VSTECS BERHAD (351038-H)
(Formerly known as ECS ICT Berhad)
(Incorporated in Malaysia)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	As At 30/06/2019 RM'000	As At 31/12/2018 RM'000
ASSETS			
Plant and equipment		2,454	2,418
Investment properties		9,402	9,416
Right-of-use assets	18(a)	2,989	-
Investment in an associate		14,573	-
Investment in a joint venture		13,772	13,410
Investment in club membership		62	62
Intangible asset		571	571
Deferred tax assets		1,051	1,249
Total non-current assets		44,874	27,126
Inventories		128,924	132,748
Receivables, deposits and prepayments		257,736	264,124
Cash and cash equivalents		19,835	54,541
Total current assets		406,495	451,413
TOTAL ASSETS		451,369	478,539
EQUITY			
Share capital		90,000	90,000
Reserves		204,089	198,096
Total equity attributable to owners of the Company		294,089	288,096
LIABILITIES			
Lease liabilities	18(a)	1,089	-
Total non-current liabilities		1,089	-
Payables and accruals		152,539	189,112
Lease liabilities	18(a)	1,927	-
Tax payable		1,725	1,331
Total current liabilities		156,191	190,443
Total liabilities		157,280	190,443
TOTAL EQUITY AND LIABILITIES		451,369	478,539
Net assets per share attributable to owners of the Company (RM)		1.63	1.60

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to the interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE QUARTER AND SIX MONTHS ENDED 30 JUNE 2019

	Note	Individual Quarter Three Months Ended		Cumulative Quarter Six Months Ended	
		30/06/2019 RM'000	30/06/2018 RM'000	30/06/2019 RM'000	30/06/2018 RM'000
Revenue		421,783	358,213	800,616	750,008
Cost of sales		(399,877)	(340,031)	(760,438)	(711,860)
Gross profit		21,906	18,182	40,178	38,148
Distribution expenses		(8,547)	(8,256)	(16,882)	(17,187)
Administrative expenses		(5,182)	(4,994)	(10,269)	(10,281)
Other (expenses)/income	17	(84)	13	963	(300)
Results from operating activities	17	8,093	4,945	13,990	10,380
Finance income		281	606	407	844
Finance costs		(55)	-	(109)	-
Net finance income		226	606	298	844
Share of profit of equity-accounted joint venture and associate, net of tax		196	158	361	334
Profit before tax		8,515	5,709	14,649	11,558
Tax expense	21	(2,158)	(1,435)	(4,047)	(2,903)
Profit for the period / Total comprehensive income for the period		6,357	4,274	10,602	8,655
Profit for the period / Total comprehensive income for the period attributable to:					
Owners of the Company		6,357	4,274	10,602	8,655
Non-controlling interest		-	-	-	-
		6,357	4,274	10,602	8,655
Earnings per share attributable to owners of the Company:					
Basic (sen)	26	3.5	2.4	5.9	4.8
Diluted (sen)		N/A	N/A	N/A	N/A

Notes:
N/A Not applicable

The Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to the interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR SIX MONTHS ENDED 30 JUNE 2019

	<- Attributable to owners of the Company - >					
			Distributable		Non-	
	Share Capital RM'000	Treasury Shares RM'000	Retained Earnings RM'000	Total RM'000	Controlling Interest RM'000	Total Equity RM'000
At 1 January 2018	90,000	-	182,492	272,492	-	272,492
Profit for the period / Total comprehensive income for the period	-	-	8,655	8,655	-	8,655
Dividend	-	-	(4,500)	(4,500)	-	(4,500)
At 30 June 2018	90,000	-	186,647	276,647	-	276,647
At 1 January 2019	90,000	-	198,096	288,096	-	288,096
Profit for the period / Total comprehensive income for the period	-	-	10,602	10,602	-	10,602
Own shares acquired	-	(109)	-	(109)	-	(109)
Dividend	-	-	(4,500)	(4,500)	-	(4,500)
At 30 June 2019	90,000	(109)	204,198	294,089	-	294,089

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to the interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR SIX MONTHS ENDED 30 JUNE 2019

