

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

Interim Financial Report
31 October 2009

V.S. Industry Berhad

(Company No. 88160-P)
(Incorporated in Malaysia)

Condensed consolidated balance sheet at 31 October 2009 - unaudited

| | 31.10.2009 RM'000 | 31.07.2009 RM'000 |
|---|----------------------|----------------------|
| Assets | | |
| Property, plant and equipment | 273,052 | 279,471 |
| Biological assets | 34,565 | 32,974 |
| Prepaid lease payments | 11,043 | 11,078 |
| Investment properties | 9,267 | 9,281 |
| Investment in associates | 109,631 | 116,710 |
| Loan to an associate | 3,141 | 4,290 |
| Deferred tax assets | 273 | 271 |
| Total non-current assets | 440,972 | 454,075 |
| Inventories | 64,367 | 65,066 |
| Trade and other receivables | 143,413 | 137,685 |
| Cash and cash equivalents | 49,661 | 54,697 |
| Total current assets | 257,441 | 257,448 |
| Total assets | 698,413 | 711,523 |
| Equity | | |
| Share capital | 179,702 | 179,702 |
| Reserves | 179,652 | 178,114 |
| Total equity attributable to shareholders of the Company | 359,354 | 357,816 |
| Minority interest | 18,956 | 18,115 |
| Total equity | 378,310 | 375,931 |
| Liabilities | | |
| Long term payables | 4,322 | 12,322 |
| Loans and borrowings | 41,203 | 37,552 |
| Deferred tax liabilities | 23,933 | 23,957 |
| Total non-current liabilities | 69,458 | 73,830 |
| Trade and other payables | 124,709 | 119,617 |
| Loans and borrowings | 122,652 | 140,098 |
| Taxation | 3,284 | 2,047 |
| Total current liabilities | 250,645 | 261,762 |
| Total liabilities | 320,103 | 335,592 |
| Total equity and liabilities | 698,413 | 711,523 |
| Net assets per share of RM1.00 each | 2.00 | 2.00 |

V.S. Industry Berhad

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Condensed consolidated income statement for the period ended 31 October 2009 - unaudited

| | Individual 3 months ended 31 October | | Cumulative 3 months ended 31 October | |
|--|--|------------------|--|------------------|
| | 2009 RM'000 | 2008 RM'000 | 2009 RM'000 | 2008 RM'000 |
| Revenue | 176,832 | 187,567 | 176,832 | 187,567 |
| Cost of sales | <u>(149,968)</u> | <u>(157,745)</u> | <u>(149,968)</u> | <u>(157,745)</u> |
| Gross profit | 26,864 | 29,822 | 26,864 | 29,822 |
| Operating expenses | <u>(16,380)</u> | <u>(17,030)</u> | <u>(16,380)</u> | <u>(17,030)</u> |
| Operating profit | 10,484 | 12,792 | 10,484 | 12,792 |
| Finance costs | (1,718) | (2,141) | (1,718) | (2,141) |
| Interest income | 96 | 221 | 96 | 221 |
| Share of profit after tax and minority interest of associates | <u>(1,377)</u> | <u>701</u> | <u>(1,377)</u> | <u>701</u> |
| Profit before tax | 7,485 | 11,573 | 7,485 | 11,573 |
| Tax expense | <u>(3,213)</u> | <u>(3,223)</u> | <u>(3,213)</u> | <u>(3,223)</u> |
| Net profit for the period | <u>4,272</u> | <u>8,350</u> | <u>4,272</u> | <u>8,350</u> |
| Attributable to: | | | | |
| Shareholders of the Company | 4,059 | 8,542 | 4,059 | 8,542 |
| Minority interests | <u>213</u> | <u>(192)</u> | <u>213</u> | <u>(192)</u> |
| Net profit for the period | <u>4,272</u> | <u>8,350</u> | <u>4,272</u> | <u>8,350</u> |
| Earnings per share | | | | |
| Basic earnings per ordinary share (sen) | <u>2.26</u> | <u>4.76</u> | <u>2.26</u> | <u>4.76</u> |

