

AYS VENTURES BERHAD (925171-T)
(Incorporated in Malaysia)

INTERIM REPORT ON UNAUDITED CONSOLIDATED RESULTS FOR THE FIRST FINANCIAL QUARTER ENDED 30 JUNE 2019

EXPLANATORY NOTES

1. BASIS OF PREPARATION

The interim financial statements are unaudited and have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards (“MFRS”), MFRS134: Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Bhd (“Bursa Securities”).

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 March 2019. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 March 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements have been prepared in accordance with the same accounting policies and methods of computation adopted in the audited financial statements for the financial year ended 31 March 2019, except for the following MFRSs, Amendments to MFRSs, IC Interpretation and Annual Improvements to MFRSs which are applicable to its financial statements:

- MFRS 16, Leases
- Amendments to MFRS 9*, Financial Instruments-Prepayment features with Negative Compensation
- Amendments to MFRS 119*, Employee Benefit (Plan Amendments, Curtailment or Settlement)
- Amendments to MFRS 128, Investment in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures
- IC Interpretation 23 Uncertainty over Income Tax Treatments
- Annual Improvements to MFRS Standards 2015 – 2017 Cycle*

The adoption of these MFRSs, Amendments to MFRSs, IC Interpretation and Annual Improvements to MFRSs did not result in significant changes in the accounting policies of the Group and have no significant effect on the financial performance or position of the Group except for the changes arising from the adoption of new MFRS 16 Leases as described below:-

MFRS 16 Leases

The Group has applied MFRS 16 prospectively with the date of initial application of 1 April 2019. In accordance with the transitional provisions provided in MFRS 16, comparative information for 2019 was not restated. The Group recognises the right-of-use assets and lease liabilities as below:-

Group	31-Mar-19 RM'000	Changes RM'000	01-Apr-19 RM'000
Non-current assets			
Right-of-use assets	-	14,164	14,164
Non-current liabilities			
Lease liabilities	-	13,284	13,284
Current liabilities			
Lease liabilities	-	880	880
Total lease liabilities	-	14,164	14,164

At the date of authorisation of these interim financial statements, the following MFRSs and Amendments to MFRSs were issued but not yet effective up to the date of issuance of the Group's financial statements and have not been early adopted by the Group:

Effective for financial periods beginning on or after 1 January 2020

- Amendments to MFRS 3, Definition of a Business
- Amendments to MFRS 101, Definition of Material
- Amendments to MFRS 108, Definition of Material
- Amendments to References to the Conceptual Framework in MFRS Standards

Effective for financial periods beginning on or after 1 January 2021

- MFRS 17* Insurance Contracts

Deferred to a date yet to be confirmed

- Amendments to MFRS 10 and MFRS 128, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

* Not applicable to the Group's operations

The Group will adopt the above MFRSs, Amendments to MFRSs, IC Interpretation and Annual Improvements to MFRSs when they become effective in the respective financial periods. The adoption of these pronouncements is not expected to have any significant financial impact to the Group.

3. AUDITOR'S REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

There were no audit qualification on the audit report of the preceding reports and financial statements.

4. SEASONALITY OR CYCLICALITY OF INTERIM OPERATIONS

Except for the major festive seasons when activities slow down, the pace of the Company's business generally moves in tandem with the performance of the economy.

5. NATURE AND AMOUNT OF UNUSUAL ITEMS

There were no items of unusual nature, size or incidence which affect the assets, liabilities, equity, net income or cash flows during the current quarter under review.

6. NATURE AND AMOUNT OF CHANGES IN ESTIMATES

There were no major changes in estimates that have a material effect on the current quarter results.

7. DEBT AND EQUITY SECURITIES

There were no issuances, cancellations, repurchases, resale and repayments of debts and equity securities during the current quarter under review.

8. DIVIDEND PAID

There were no dividends paid during the financial period-to-date.

9. SEGMENTAL INFORMATION

For management purposes, the Group is organised into three reportable operating segments, which comprise the following:

- (a) **Trading & Services**
Trading and marketing of steel products and all types of construction materials and warehousing and storage services.
- (b) **Manufacturing**
Manufacturing and trading of panels and components for sectional tanks, steel purlin and other steel products.
- (c) **Others**
Investment holding and dormant.