	Note	Six Months Ended 30/06/2019 RM'000	30/06/2018 RM'000
Cash Flows from Operating Activities			
Profit before tax		14,649	11,558
Adjustments for:			
Non-cash items		1,572	1,285
Non-operating items		(659)	(1,178)
Operating profit before changes in working capital		15,562	11,665
Change in inventories		3,824	22,868
Change in receivables, deposits and prepayment		7,387	57,446
Change in payables and accruals		(37,621)	(36,658)
Cash (used in)/generated from operations		(10,848)	55,321
Tax paid		(3,455)	(3,628)
Net cash (used in)/generated from operating activities		(14,303)	51,693
Cash Flows from Investing Activities			
Purchase of plant and equipment		(694)	(5,896)
Proceeds from disposal of plant and equipment		116	47
Acquisition of an associate company		(14,573)	-
Net cash used in investing activities		(15,151)	(5,849)
Cash Flows from Financing Activities			
Interest received		407	717
Interest paid		(109)	-
Repayment of lease liabilities	18 (b)	(941)	-
Purchase of treasury shares		(109)	-
Dividend paid		(4,500)	(4,500)
Net cash used in financing activities		(5,252)	(3,783)
Net (decrease)/increase in cash and cash equivalents		(34,706)	42,061
Cash and cash equivalents at beginning of period		54,541	50,526
Cash and cash equivalents at end of period		19,835	92,587
Cash and cash equivalents comprise the following:			
Cash and bank balances		19,835	92,587

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to the interim financial statements.

UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER AND SIX MONTHS ENDED 30 JUNE 2019

PART A - EXPLANATORY NOTES PURSUANT TO THE MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS") 134: INTERIM FINANCIAL REPORTING

1. Basis of preparation

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 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 financial year ended 31 December 2018.

The consolidated financial statements of the Group as at and for the financial year ended 31 December 2018 are available upon request from the Company's registered office at: Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Wilayah Persekutuan.

2. Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are consistent with the audited financial statements for the financial year ended 31 December 2018, except with the adoption of the following Malaysian Financial Reporting Standards ("MFRSs"), Clarification on MFRS, Issues Committee ("IC") Interpretations and Amendments to MFRS for financial period beginning on or after 1 January 2019:

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

The adoption of the above standards, interpretations or amendments are not expected to have material financial impacts to the financial statements of the Group except as mentioned below:

MFRS 16, *Leases*

MFRS 16 replaces the guidance in MFRS 117, *Leases* , IC Interpretation 4, *Determining whether an Arrangement contains a Lease* , IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* .

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The Group adopted MFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying MFRS 117 and IFRIC 4 at the date of initial application. The Group also elected to recognise a right-of-use asset at the date of initial application at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER AND SIX MONTHS ENDED 30 JUNE 2019

PART A - EXPLANATORY NOTES PURSUANT TO THE MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS") 134: INTERIM FINANCIAL REPORTING

2. Significant accounting policies (continued)

MFRS 16, *Leases (continued)*

The Group has lease contracts for various properties. Before the adoption of MFRS 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease whereby the leased properties were not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments, Prepaid lease payments and Trade and other payables.

Upon adoption of MFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously classified as finance leases

The Group does not have any leases previously classified as finance leases.

Leases previously classified as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for leases were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application

Reconciliation of operating lease as at 31 December 2018 to lease liabilities as of 1 January 2019:

		RM'000
	Operating lease commitments as at 31 December 2018	4,029
Less:	Commitments relating to short-term leases	(6)
		4,023
Less:	Discounted using incremental borrowing rate of 5.5% p.a.	(66)
	Lease liabilities as at 1 January 2019	3,957

The Group recognises right-of-use assets totalling RM3.9 million representing its right to use the underlying assets and lease liabilities representing its obligations to make lease payments with exemptions for short-term leases and leases of low-value items. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER AND SIX MONTHS ENDED 30 JUNE 2019

PART A - EXPLANATORY NOTES PURSUANT TO THE MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS") 134: INTERIM FINANCIAL REPORTING

2. Significant accounting policies (continued)

MFRS 16, *Leases (continued)*

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

3. Seasonal or cyclical factors

The Group's operations were not significantly affected by seasonal or cyclical factors.

4. Unusual items

There were no significant unusual items affecting assets, liabilities, equity, net income, or cash flows during the current financial quarter.

5. Material changes in estimates

There was no estimation made for the current financial quarter results.

6. Debt and equity securities

There were no issuances, cancellations, resale and repayments of debt and equity securities for the current quarter and the financial year-to-date except that the Company purchased its own shares totalling 111,200 ordinary shares amounted to RM109,000.

