

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

Interim Financial Report
31 October 2008

V.S. Industry Berhad

(Company No. 88160-P)

(Incorporated in Malaysia)

Condensed consolidated balance sheet at 31 October 2008 - unaudited

| | 31.10.2008 RM'000 | 31.07.2008 RM'000 |
|---|----------------------|----------------------|
| Assets | | |
| Property, plant and equipment | 290,726 | 292,907 |
| Biological assets | 24,116 | 24,414 |
| Prepaid lease payments | 11,114 | 11,343 |
| Investment properties | 7,000 | 7,000 |
| Investment in associates | 133,171 | 123,352 |
| Loan to an associate | 5,068 | 6,180 |
| Deferred tax assets | 6 | 6 |
| Total non-current assets | 471,201 | 465,202 |
| Inventories | 76,849 | 69,987 |
| Trade and other receivables | 152,901 | 179,209 |
| Cash and cash equivalents | 55,117 | 62,066 |
| Total current assets | 284,867 | 311,262 |
| Total assets | 756,068 | 776,464 |
| Equity | | |
| Share capital | 179,702 | 179,702 |
| Reserves | 187,890 | 175,413 |
| Total equity attributable to shareholders of the Company | 367,592 | 355,115 |
| Minority interest | 16,273 | 17,712 |
| Total equity | 383,865 | 372,827 |
| Liabilities | | |
| Long term payables | 4,322 | 4,322 |
| Loans and borrowings | 49,076 | 52,929 |
| Deferred tax liabilities | 26,214 | 26,085 |
| Total non-current liabilities | 79,612 | 83,336 |
| Trade and other payables | 165,732 | 173,470 |
| Loans and borrowings | 120,803 | 140,987 |
| Taxation | 6,056 | 5,844 |
| Total current liabilities | 292,591 | 320,301 |
| Total liabilities | 372,203 | 403,637 |
| Total equity and liabilities | 756,068 | 776,464 |
| Net assets per share of RM1.00 each | 2.05 | 1.98 |

V.S. Industry Berhad

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Condensed consolidated income statement for the period ended 31 October 2008 - unaudited

| | Individual 3 months ended 31 October | | Cumulative 3 months ended 31 October | |
|--|--|------------------|--|------------------|
| | 2008 RM'000 | 2007 RM'000 | 2008 RM'000 | 2007 RM'000 |
| Revenue | 187,567 | 290,026 | 187,567 | 290,026 |
| Cost of sales | <u>(157,745)</u> | <u>(242,058)</u> | <u>(157,745)</u> | <u>(242,058)</u> |
| Gross profit | 29,822 | 47,968 | 29,822 | 47,968 |
| Operating expenses | <u>(17,030)</u> | <u>(20,610)</u> | <u>(17,030)</u> | <u>(20,610)</u> |
| Operating profit | 12,792 | 27,358 | 12,792 | 27,358 |
| Finance costs | (2,141) | (2,549) | (2,141) | (2,549) |
| Interest income | 221 | 197 | 221 | 197 |
| Share of profit after tax and minority interest of associates | <u>701</u> | <u>1,895</u> | <u>701</u> | <u>1,895</u> |
| Profit before tax | 11,573 | 26,901 | 11,573 | 26,901 |
| Tax expense | <u>(3,223)</u> | <u>(5,699)</u> | <u>(3,223)</u> | <u>(5,699)</u> |
| Net profit for the period | <u>8,350</u> | <u>21,202</u> | <u>8,350</u> | <u>21,202</u> |
| Attributable to: | | | | |
| Shareholders of the Company | 8,542 | 21,087 | 8,542 | 21,087 |
| Minority interests | <u>(192)</u> | <u>115</u> | <u>(192)</u> | <u>115</u> |
| Net profit for the period | <u>8,350</u> | <u>21,202</u> | <u>8,350</u> | <u>21,202</u> |
| Earnings per share | | | | |
| Basic earnings per ordinary share (sen) | <u>4.76</u> | <u>11.84</u> | <u>4.76</u> | <u>11.84</u> |

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Condensed consolidated statement of changes in equity for the period ended 31 October 2008 - unaudited