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Condensed consolidated statement of changes in equity for the period ended 31 October 2009 - 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 2009 | 179,702 | 69,045 | 109,069 | 357,816 | 18,115 | 375,931 |
| Net gain/(loss) recognised directly in equity | | | | | | |
| Exchange fluctuation on translation of foreign subsidiaries | -- | (2,521) | -- | (2,521) | 104 | (2,417) |
| Net profit for the period | -- | -- | 4,059 | 4,059 | 213 | 4,272 |
| Total recognised income and expense for the year | -- | (2,521) | 4,059 | 1,538 | 317 | 1,855 |
| Increase in share capital in a subsidiary | -- | -- | -- | -- | 524 | 524 |
| At 31 October 2009 | 179,702 | 66,524 | 113,128 | 359,354 | 18,956 | 378,310 |
| 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 |

V.S. Industry Berhad

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Condensed consolidated cash flow statement for the period ended 31 October 2009 - unaudited

| | 3 months ended 31 October | |
|--|------------------------------|-----------------|
| | 2009 RM'000 | 2008 RM'000 |
| Cash flows from operating activities | | |
| Profit before tax | 7,485 | 11,573 |
| Adjustments for non-cash flow: | | |
| Amortisation of prepaid lease payments | 51 | 51 |
| Depreciation | 7,148 | 7,104 |
| Non-cash items | 1,999 | 320 |
| Non-operating items | 2,308 | 1,150 |
| Operating profit before working capital changes | 18,991 | 20,198 |
| Changes in working capital: | | |
| Net change in current assets | (5,084) | 19,391 |
| Net change in current liabilities | 2,589 | (17,249) |
| Interest and tax paid | (2,809) | (3,668) |
| Net cash generated from operating activities | <u>13,687</u> | <u>18,672</u> |
| Cash flows from investing activities | <u>(1,990)</u> | <u>(3,633)</u> |
| Cash flows from financing activities | | |
| Bank borrowings | (14,064) | (24,743) |
| Funds from minority interest | 524 | - |
| Repurchase of treasury shares | - | (318) |
| Net cash used in financing activities | <u>(13,540)</u> | <u>(25,061)</u> |
| Exchange differences on translation of the financial statements of foreign operations | (2,521) | 4,253 |
| Net change in cash and cash equivalents | <u>(4,364)</u> | <u>(5,769)</u> |
| Cash and cash equivalents at beginning of period | 52,875 | 61,134 |
| Foreign exchange differences on opening balances | 5 | (706) |
| Cash and cash equivalents at end of period | <u>48,516</u> | <u>54,659</u> |
| Cash and cash equivalent comprise: | | |
| Cash and bank balances | 38,647 | 54,490 |
| Deposits with licensed banks | 11,014 | 627 |
| Bank overdrafts | (1,145) | (458) |
| | <u>48,516</u> | <u>54,659</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 2009 annual financial statements except for the adoption of FRS 8, *Operating Segments* which is effective for annual accounting period beginning on 1 August 2009.

Since the change in accounting policy only impacts presentation and disclosure aspects, there is no financial impact on the Group.

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 2009 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 2009 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 2009 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.

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4. Material changes in estimates

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

5. Issuances, cancellations, repurchases, resale and repayments of debts and equity securities

There are no issuance, cancellations, repurchases, resale, repayments of debts and equity securities for the current financial year-to-date .

6. Dividends paid

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

7. Segment information

| | Period Ended 31 October 2009 | | | |
|----------------------------------|------------------------------|---------------------|------------------|-----------------|
| | Malaysia RM'000 | Indonesia RM'000 | Others RM'000 | Total RM'000 |
| External revenue | 159,230 | 12,588 | 5,014 | 176,832 |
| Inter-segment revenue | 1,112 | -- | -- | 1,112 |
| Segment profit/(loss) before tax | 7,090 | 1,436 | (1,041) | 7,485 |

| | Period Ended 31 October 2009 | | | |
|----------------------------------|------------------------------|---------------------|------------------|-----------------|
| | Malaysia RM'000 | Indonesia RM'000 | Others RM'000 | Total RM'000 |
| External revenue | 169,013 | 15,166 | 3,388 | 187,567 |
| Inter-segment revenue | 1,343 | -- | -- | 1,343 |
| Segment profit/(loss) before tax | 9,487 | 1,801 | 285 | 11,573 |

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.

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10. Contingent liabilities and contingent assets

There are no material changes in the contingent liabilities of the Group since the last annual balance sheet as at 31 July 2009.