9.1 Business Segments

The segment revenue, segment results and segment assets for the financial year ending 31 March 2020 were as follows:

	Trading & Services RM000	Manufacturing RM000	Others RM000	Elimination RM000	Consolidated RM000
REVENUE					
External sales	175,396	8,128	-	-	183,524
Inter-company transactions	4,647	1,594	-	(6,241)	-
Total Sales	180,043	9,722	-	(6,241)	183,524
RESULTS					
Segment results	6,430	213	(457)	-	6,186
Finance cost	(4,085)	(111)	-	-	(4,196)
Interest income	9	5	-	-	14
Share of result in associated company	-	-	-	-	-
Taxation	(874)	(49)	-	-	(923)
Profit for the period	1,480	58	(457)	-	1,081
ASSETS	665,548	44,212	39,235	(55,584)	693,411
LIABILITIES	449,869	21,674	369	(55,257)	416,655

9.2 Geographical Segments

	3 months ended 30.06.2019 RM'000
External Sales	
Malaysia	140,674
APEC countries	42,737
Other countries	113
	<u>183,524</u>

10. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE PERIOD

There has not arisen in the interval between the end of the current quarter under review and the date of this report, any item, transaction or event of a material and unusual nature likely in the opinion of the Board of Directors, to affect substantially the results of the operations of the Group for the current quarter.

11. CHANGES IN THE COMPOSITION OF THE GROUP

Save as disclosed below, there were no changes in the composition of the Group for the current quarter under review.

On 9 May 2019, AYS Capital Sdn Bhd (formerly known as Heapi Enterprise Sdn Bhd), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with certain shareholders of Steelarlis Pte Ltd ("Steeclaris"), being Chua Ley Hong (Cai Lihong), Chua Ley Suang (Cai Lishuang), Ang Tee Seng, Ang Yu Xin Aileen, Handi Saswita, Yee Yeow Cheong (Yu

Yaochang), for the acquisition of 3,570,000 ordinary shares representing 51% of the total issued share capital of Steelaris for a total cash consideration of SGD1.00 (equivalent to approximately RM3.10). The acquisition has completed on 23 July 2019 and Steelaris has effectively become a 51% subsidiary of the AYS Group.

12. CONTINGENT LIABILITIES OR CONTINGENT ASSETS

There were no material changes in contingent liabilities or contingent assets since the last reports and financial statements.

13. CAPITAL COMMITMENTS

The capital commitments as at 30 June 2019 were as follows:

Commitments in respect of capital expenditure	RM'000
(a) Contracted but not provided for	0
(b) Approved but not contracted for	24,938

14. COMMENTARY ON FINANCIAL PERFORMANCE

	Individual Period (1st Quarter)			
	Current Quarter	Preceding Year Corresponding Quarter	Changes	
	30.06.2019 RM'000	30.06.2018 RM'000	RM'000	%
Revenue	183,524	141,178	42,346	29.99%
Operating Profit	6,090	11,296	(5,206)	-46.09%
Profit Before Interest and Tax	6,186	11,183	(4,997)	-44.68%
Profit Before Tax	2,004	8,633	(6,629)	-76.79%
Profit After Tax	1,081	6,391	(5,310)	-83.09%
Profit Attributable to Ordinary Equity Holders of the Parent	1,077	6,388	(5,311)	-83.14%

For the first quarter ended 30 June 2019, the Group registered revenue of RM183.524 million, an increase of RM42.346 million or 29.99% as compared to the revenue of RM141.178 million for the corresponding quarter of the preceding year. The higher revenue was mainly attributable to higher sales volume despite lower selling prices of steel products from the trading & services division.

The Group operating profit decreased by RM5.206 million to RM6.090 million in the current quarter as compared to RM11.296 million for the corresponding quarter of the preceding year. The Group registered a profit before tax ("PBT") of RM2.004 million for the current quarter, a decrease of RM6.629 million as compared to PBT of RM8.633 million in the corresponding quarter of the preceding year. The decrease operating profit and PBT was mainly due to higher cost of goods sold and interest expenses despite higher revenue in the current quarter.