| | Share capital RM'000 | Non- distributable Reserves RM'000 | Distributable Retained profits RM'000 | Total RM'000 | Minority interest RM'000 | Total equity RM'000 |
|--|----------------------------|---|--|-----------------|--------------------------------|---------------------------|
| At 1 August 2008 | 179,702 | 63,739 | 111,674 | 355,115 | 17,712 | 372,827 |
| Share buy back | -- | (318) | -- | (318) | -- | (318) |
| Net gain/(loss) recognised directly in equity | | | | | | |
| Exchange fluctuation on translation of foreign subsidiaries | -- | 4,253 | -- | 4,253 | (1,247) | 3,006 |
| Net profit for the period | -- | -- | 8,542 | 8,542 | (192) | 8,350 |
| Total recognised income and expense for the year | -- | 4,253 | 8,542 | 12,795 | (1,439) | 11,356 |
| At 31 October 2008 | 179,702 | 67,674 | 120,216 | 367,592 | 16,273 | 383,865 |
| At 1 August 2007 | 143,762 | 31,885 | 122,042 | 297,689 | 17,228 | 314,917 |
| Share buy back | -- | (3,422) | -- | (3,422) | -- | (3,422) |
| Net gain/(loss) recognised directly in equity | | | | | | |
| Exchange fluctuation on translation of foreign subsidiaries | -- | (2,398) | -- | (2,398) | (462) | (2,860) |
| Net profit for the period | -- | -- | 21,087 | 21,087 | 115 | 21,202 |
| Total recognised income and expense for the year | -- | (2,398) | 21,087 | 18,689 | (347) | 18,342 |
| At 31 October 2007 | 143,762 | 26,065 | 143,129 | 312,956 | 16,881 | 329,837 |

V.S. Industry Berhad

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Condensed consolidated cash flow statement for the period ended 31 October 2008 - unaudited

| | 3 months ended 31 October | |
|--|------------------------------|-----------------|
| | 2008 RM'000 | 2007 RM'000 |
| Cash flows from operating activities | | |
| Profit before tax | 11,573 | 26,901 |
| Adjustments for non-cash flow: | | |
| Non-cash items | 7,475 | 7,285 |
| Non-operating items | 1,150 | 329 |
| Operating profit before working capital changes | 20,198 | 34,515 |
| Changes in working capital: | | |
| Net change in current assets | 19,391 | (25,721) |
| Net change in current liabilities | (17,249) | 21,092 |
| Interest and tax paid | (3,668) | (4,523) |
| Net cash generated from operating activities | <u>18,672</u> | <u>25,363</u> |
| Cash flows from investing activities | <u>(3,633)</u> | <u>(13,743)</u> |
| Cash flows from financing activities | | |
| Bank borrowings | (24,743) | (646) |
| Transactions with shareholders | (318) | (3,419) |
| Net cash used in financing activities | <u>(25,061)</u> | <u>(4,065)</u> |
| Exchange differences on translation of the financial statements of foreign operations | 4,253 | (2,398) |
| Net change in cash and cash equivalents | (5,769) | 5,157 |
| Cash and cash equivalents at beginning of period | 61,134 | 56,783 |
| Foreign exchange differences on opening balances | (706) | (55) |
| Cash and cash equivalents at end of period | <u>54,659</u> | <u>61,885</u> |
| Cash and cash equivalent comprise: | | |
| Cash and bank balances | 54,490 | 60,047 |
| Deposits with licensed banks | 627 | 2,050 |
| Bank overdrafts | (458) | (212) |
| | <u>54,659</u> | <u>61,885</u> |

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A. Notes to the interim financial report

1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad, including compliance with Financial Reporting Standard (FRS) 134, *Interim Financial Reporting*, issued by the Malaysian Accounting Standards Board (MASB).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements.

The preparation of an interim financial report in conformity with FRS 134, *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2008 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with FRSs.

The financial information relating to the financial year ended 31 July 2008 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 July 2008 are available from the Company's registered office.

2. Seasonal or cyclical factors

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

3. 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.

4. Material changes in estimates

There are no material changes in estimates for the current quarter and financial year-to-date.

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5. 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 repurchase of its own shares in the open market as follows:-

| Month | No. of shares repurchased | Lowest price paid (RM) | Highest price paid (RM) | Average price paid (RM) | Total consideration (RM) |
|----------------|---------------------------|------------------------|-------------------------|-------------------------|--------------------------|
| August 2008 | 26,800 | 1.76 | 1.80 | 1.80 | 48,106 |
| September 2008 | 40,900 | 1.58 | 1.64 | 1.63 | 66,556 |
| October 2008 | 154,500 | 1.15 | 1.55 | 1.32 | 203,485 |
| | 222,200 | | | 1.43 | 318,147 |

As at the date of this interim report, a total of 230,736 of the repurchased shares are being held as treasury shares and carried at cost.

6. Dividends paid

There is no dividend paid for the current period under review.

7. Segment information

| | Period ended 31 October 2008 | |
|--------------------------------|------------------------------|--------------------------|
| | Revenue RM'000 | Segment Result RM'000 |
| Malaysia | 170,356 | 11,204 |
| Indonesia | 15,166 | 1,762 |
| Others | 3,388 | (279) |
| | <u>188,910</u> | <u>12,687</u> |
| Inter-segment elimination | <u>(1,343)</u> | <u>105</u> |
| | <u>187,567</u> | <u>12,792</u> |
| Finance cost | | (2,141) |
| Interest income | | 221 |
| Share of results of associates | | 701 |
| Profit Before Tax | | <u>11,573</u> |

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8. 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.