11. Related party transactions

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

| | 3 months ended | |
|--|-----------------------|---------------|
| | 31 October | |
| | 2009 | 2008 |
| | RM'000 | RM'000 |
| Associates | | |
| - Sales | 30 | 30 |
| - Purchases | 262 | 1,243 |
| - Sale of property, plant and equipment | -- | -- |
| - Interest receivable | 70 | 115 |
| | <u>70</u> | <u>115</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 | 183 | 1,487 |
| | <u>183</u> | <u>1,487</u> |
| Companies in which a major shareholder has financial interest | | |
| - Purchases | 1,103 | 866 |
| | <u>1,103</u> | <u>866</u> |
| Remuneration paid to staff who are close family member of certain Directors | | |
| | 120 | 230 |
| | <u>120</u> | <u>230</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 RM176.8 million as compared to RM187.6 million in the preceding year's corresponding quarter, whilst profit before tax was RM7.5 million versus RM11.6 million previously.

The decline in performance was mainly attributable to lower sales volume resulted from dampened economic sentiment worldwide, as well as share of losses from associates of RM1.4 million in the current quarter as compared to share of profit from associates of RM0.7 million previously.

2. Variation of results against preceding quarter

The Group recorded a higher profit before tax of RM7.5 million from RM1.1 million in the preceding quarter mainly due to reduced share of losses in associates of RM1.4 million in the current quarter as compared to RM8.5 million in the preceding quarter.

3. Current year prospects

The Board believes the global economy is gradually recovering. Sales orders are improving. Barring any unforeseen circumstances, the Board is optimistic that this year the Group will perform better than the previous financial year.

4. Profit forecast

Not applicable.

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5. Tax expense

| | 3 months ended 31 October | | 3 months ended 31 October | |
|----------------------|------------------------------|--------------|------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Tax expense | | | | |
| Malaysian- Current | 2,854 | 2,528 | 2,854 | 2,528 |
| Overseas- Current | 386 | 535 | 386 | 535 |
| | 3,240 | 3,063 | 3,240 | 3,063 |
| Deferred tax expense | | | | |
| Malaysian- Current | (27) | 160 | (27) | 160 |
| | (27) | 160 | (27) | 160 |
| | <u>3,213</u> | <u>3,223</u> | <u>3,213</u> | <u>3,223</u> |

The effective tax rate for the financial year-to-date is higher than the statutory tax rate due to non-deductible expenses and taxable income which is subject to different tax regime.

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

| | 31.10.2009 RM'000 | 31.07.2009 RM'000 |
|---------------------------|----------------------|----------------------|
| Non-current | | |
| <i>Secured</i> | | |
| Term loans | -- | 42 |
| Finance lease liabilities | 4,885 | 5,465 |
| | 4,885 | 5,507 |
| <i>Unsecured</i> | | |
| Term loans | 36,318 | 32,045 |
| | 41,203 | 37,552 |
| Current | | |
| <i>Secured</i> | | |
| Term loans | 401 | 471 |
| Short term loan | 2,687 | 2,167 |
| Finance lease liabilities | 2,672 | 2,607 |
| | 5,760 | 5,245 |
| <i>Unsecured</i> | | |
| Term loans | 19,016 | 17,947 |
| Bank overdraft | 1,145 | 1,822 |
| Revolving credit | 25,916 | 26,417 |
| Bankers' acceptance | 70,815 | 88,667 |
| | 122,652 | 140,098 |
| | 163,855 | 177,650 |

Borrowings denominated in US Dollar amounted to RM21.1 million (31.7.2009: RM21.5 million).

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

As announced to Bursa Malaysia Securities Berhad on 11 March 2009, the vendor of PT Berkat Banea Inti (being a corporation whereby the Company's associate in Indonesia, namely PT. VS Mining Resources Indonesia ("PTVS Mining") has a controlling interest) has unilaterally performed and obtained a judgement from an arbitration court in Jakarta against PTVS Mining and six other to pay compensation amounting to USD26.55 million.

Subsequently, an appeal against the judgement has been filed with the Central Jakarta District Court and the case is pending transfer from the Central Jakarta District Court to the High Court where a decision is sought to annul the aforesaid claim.

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12. Dividends

There is no dividend proposed for the current quarter (Quarter ended 31 October 2008: NIL).

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 RM4.1 million and the weighted average number of ordinary shares of 179,331,000.

(b) Diluted earnings per share

Not applicable.