7. Dividends paid

A single tier final dividend of 2.5 sen per share, totalling RM4,500,000 in respect of the financial year ended 31 December 2018 was paid on 19 June 2019.

8. Segmental reporting

Segment information is presented in respect of the Group's business segments.

The Group business segments comprise the following:

(i) ICT Distribution	Distribution of volume ICT products to resellers, comprising mainly retailers
(ii) Enterprise Systems	Distribution of value ICT products to resellers, comprising mainly system integrators and corporate dealers
(iii) ICT Services	Provision of ICT services

Other non-reportable segments comprise management services and investment holding.

UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER AND SIX MONTHS ENDED 30 JUNE 2019

PART A - EXPLANATORY NOTES PURSUANT TO THE MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS") 134: INTERIM FINANCIAL REPORTING

8. Segmental reporting (continued)

(a) Information about reportable segments

	ICT Distribution RM'000	Enterprise Systems RM'000	ICT Services RM'000	Total RM'000
6 months financial period ended 30 June 2019				
External revenue	542,429	232,162	26,025	800,616
Inter-segment revenue	5,604	1,463	4,008	11,075
Total revenue	548,033	233,625	30,033	811,691
Reportable segment profit before tax	6,623	6,307	836	13,766
6 months financial period ended 30 June 2018				
External revenue	534,433	196,302	19,273	750,008
Inter-segment revenue	11,522	697	1,858	14,077
Total revenue	545,955	196,999	21,131	764,085
Reportable segment profit before tax	4,226	5,990	380	10,596

(b) Reconciliation of reportable segment profit and loss:

	Current Year To-date 30/06/2019 RM'000	Preceding Year Corresponding Period 30/06/2018 RM'000
Total profit for reportable segments before tax	13,766	10,596
Other non-reportable segments profit	883	963
Eliminate of inter-segments profit and loss	-	(1)
Consolidated profit before tax	14,649	11,558

(c) Disaggregation of the Group's revenue

	Current Year-to-date 30/06/2019		Preceding Year-to-date 30/06/2018	
	At a point in time RM'000	Over time RM'000	At a point in time RM'000	Over time RM'000
ICT Distribution				
Desktop PC, notebooks, mobility devices and peripherals	542,429	-	534,433	-
Enterprise Systems				
Server, storage, software and networking products	232,162	-	196,302	-
ICT Services				
Services and maintenance	25,632	393	18,818	455
	800,223	393	749,553	455

UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER AND SIX MONTHS ENDED 30 JUNE 2019

PART A - EXPLANATORY NOTES PURSUANT TO THE MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS") 134: INTERIM FINANCIAL REPORTING

8. Segmental reporting (continued)

(d) Segment assets

	As at 30/06/2019 RM'000	As at 31/12/2018 RM'000
ICT Distribution	322,006	328,783
Enterprise Systems	123,909	142,490
ICT Services	4,089	3,432
Total reportable segment assets	450,004	474,705
Reconciliation of reportable segment:		
Total reportable segment assets	450,004	474,705
Other non-reportable segments assets	125,027	127,459
Elimination of inter-segment balances	(123,662)	(123,625)
Consolidated total	451,369	478,539

There were no major changes in segment assets during the period.

(e) Segment liabilities

Segment liabilities information is neither included in the internal management reports nor provided regularly to the Chief Executive Office. Hence, no disclosure is made on segment liabilities.

9. Material events subsequent to the end of the financial period

There were no material events subsequent to the end of the financial period under review that have not been reflected in the quarterly financial statements.

10. Changes in the composition of the Group

As disclosed in Note 22, with the completion of the Proposed Acquisition of 30% shares in I.S.A. Technologies Sdn Bhd ("**ISAT**") on 10 May 2019, ISAT becomes 30%-owned associate company of VSTECS Berhad.

The Proposed Subscription for the additional 10% share in ISAT was completed on 18 July 2019. With the completion of the Proposed Acquisition and Proposed Subscription, ISAT becomes 40%-owned associate company of VSTECS Berhad.

11. Contingent liabilities and contingent assets

(a) Contingent liabilities

	As At 30/06/2019 RM'000	As At 31/12/2018 RM'000
Guarantees to suppliers and licensed banks for trade credit facilities granted by holding company to Group entities	144,935	144,935

UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER AND SIX MONTHS ENDED 30 JUNE 2019

PART A - EXPLANATORY NOTES PURSUANT TO THE MALAYSIAN FINANCIAL REPORTING STANDARDS ("MFRS") 134: INTERIM FINANCIAL REPORTING

11. Contingent liabilities and contingent assets (continued)

(b) Contingent assets

There were no contingent assets as at the end of the current financial period.