9. Changes in composition of the Group

There are no changes in the composition of the Group for the current quarter and financial year-to-date.

10. Contingent liabilities and contingent assets

There are no contingent liabilities and contingent assets since the last annual balance sheet date.

11. Related party transactions

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

| | 3 months ended 31 October | |
|--|--------------------------------------|------------------------|
| | 2008 RM'000 | 2007 RM'000 |
| Associates | | |
| - Sales | 30 | -- |
| - Purchases | 1,243 | 3,037 |
| - Sale of property, plant and equipment | -- | 103 |
| - Interest receivable | 115 | 123 |
| | <u>115</u> | <u>123</u> |
| A company in which certain Directors have substantial financial interest | | |
| - Rental payable | 58 | 58 |
| | <u>58</u> | <u>58</u> |
| A company which is wholly owned by close family member of certain Directors | | |
| - Purchases | 1,487 | 2,764 |
| | <u>1,487</u> | <u>2,764</u> |
| Companies in which a major shareholder has financial interest | | |
| - Purchases | 866 | 1,383 |
| | <u>866</u> | <u>1,383</u> |
| Remuneration paid to staff who are close family member of certain Directors | | |
| | 230 | 234 |
| | <u>230</u> | <u>234</u> |

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

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B. Additional information on interim financial report required by the Bursa Malaysia Listing Requirements

1. Review of performance

For the current quarter under review, the Group recorded a lower turnover of RM187.6 million as compared to RM290.0 million in the preceding year's corresponding quarter, whilst profit before tax was RM11.6 million versus RM26.9 million previously.

The decline in performance was mainly attributable to lower sales volume to key customers in the current quarter under review, mirroring the economic downturn in the major economies of the US, Japan and Europe.

2. Variation of results against preceding quarter

The Group recorded a lower profit before tax of RM11.6 million from RM13.9 million in the preceding quarter, on the back of decreased turnover of RM187.6 million as compared to preceding quarter's turnover of RM211.7 million.

3. Current year prospects

The Board expects that prospects for the remaining quarters of the current financial year will be challenging in view of the economic downturn and the less-than-optimistic consumer sentiment in major economies of the US, Japan and Europe. However, the Group's long term prospects remain positive as more leading brand names outsource their manufacturing requirements to stay competitive.

4. Profit forecast

Not applicable.

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5. Tax expense

| | 3 months ended 31 October | | 3 months ended 31 October | |
|----------------------|------------------------------|--------|------------------------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Tax expense | | | | |
| Malaysian- Current | 2,528 | 4,619 | 2,528 | 4,619 |
| Overseas- Current | 535 | -- | 535 | -- |
| | 3,063 | 4,619 | 3,063 | 4,619 |
| Deferred tax expense | | | | |
| Malaysian- Current | 160 | 1,080 | 160 | 1,080 |
| | 160 | 1,080 | 160 | 1,080 |
| | 3,223 | 5,699 | 3,223 | 5,699 |

The effective tax rate for the financial year-to-date is higher than the statutory tax rate due to certain expenses not deductible for tax purposes.

The effective tax rate in prior period was lower than the statutory tax rate due to utilisation of reinvestment allowance.

6. Unquoted investments and properties

There is no sale of unquoted investments and/or properties for the current quarter and financial year-to-date.

7. Quoted investments

There is no purchase or disposal of quoted securities for the current quarter and financial year-to-date.

8. Status of uncompleted corporate proposals

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

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9. Borrowing and debt securities

| | 31.10.2008 RM'000 | 31.07.2008 RM'000 |
|---------------------------|----------------------|----------------------|
| Non-current | | |
| <i>Secured</i> | | |
| Term loans | 347 | 483 |
| Finance lease liabilities | 3,326 | 2,410 |
| | <u>3,673</u> | <u>2,893</u> |
| <i>Unsecured</i> | | |
| Term loans | 45,403 | 50,036 |
| | <u>49,076</u> | <u>52,929</u> |
| Current | | |
| <i>Secured</i> | | |
| Term loans | 384 | 410 |
| Short term loan | 3,807 | 2,329 |
| Finance lease liabilities | 1,609 | 1,236 |
| | <u>5,800</u> | <u>3,975</u> |
| <i>Unsecured</i> | | |
| Term loans | 18,324 | 18,176 |
| Bank overdraft | 458 | 932 |
| Revolving credit | 24,292 | 25,524 |
| Bankers' acceptance | 71,929 | 92,380 |
| | <u>120,803</u> | <u>140,987</u> |
| | <u>169,879</u> | <u>193,916</u> |

10. Off balance sheet financial instruments

There are no financial instruments with off balance sheet risk as at the date of this quarterly report.

11. 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.

12. Dividends

There is no dividend proposed for the current quarter (Quarter ended 31 October 2007: NIL).

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13. 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 shareholders of RM8.5 million and the weighted average number of ordinary shares of 179,594,000.

(b) *Diluted earnings per share*

Not applicable.