21.7 million over the same period, primarily due to a one-off (non-cash) impairment on the investment in associate and impairment loss on plant and equipment amounting to RM25.8 million and RM12.4 million respectively. Note that similar impairment of RM25.0 million and RM5.8 million were recorded respectively in the previous year corresponding quarter.

For the financial year ended 31 July 2022, the Group recorded a marginally lower revenue of RM3,914.1 million as compared to the preceding year of RM4,002.3 million. Profit before tax stood at RM201.4 million, which was 38.8% or RM127.7 million lower over the same period. In addition to the aforementioned impairment, performance was also affected by lower delivery of orders to key customers during the period due to labour shortage as well as protracted disruption in the global supply chain which affected supply of components. Furthermore, mass production for a new key customer has yet to achieve optimal level.

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

	Individual Quarter 31 July		Cumulative Quarter 31 July	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Revenue				
Malaysia	908,256	816,693	3,483,445	3,475,385
Indonesia	75,417	81,280	327,755	350,010
China	12,448	37,059	79,700	160,896
Profit/(Loss) before tax				
Malaysia	58,649	52,075	230,742	323,309
Indonesia	(123)	2,882	8,364	11,045
China	(22,245)	(2,321)	(37,445)	(10,199)

Malaysia segment

For the current quarter and cumulative quarters, Malaysia segment posted a 11.2% and 0.2% increase in revenue respectively mainly due to higher delivery of orders to key customers in the current quarter.

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14. Review of performance (Cont'd)

Profit before tax was up 12.6% to RM58.6 million for the current quarter notwithstanding the one off (non-cash) impairment on the investment in associate as mentioned above. For the cumulative quarters, the lower profitability was a result of several factors, lower production efficiency caused by supply chain disruption and labour shortage, as well as higher depreciation from new facilities while mass production for a new key customer has yet to achieve optimal level.

Indonesia segment

Indonesia segment incurred a loss following lower revenue recorded for the current quarter. For the cumulative quarters, profit before tax was lower in tandem with reduced revenue.

China segment

Operations in China continued to sustain losses in the given the highly challenging environment in the country. In the absence of large orders, the low revenue base was insufficient to cover fixed cost. Operating loss incurred for the quarter was further aggravated by loss on disposal of fixed assets and impairment loss on property, plant and equipment.

15. Variation of results against preceding quarter

	Current Quarter 31 July 2022 RM'000	Preceding Quarter 30 April 2022 RM'000
Revenue	1,004,369	927,588
Profit before tax	34,174	62,882
Profit attributable to owners of the Company	34,570	51,294

For the current quarter under review, the Group recorded a lower profit before tax despite higher revenue mainly attributable to a one-off (non-cash) impairment on the investment in associate and impairment on plant and equipment of RM25.8 million and RM12.4 million respectively. Excluding the impairment, profit before tax would have been 15.1% or RM9.5 million higher.

16. Current year prospects

Businesses globally continue to grapple with a slew of issues and market uncertainties. Central banks across the world are raising interest rates to tackle the inflation rates that have remained stubbornly high. Apart from inflation, there is also recession fear. Against this backdrop, consumer sentiments ebbing with cautious spending are likely to prevail.

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16. Current year prospects (Cont'd)

On a lighter note, there are some bright spots at our Group with labour shortages now resolved following the arrival of adequate numbers of foreign workers. Supply chain and logistics issues, while challenging, are manageable as we have also stocked up on certain raw materials with longer lead time. Order flow from customers remains reasonable at this juncture.

Barring unforeseen circumstances, the Board opines that the financial performance of the Group for the coming fiscal year will be satisfactory.

17. Profit forecast

Not applicable.

18. Tax expense

	Individual 3 months ended 31 July		Cumulative 12 months ended 31 July	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Tax expense				
- Current period	20,631	15,728	61,381	90,114
- Prior years	(18,350)	(2,522)	(18,350)	(2,522)
Deferred tax expense				
- Current period	6,257	1,573	4,596	585
- Prior years	3,888	(664)	3,888	(664)
	<u>12,426</u>	<u>14,115</u>	<u>51,515</u>	<u>87,513</u>

The effective tax rate of the Group for the financial year-to-date was higher than the statutory tax rate mainly due to the certain non-deductible expenses for tax purposes.

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

	31.07.2022 RM'000	31.07.2021 RM'000
Non-current		
<i>Secured</i>		
Hire purchase liabilities	492	2,033
<i>Unsecured</i>		
Term loans	123,297	86,822
	<u>123,789</u>	<u>88,855</u>
Current		
<i>Secured</i>		
Trust receipts	--	20,767
Short term loan	--	14,309
Hire purchase liabilities	1,536	2,822
<i>Unsecured</i>		
Term loans	39,646	24,523
Bankers' acceptance	109,089	74,208
Trust receipts/Onshore loans	308,571	167,867
Short term loan	17,442	11,259
	<u>476,284</u>	<u>315,755</u>
	<u>600,073</u>	<u>404,610</u>

Borrowings denominated in US Dollar amounted to RM296.0 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		12 months ended	
	31 July		31 July	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Profit for the period is arrived at after charging/(crediting)				
Depreciation	31,161	25,677	121,445	101,471
Net foreign exchange (gain)/loss	193	(6,606)	(14,550)	(4,607)
Loss/(Gain) on disposal of property, plant and equipment	8,902	(3,148)	7,360	(1,816)
Impairment loss on plant and equipment	12,393	5,760	12,393	5,760
Impairment loss on investments in associates	25,826	25,000	25,826	25,000

23. Dividends

- (a) A fourth interim dividend of 0.4 sen per ordinary share was declared on 27 September 2022 for the financial year ended 31 July 2022 and will be paid on 28 October 2022 to shareholders whose names appear on the Company's Record of Depositors on 14 October 2022.
- (b) The Board is proposing for the shareholders' approval at the forthcoming Annual General Meeting, a final dividend of 0.4 sen per ordinary share for the financial year ended 31 July 2022. The details of the book closure and payment date will be announced at a later stage.
- (c) The total dividend per share for the current financial year is 2.0 sen (previous year corresponding period: 4.2 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 RM34.6 million and RM169.7 million respectively and the weighted average number of ordinary shares of 3,824.925 million and 3,818.366 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 RM34.6 million and RM169.7 million respectively and the weighted average number of ordinary shares, adjusted for the dilutive effects of potential ordinary shares of 3,869.652 million and 3,878.274 million respectively.