

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

INTERIM REPORT ON UNAUDITED CONSOLIDATED RESULTS FOR THE SECOND FINANCIAL QUARTER ENDED 30 SEPTEMBER 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

During the financial year ending 31 March 2020, the Company has paid a final single tier dividend of 1 sen per share in respect of the financial year ended 31 March 2019 amounting to RM3,804,176.56 on 18 October 2019.

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 RM'000	Manufacturing RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
REVENUE					
External sales	362,895	16,281	-	-	379,176
Inter-company transactions	35,072	3,071	-	(38,143)	0
Total Sales	<u>397,968</u>	<u>19,352</u>	<u>-</u>	<u>(38,143)</u>	<u>379,176</u>
RESULTS					
Segment results	7,652	(1,477)	(706)	-	5,469
Finance cost	(8,366)	(222)	-	-	(8,588)
Interest income	117	8	-	-	125
Share of result in associated company			-	-	-
Taxation	(712)	(99)	-	-	(811)
Profit for the period	<u>(1,309)</u>	<u>(1,790)</u>	<u>(706)</u>	<u>-</u>	<u>(3,805)</u>
ASSETS					
	<u>784,198</u>	<u>39,418</u>	<u>38,958</u>	<u>(132,995)</u>	<u>729,579</u>
LIABILITIES					
	<u>584,901</u>	<u>17,389</u>	<u>342</u>	<u>(138,644)</u>	<u>463,988</u>

9.2 Geographical Segments

	3 months ended 30.09.2019 RM'000	6 months ended 30.09.2019 RM'000
External Sales		
Malaysia	127,607	268,281
APEC countries	67,388	110,125
Other countries	<u>657</u>	<u>770</u>
	<u>195,652</u>	<u>379,176</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

There were no changes in the composition of the Group during the current quarter under review and financial period to-date saved for the Company's announcement on 23 July 2019 that the Company through its wholly-owned subsidiary, AYS Capital Sdn Bhd (formerly known as Heapi Enterprise Sdn Bhd), of 51.0% equity interest in Steelaris Pte Ltd ("Steelearis") comprising 3,570,000 ordinary shares for a total cash consideration of SGD1.00 (equivalent to approximately RM3.10). Steelaris effectively becomes a 51% subsidiary of the AYS Group with effect from 23 July 2019.

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 September 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	24,893

14. COMMENTARY ON FINANCIAL PERFORMANCE

	Individual Period (2nd Quarter)				Cumulative Period			
	Current Quarter	Preceding Year Corresponding Quarter	Changes		Current Year To-date	Preceding Year Corresponding Period	Changes	
	30.09.2019 RM'000	30.09.2018 RM'000	RM'000	%	30.09.2019 RM'000	30.09.2018 RM'000	RM'000	%
Revenue	195,652	169,305	26,347	15.56%	379,176	310,483	68,693	22.12%
Operating Profit/(Loss)	(641)	12,126	(12,767)	> -100%	5,448	23,422	(17,974)	-76.74%
Profit/(Loss) Before Interest and Tax	(715)	12,019	(12,734)	> -100%	5,469	23,202	(17,733)	-76.43%
Profit/(Loss) Before Tax	(4,997)	9,147	(14,144)	> -100%	(2,994)	17,780	(20,774)	> -100%
Profit/(Loss) After Tax	(4,885)	7,166	(12,051)	> -100%	(3,805)	13,557	(17,362)	> -100%
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	(4,157)	7,147	(11,304)	> -100%	(3,081)	13,535	(16,616)	> -100%

For the second quarter ended 30 September 2019, the Group registered revenue of RM195.652 million, an increase of RM26.347 million or 15.56% as compared to the revenue of RM169.305 million for the corresponding quarter of the preceding year. The higher revenue was mainly attributable to higher sales volume resulting from the incorporation of revenue from the new subsidiary despite lower selling prices of steel products from the trading & services division.

The Group operating profit decreased by RM12.767 million to operating loss of RM0.641 million in the current quarter as compared to operating profit of RM12.126 million for the corresponding quarter of the preceding year. The Group registered a loss before tax ("LBT") of RM4.997 million for the current quarter, a decrease in profit before tax ("PBT") of RM14.144 million as compared to PBT of RM9.147 million in the corresponding quarter of the preceding year. The decrease operating profit and PBT was mainly due to lower selling price, higher cost of goods sold and interest expenses despite higher revenue in the current quarter.

Trading & services division's revenue increased by RM43.852 million to RM187.499 million for the current quarter compared to RM143.647 million for the corresponding quarter of the preceding year. The segment PBT decreased by RM11.260 million to LBT of RM2.950 million for the current quarter as compared to segment PBT of RM8.310 million for the corresponding quarter of the preceding year. The higher segment revenue mainly attributable to the higher sales volume resulting from the incorporation of revenue from the new subsidiary despite lower selling prices of steel products. The

segment LBT was mainly attributable to lower selling price, higher cost of goods sold and interest expenses during the current quarter.

Manufacturing division's revenue decreased by RM17.505 million to RM8.153 million for the current quarter compared to RM25.658 million for the corresponding quarter of the preceding year. The segment PBT decreased by RM2.867 million to LBT of RM1.799 million for the current quarter as compared to PBT of RM1.068 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 manufactured products. The segment LBT was due to higher cost of goods sold resulting from decreased productivity during the current quarter under review.

15. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	Current Quarter 30.09.2019 RM'000	Immediate Preceding Quarter 30.06.2019 RM'000	Changes	
			RM'000	%
Revenue	195,652	183,524	12,128	6.61%
Operating Profit/(Loss)	(641)	6,090	(6,731)	> -100%
Profit/(Loss) Before Interest and Tax	(715)	6,186	(6,901)	> -100%
Profit/(Loss) Before Tax	(4,997)	2,004	(7,001)	> -100%
Profit/(Loss) After Tax	(4,885)	1,081	(5,966)	> -100%
Profit/(Loss) Attributable to Ordinary Equity	(4,157)	1,077	(5,234)	> -100%

The Group registered revenue of RM195.652 million in the current quarter which was RM12.128 million or 6.61% higher than the revenue of RM183.524 million for the immediate preceding quarter mainly attributable to higher sales volume resulting from the incorporation of revenue from the new subsidiary despite lower selling prices of steel products from the trading & services and manufacturing division.

The Group operating profit decreased by RM6.731 million to operating loss of RM0.641 million in the current quarter as compared to operating profit of RM6.090 million for the immediate preceding quarter. The PBT of the Group registered a decrease by RM7.001 million to LBT of RM4.997 million in the current quarter compared to PBT of RM2.004 million for the immediate preceding quarter. The decrease operating profit and PBT was mainly due to lower selling price, higher cost of goods sold and interest expenses.

Trading & services division's revenue increased by RM12.103 million to RM187.499 million for the current quarter compared to RM175.396 million for the immediate preceding quarter. The segment PBT decreased by RM5.304 million to LBT of RM2.950 million in the current quarter as compared to segment PBT of RM2.354 million for the immediate preceding quarter. The higher segment revenue mainly attributable to the higher sales volume resulting from the incorporation of revenue from the new subsidiary despite lower selling prices of steel products. The segment LBT was mainly attributable to higher cost of goods sold and interest expenses in the current quarter.

Manufacturing division's revenue increased by RM0.025 million to RM8.153 million for the current quarter compared to RM8.128 million for the immediate preceding quarter. The segment PBT decreased by RM1.906 million to LBT RM1.799 million for the current quarter as compared to segment PBT of RM0.107 million for the immediate preceding quarter. The higher segment revenue was mainly attributable to the higher sales volume of panels and components for sectional tanks but the effect has been partially offset by lower sales volume of other manufactured products. The higher

segment LBT was due to higher cost of goods sold resulting from lower productivity during the current quarter under review.

16. PROSPECTS

Malaysia economy remained slow in the third quarter resulting from heightened uncertainty surrounding the external environment and softening global demand constraining its export growth, factors such as US-China trade tensions and a subdued oil price lead to a sluggish outlook for most industrial sectors - a persistent trend since the beginning of this year. Nonetheless, the comparatively stable domestic-oriented sectors, the E&E and certain commodity export sectors will remain the underlying economic driver. The Group's performance will remain challenging for the remaining quarters of the financial year if construction demand and products pricing pressure continues which will assert pressure on the Group's performance. Nonetheless, the Group has in place strategy in broadening its revenue base, enhancing on efficiency and productivity to mitigate the potential downward pressure.

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 30.09.2019 RM'000	6 months ended 30.09.2019 RM'000
Income tax		
- Current year taxation	(137)	477
- Prior year taxation		-
Deferred tax	<u>25</u>	<u>334</u>
	<u>(112)</u>	<u>811</u>

The Group's effective tax rate for the current quarter was lower than the statutory tax rate of 24% mainly due to companies making losses but the effect has been partially offset by certain expenses which are not deductible for tax purposes and provision of deferred taxation. The Group's effective tax rate for the year-to-date under review and 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 September 2019 are as follows:

	As At End of Current Quarter 30.09.2019 RM'000	As At End of Immediate Preceding Quarter 30.06.2019 RM'000
<u>Short Term borrowings</u>		
Secured	359,874	349,371
<u>Long Term borrowings</u>		
Secured	665	593
Total borrowings	360,539	349,964

The Group's short term borrowings increased by RM10.503 million as at the current quarter to RM359.874 million compared with the immediate preceding quarter of RM349.371 million mainly due to incorporation of short term borrowings of the new subsidiary 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	46,275	46,389

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 September 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	
	30.09.2019	30.09.2018	30.09.2019	30.09.2018
Profit/(Loss) attributable to owners of the parent (RM'000)	(4,157)	7,147	(3,081)	13,535
Number of ordinary shares in issue ('000)	380,418	380,418	380,418	380,418
Earnings/(loss) per share (sen)				
- Basic	(1.09)	1.88	(0.81)	3.56
- 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 30.09.2019 RM'000	Cumulative 6 months ended 30.09.2019 RM'000
Interest Income	111	125
Other Income including Investment Income	567	771
Interest Expenses	4,393	8,588
Depreciation & Amortisation	1,788	3,342
Provision for/Write off of Receivables	99	176
Provision for/Write off of Inventories	9	133
Gain/(Loss) on disposal of Quoted and Unquoted Investment or Properties	0	0
Impairment of Assets	0	0

Gain/(Loss) on Foreign Exchange		
- Realised	(1,377)	(369)
- Unrealised	13	(2)
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 26th November 2019.

By Order of the Board
 Leong Oi Wah (MAICSA 7023802)
 Company Secretary
 26th November 2019
 Selangor Darul Ehsan