12. Capital commitments

The capital expenditure contracted but not provided for as at the end of the current financial period amounted to RM654,000.

13. Capital expenditure

The major additions and disposals to plant and equipment during the current quarter and financial year-to-date were as follows:

	Current Year Quarter 30/06/2019 RM'000	**Current Year To-date 30/06/2019 RM'000**
Addition to plant and equipment	93	694

14. Related party transactions

Related parties are those defined under MFRS 124 *Related Party Disclosures*. The Directors are of the opinion that the related party transactions and balances described below were carried out in the ordinary course of business and had been established on negotiated terms.

	Current Year To-date 30/06/2019 RM'000	**Balance Due From/(To) As at 30/06/2019 RM'000**
Transactions with a company in which a Director has interests:		
Rental expenses	(987)	-
Administrative and accounting charges	5	1
Transactions with a company in which a Director has common directorship :		
Sales	226	113

UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER AND SIX MONTHS ENDED 30 JUNE 2019

PART B - EXPLANATORY NOTES PURSUANT TO PART A OF APPENDIX 9B OF THE BURSA SECURITIES LISTING REQUIREMENTS

15. Review of performance

	Individual Quarter			Cumulative Quarter		
	Current Year Quarter 30/06/2019 RM'000	**Preceding Year Corresponding Quarter 30/06/2018 RM'000**	**Changes %**	**Current Year To-date 30/06/2019 RM'000**	**Preceding Year Corresponding Period 30/06/2018 RM'000**	**Changes %**
Revenue	421,783	358,213	17.7	800,616	750,008	6.7
Gross profit	21,906	18,182	20.5	40,178	38,148	5.3
GP margin %	*5.2%*	*5.1%*		*5.0%*	*5.1%*	
Profit before tax	8,515	5,709	49.2	14,649	11,558	26.7
Profit for the period	6,357	4,274	48.7	10,602	8,655	22.5

Q2 2019 compared with Q2 2018

For Q2 2019, the revenue increased by 17.7% to RM421.8 million from RM358.2 million last year due to improved market sentiment compared with last year when the General Election was held. The gross profit (GP) increased by 20.5% to RM21.9 million from RM18.2 million last year mainly due to higher sales and reversal of inventories written-down of RM893,000 compared with write down of RM89,000 last year.

With higher GP, the profit before tax (PBT) increased by 49.2% to RM8.5 million compared with RM5.7 million last year.

Quarterly Segmental Result

The performance of the three business segments for Q2 FY2019 compared with Q2 FY2018 were as follows:

a) ICT Distribution

With improved market sentiment, revenue increased by 12.8% mainly from sales from notebook, mobility products and peripherals. With higher sales and write back of impairment on inventories and accounts receivables, PBT increased by 123.7% to RM4.0 million from RM1.8 million last year.

b) Enterprise Systems

Revenue increased by 29.5% with higher sales mainly from servers, networking and software. With higher sales and GP, PBT increased by 13.4% to RM3.7 million compared with RM3.3 million last year.

c) ICT Services

Revenue increased by RM3.3 million and PBT increased to RM460,000 compared with RM182,000 last year mainly due to higher sales from the Enterprise Systems segment.

UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER AND SIX MONTHS ENDED 30 JUNE 2019

PART B - EXPLANATORY NOTES PURSUANT TO PART A OF APPENDIX 9B OF THE BURSA SECURITIES LISTING REQUIREMENTS

15. Review of performance (continue)

6 months ended 30 June 2019 compared with 30 June 2018

The demand for ICT products from consumer spending and as well as public sectors last year was impacted by uncertainties of the 14th General Election in May 2018, followed by the change in Federal Government and the replacement of GST with SST.

With improved market sentiment this year, the Group recorded revenue of RM800.6 million, an increase of 6.7% compared with RM750.0 million last year contributed by all three segments.

With higher sales and GP, the PBT increased by 26.7% to RM14.6 million compared with RM11.6 million last year.