Trading & services revenue increased by RM47.131 million to RM175.396 million for the current quarter compared to RM128.265 million for the corresponding quarter of the preceding year. The segment PBT decreased by RM6.767 million to RM2.354 million for the current quarter as compared to segment PBT of RM9.121 million for the corresponding quarter of the preceding year. The higher

segment revenue mainly attributable to the higher sales volume resulting from higher market demand despite lower selling price of steel products in a core unit of the trading & services division. The lower segment PBT was mainly attributable to higher cost of goods sold and interest expenses during the current quarter.

Manufacturing revenue decreased by RM4.785 million to RM8.128 million for the current quarter compared to RM12.913 million for the corresponding quarter of the preceding year. The segment PBT increased by RM0.425 million to RM0.107 million for the current quarter as compared to loss before tax ("LBT") of RM0.318 million for the corresponding quarter of the preceding year. The lower segment revenue was mainly attributable to the cessation of wire products business operation and lower sales volume of structural steel components, panels and components for sectional tanks despite higher sales volume of steel purlin. The higher segment PBT was due to lower cost of goods sold resulting from improved productivity during the current quarter under review.

15. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	Current Quarter 30.06.2019 RM'000	Immediate Preceding Quarter 31.03.2019 RM'000	Changes	
			RM'000	%
Revenue	183,524	154,956	28,568	18.44%
Operating Profit	6,090	3,972	2,118	53.32%
Profit Before Interest and Tax	6,186	3,110	3,076	98.91%
Profit Before Tax	2,004	508	1,496	>100%
Profit After Tax	1,081	68	1,013	>100%
Profit Attributable to Ordinary Equity	1,077	109	968	>100%

The Group registered revenue of RM183.524 million in the current quarter which was RM28.568 million or 18.44% higher than the revenue of RM154.956 million for the immediate preceding quarter attributable to higher sales volume resulting from higher market demand despite lower selling price of steel products from the trading & services and manufacturing division.

The Group operating profit increased by RM2.118 million to RM6.090 million in the current quarter as compared to RM3.972 million for the immediate preceding quarter. The PBT of the Group registered an increase by RM1.496 million to RM2.004 million in the current quarter compared to PBT of RM0.508 million for the immediate preceding quarter. The increase operating profit and PBT was mainly due to higher revenue.

Trading & services revenue increased by RM26.570 million to RM175.396 million for the current quarter compared to RM148.826 million for the immediate preceding quarter. The segment PBT increased by RM0.362 million to RM2.354 million in the current quarter as compared to segment PBT of RM1.992 million for the immediate preceding quarter. The higher segment revenue mainly attributable to the higher sales volume resulting from higher demand despite lower sales selling prices of steel products. The higher segment PBT was mainly attributable to higher revenue in the current quarter.

Manufacturing revenue increased by RM1.998 million to RM8.128 million for the current quarter compared to RM6.130 million for the immediate preceding quarter. The segment PBT increased by RM1.444 million to RM0.107 million for the current quarter as compared to segment LBT of RM1.337 million for the immediate preceding quarter. The higher segment revenue was mainly attributable to the higher sales volume despite lower selling price of steel purlin, structural steel components, panels and components for sectional tanks but the effect has been partially offset by the cessation of wire

products business operation. The higher segment PBT was due to higher revenue and lower cost of goods sold resulting from improved productivity during the current quarter under review.

16. PROSPECTS

The World Bank has downgraded Malaysia's economic growth this year to 4.6% from 4.7% due to external headwinds and weak investment growth. Malaysian economy will be more challenging amidst the uncertainties external environment, including heightened geopolitical risk in the US-China trade spat and the Middle East which influences oil prices, volatility in commodity prices and foreign exchange rates. Nonetheless, on the domestic front, private sector activities remain the anchor of growth along with the public sector expenditures is expected to turnaround and contribute positively backed by the revival of infrastructure projects, lower overnight policy rate effects, low inflationary pressure and stable job market. The Group will continue to focus on its strategies on improving revenue growth, efficiency and productivity, keeping the cost under control and to increase its competitiveness in the industry so that the Group's performance will remain competitive for the remaining quarters of the financial year.

17. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT

The Group did not issue any profit forecast or profit guarantee for the financial year ending 31 March 2020.

18. TAXATION

The tax figures comprise of:

	3 months ended 30.06.2019 RM'000
Income tax	
- Current year taxation	614
- Prior year taxation	-
Deferred tax	309
	<u>923</u>

The Group's effective tax rate for the current quarter under review was higher than the statutory tax rate of 24% mainly due to certain expenses which are not deductible for tax purposes, non-available group tax relief and provision of deferred taxation.

19. STATUS OF CORPORATE PROPOSALS

There were no corporate proposals announced but not completed as at the latest practical date from the issuance of this report.

20. BORROWINGS

The Group's borrowings as at 30 June 2019 are as follows:

	As At End of Current Quarter 30.06.2019 RM'000	As At End of Immediate Preceding Quarter 31.03.2019 RM'000
<u>Short Term borrowings</u>		
Secured	349,371	311,999
<u>Long Term borrowings</u>		
Secured	593	816
Total borrowings	349,964	312,815

The Group's short term borrowings increased by RM37.372 million as at the current quarter to RM349.371 million compared with the immediate preceding quarter of RM312.815 million mainly due to higher importation of steel products, higher payments to vendors and lower cash receipts from customers in the current quarter under review.

The Group's borrowings are denominated in Ringgit Malaysia.

21. FINANCIAL DERIVATIVE INSTRUMENTS

Forward foreign exchange contracts are used to hedge foreign exchange risks associated with some of the transactions exposure. As at end of the current quarter under review, the outstanding forward foreign currency exchange contracts are as follows:

Type of Derivatives	Contract/Notional Value (RM'000)	Fair Value (RM'000)
Forward currency contracts	12,124	12,140

The fair value changes have been recognised in the financial statements.

22. MATERIAL LITIGATION

There was no material litigation for the quarter under review.

23. DIVIDEND

The Board of Directors does not recommend any dividend in respect of the financial quarter ended 30th June 2019.

24. EARNINGS PER SHARE

Basic earnings per ordinary share

Basic earnings per share is calculated by dividing the profit attributable to owners of the parent for the period by the number of weighted average number of ordinary shares of the Company in issue for the respective period as follows:

	Individual Quarter		Cumulative Quarter	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
Profit/(Loss) attributable to owners of the parent (RM'000)	1,077	6,388	1,077	6,388
Number of ordinary shares in issue ('000)	380,418	380,418	380,418	380,418
Earnings/(loss) per share (sen)				
- Basic	0.28	1.68	0.28	1.68
- Diluted	N/A	N/A	N/A	N/A

Diluted earnings per share

The Group has no dilution in its earnings per ordinary share in the current quarter/period-to-date as there are no potential ordinary shares to be issued.

25. INCLUDED IN THE TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ARE THE FOLLOWINGS:

	3 months ended	Cumulative 3 months ended
	30.06.2019 RM'000	30.06.2019 RM'000
Interest Income	14	14
Other Income including Investment Income	204	204
Interest Expenses	4,196	4,196
Depreciation & Amortisation	1,554	1,554
Provision for/Write off of Receivables	77	77
Provision for/Write off of Inventories	124	124
Gain/(Loss) on disposal of Quoted and Unquoted Investment or Properties	0	0
Impairment of Assets	0	0

Gain/(Loss) on Foreign Exchange		
- Realised	1,008	1,008
- Unrealised	(15)	(15)
Gain/(Loss) on Derivatives	0	0
Impairment of Goodwill	0	0

26. AUTHORISATION FOR ISSUE

The Interim financial statements were authorized for issue by the Board of Directors in accordance with a resolution of the Directors on 27th August 2019.

By Order of the Board
Leong Oi Wah (MAICSA 7023802)
Company Secretary
27th August 2019
Selangor Darul Ehsan