Year-to-date Segmental Result

The performance of the three business segments for 6 months period ended 30 June 2019 as compared to previous year-to-date were as below:

a) ICT Distribution

Revenue increased by 1.5% with higher sales from notebook, consumables and accessories. With higher sales and GP, and lower operating expenses, the PBT increased by 56.7% to RM6.6 million compared with RM4.2 million last year.

b) Enterprise Systems

Revenue increased by 18.3% with higher sales from servers and software. With higher sales and GP, PBT increased by 5.3% to RM6.3 million compared with RM6.0 million last year.

c) ICT Services

Revenue increased by RM6.8 million mainly due to higher revenue of Enterprise Systems. With higher sales and GP, the PBT increased to RM836,000 compared with RM380,000 last year.

UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER AND SIX MONTHS ENDED 30 JUNE 2019

PART B - EXPLANATORY NOTES PURSUANT TO PART A OF APPENDIX 9B OF THE BURSA SECURITIES LISTING REQUIREMENTS

16. Financial review of current quarter compared with immediate preceding quarter

	Current Quarter 30/06/2019 RM'000	Immediate Preceding Quarter 31/03/2019 RM'000	Changes %
Revenue	421,783	378,833	11.3
Gross Profit	21,906	18,272	19.9
GP margin %	*5.2%*	*4.8%*	
Profit before tax	8,515	6,134	38.8
Profit for the period	6,357	4,245	49.8

The Group's revenue in current quarter increased by 11.3% to RM421.8 million compared with RM378.8 million in preceding quarter. All three segments recorded better results. Sales of ICT Distribution, Enterprise Systems and ICT Services increased by 11.6%, 10.9% and 9.7% respectively.

With higher sales and GP, and reversal of inventories written down of RM893,000 compared with write down of RM1,238,000 last quarter, PBT increased by 49.8%.

17. Results from operating activities are arrived at after (charging)/crediting:

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter 30/06/2019 RM'000	Preceding Year Corresponding Quarter 30/06/2018 RM'000	Current Year To-date 30/06/2019 RM'000	Preceding Year Corresponding Period 30/06/2018 RM'000
Depreciation	(825)	(321)	(1,633)	(645)
Reversal of/(Impairment loss) on trade receivables	44	(136)	194	(444)
Reversal/(Written down) of inventories	893	(89)	(345)	(252)
Other income/(expenses):				
Bad debts recovered	4	1	4	7
Foreign exchange gain - Realised	304	310	893	328
Foreign exchange loss - Unrealised	(147)	(2,762)	(286)	(3,933)
Fair value (loss)/gain on financial instruments	(247)	2,465	238	3,251
(Loss)/Gain on fixed assets disposal	-	(3)	109	42
Others	2	2	5	5
	(84)	13	963	(300)

The Group is exposed to foreign currency risk on purchases that are mainly denominated in US Dollar ("USD"). However, the Group hedges most of these exposures by purchasing forward currency contracts in USD for payments on due dates.

There was no gain or loss on disposal of quoted or unquoted investments or properties, impairment of assets and exceptional items.

UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER AND SIX MONTHS ENDED 30 JUNE 2019

PART B - EXPLANATORY NOTES PURSUANT TO PART A OF APPENDIX 9B OF THE BURSA SECURITIES LISTING REQUIREMENTS

18. Commentaries and disclosure of other information

(a) Right-of-use assets / Lease liabilities

In compliance with MFRS 16 *Leases,* the Group has recognised right-of-use assets representing its right to use the underlying assets and lease liabilities representing its obligations to make lease payments with exemptions for short-term leases and leases of low-value items.

(b) Other major changes in financial position and cash flow

There were no major changes in the financial position and cash flow compared with financial year ended 31 December 2018 except with the inclusion of repayment of lease liabilities in the cash flow statement arising from Note 18(a) and acquisition of 30% shares in an associate company for RM14.6 million.

(c) Trade receivables

Trade receivables have a credit term ranging from 14 to 60 days. Aging analysis of trade receivables as at 30 June 2019 were as follows:

	Gross carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
Current not past due	141,239	-	141,239
Past due 1 - 30 days	74,977	-	74,977
Past due 31 - 60 days	20,759	-	20,759
Past due 61 - 90 days	5,826	-	5,826
	242,801	-	242,801
Past due more than 90 days	1,758	(408)	1,350
Individual impaired	57	(57)	-
	244,616	(465)	244,151

Impairment is not carried out on the past due trade receivables less than 90 days based on the historical collection trends as these balances are believed to be recoverable. Impairment on the trade receivables above 90 days is assessed based on the likelihood of default.

19. Prospects

The current trade war between China and USA and the global economic uncertainties continue to impact our overall ICT business. World Bank forecasted Malaysia's economy to expand at a relatively moderate rate of 4.6% for 2019.

The consumer demand on ICT products remains weak, but we expect some new smartphones and Notebook PCs to be launched in the second half of 2019 to bring some excitements to increase market demand.

The demand of the enterprise ICT products has improved for the last few months as there are more private sector projects and public sector tenders. We expect these enterprise ICT projects to be awarded by the second half of 2019.

We are positive on the outlook for second half of FY2019.

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PART B - EXPLANATORY NOTES PURSUANT TO PART A OF APPENDIX 9B OF THE BURSA SECURITIES LISTING REQUIREMENTS

20. Profit forecast or profit guarantee

Not applicable as the Group did not publish any profit forecast or profit guarantee.

21. Tax expense

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter 30/06/2019 RM'000	Preceding Year Corresponding Quarter 30/06/2018 RM'000	Current Year To-date 30/06/2019 RM'000	Preceding Year Corresponding Period 30/06/2018 RM'000
Current income tax:				
Current year	1,902	1,440	3,849	3,164
(Over)/Under provision prior year	-	-	-	-
	1,902	1,440	3,849	3,164
Deferred tax	256	(5)	198	(261)
	2,158	1,435	4,047	2,903
Effective tax rate	25.3%	25.1%	27.6%	25.1%

The effective tax rate for current quarter was higher than the Malaysian tax rate of 24% due to certain expenses which were not deductible for tax purposes.

22. Corporate proposals

On 21 November 2018, the Company entered into a Term Sheet with I.S.A. Technologies Sdn Bhd ("ISAT") and Mr. Lim Fun Jin, Ms Alice Yuen Mei Foong, Mr. Yong Keong Tuck and Mr. Tan Wai Ho (collectively known as "Vendors") in respect of the Proposed Investment in ISAT and its wholly-owned subsidiary company, I.S.A. Innovation Sdn Bhd (ISAI) for the following transactions (the "Proposed Investment"):

(i) To acquire 150,000 ordinary shares in ISAT, representing 30% of the total issued share capital of ISAT from the vendors (the "Proposed Acquisition"); and

(ii) To subscribe of such number of ordinary shares resulting in the Company owning 40% of the enlarged issued share capital in ISAT subsequent to this subscription and the completion of the Proposed Acquisition (the "Proposed Subscription").

On 18 April 2019, the Company signed the Share Sale Agreement with the Vendors for the Proposed Acquisition with total purchase consideration of RM14,573,000. As at 10 May 2019 under item (i), the Proposed Acquisition of 30% of the total share capital in ISAT has been completed.

On 18 July 2019, the Proposed Subscription has been completed at a purchase consideration of RM4,223,000 for the additional 10% shares in ISAT.

With the completion of the above Acquisition and Subscription, ISAT becomes a 40%-owned associate company of VSTECS Berhad.

23. Borrowings and debt securities

There were no borrowings as at the end of the current financial period.

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PART B - EXPLANATORY NOTES PURSUANT TO PART A OF APPENDIX 9B OF THE BURSA SECURITIES LISTING REQUIREMENTS

24. Changes in material litigation

There was no material litigation as at the end of the current financial period.

25. Dividend

No dividend was recommended in the current quarter under review.

26. Earnings per share

The basic and diluted earnings per share ("EPS") for the current quarter and current year-to-date were computed as follows:

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter 30/06/2019	Preceding Year Corresponding Quarter 30/06/2018	Current Year To-date 30/06/2019	Preceding Year Corresponding Period 30/06/2018
Profit attributable to equity holders of the Company (RM'000)	6,357	4,274	10,602	8,655
Weighted average number of ordinary shares ('000)	179,995	180,000	179,998	180,000
Basic earnings per share (sen)	3.5	2.4	5.9	4.8
Diluted earnings per share (sen)	N/A	N/A	N/A	N/A

Diluted EPS is not applicable as there were no potential ordinary shares in issue for the current quarter and cumulative quarter.

27. Auditor's report on preceding annual financial statements

There was no qualification to the audited financial statements of the Company and its subsidiaries for the financial year ended 31 December 2018.

By order of the Board

Chua Siew Chuan
Cheng Chia Ping
Company Secretaries

8 August 2019
Selangor