

V.S. Industry Berhad

(Company No. 88160-P)

(Incorporated in Malaysia)

Interim Financial Report

31 July 2014

V.S. Industry Berhad

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

Condensed consolidated statement of financial position As at 31 July 2014 – unaudited

	31.07.2014 RM'000	31.07.2013 RM'000
Assets		
Property, plant and equipment	600,811	615,166
Prepaid lease payments	85,321	89,012
Investment properties	3,600	3,600
Investment in associates	8,187	9,021
Intangible assets	2,150	-
Deferred tax assets	8,966	1,190
Total non-current assets	709,035	717,989
Inventories	269,794	177,760
Trade and other receivables	447,550	410,526
Tax recoverable	1,846	880
Cash and cash equivalents	123,464	97,288
Total current assets	842,654	686,454
Total assets	1,551,689	1,404,443
Equity		
Share capital	186,355	182,327
Reserves	339,805	297,319
Total equity attributable to owners of the Company	526,160	479,646
Non-controlling interests	114,829	117,224
Total equity	640,989	596,870
Liabilities		
Long term payables	4,322	4,322
Loans and borrowings	140,026	150,590
Deferred tax liabilities	45,317	60,768
Total non-current liabilities	189,665	215,680
Trade and other payables	437,029	375,276
Loans and borrowings	269,765	211,167
Taxation	9,613	5,450
Dividend payable	4,628	-
Total current liabilities	721,035	591,893
Total liabilities	910,700	807,573
Total equity and liabilities	1,551,689	1,404,443
Net assets per share of RM1.00 each	2.84	2.65

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Condensed consolidated statement of comprehensive income for the period ended 31 July 2014 - unaudited

	Individual 3 months ended 31 July		Cumulative 12 months ended 31 July	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Revenue	534,453	359,780	1,715,082	1,163,911
Cost of sales	(467,130)	(326,907)	(1,517,221)	(1,057,756)
Gross profit	67,323	32,873	197,861	106,155
Operating expenses	(38,763)	(22,719)	(136,716)	(74,555)
Net other income/(expenses)	(2,931)	32,381	(3,182)	27,746
Results from operating activities	25,629	42,535	57,963	59,346
Finance costs	(4,289)	(1,701)	(16,080)	(5,668)
Interest income	188	264	799	929
Share of profit/(loss) of associates, net of tax	(276)	(2,289)	(689)	(5,160)
Profit/(Loss) before tax	21,252	38,809	41,993	49,447
Tax expense	13,077	(5,911)	4,629	(9,480)
Profit for the period	34,329	32,898	46,622	39,967
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	(2,215)	4,942	(6,845)	6,674
Surplus on revaluation of properties net of deferred tax	-	35,747	-	35,747
Total comprehensive income for the period	32,114	73,587	39,777	82,388
Profit/(Loss) attributable to:				
Owners of the Company	36,450	36,169	53,585	43,910
Non-controlling interests	(2,121)	(3,271)	(6,963)	(3,943)
Profit/(Loss) for the period	34,329	32,898	46,622	39,967

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Condensed consolidated statement of comprehensive income for the period ended 31 July 2014 – unaudited (Cont'd)

	Individual 3 months ended 31 July		Cumulative 12 months ended 31 July	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Total comprehensive income attributable to:				
Owners of the Company	34,968	74,986	49,651	84,437
Non-controlling interests	(2,854)	(1,399)	(9,874)	(2,049)
Total comprehensive income for the period	<u>32,114</u>	<u>73,587</u>	<u>39,777</u>	<u>82,388</u>
Basic earnings per ordinary share (sen)	<u>19.97</u>	<u>19.96</u>	<u>29.52</u>	<u>24.23</u>
Diluted earnings per ordinary share (sen)	<u>19.76</u>	<u>anti-dilutive</u>	<u>anti-dilutive</u>	<u>anti-dilutive</u>

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Condensed consolidated statement of changes in equity for the period ended 31 July 2014 - unaudited

	Share capital RM'000	Non- distributable Reserve RM'000	Distributable Retained profits RM'000	Total RM'000	Non- controlling interest RM'000	Total equity RM'000
At 1 August 2013	182,327	71,002	226,317	479,646	117,224	596,870
Foreign currency translation differences for foreign operations	--	(3,934)	--	(3,934)	(2,911)	(6,845)
Profit for the period	--	--	53,585	53,585	(6,963)	46,622
Total comprehensive income for the period	--	(3,934)	53,585	49,651	(9,874)	39,777
Share buy back	--	(14)	--	(14)	--	(14)
Equity settled share-based transactions	4,028	6,377	--	10,405	1,232	11,637
Dividends to shareholders	--	--	(14,050)	(14,050)	--	(14,050)
Increase in share capital in subsidiaries	--	--	--	--	6,721	6,721
Accretion arising from new issue of shares in a subsidiary	--	--	474	474	(474)	--
Total transactions with owners of the Group	4,028	6,363	(13,576)	(3,185)	7,479	4,294
Realisation of revaluation reserve	--	(1,489)	1,537	48	--	48
At 31 July 2014	186,355	71,942	267,863	526,160	114,829	640,989
	Share capital RM'000	Non- distributable Reserve RM'000	Distributable Retained profits RM'000	Total RM'000	Non- controlling interest RM'000	Total equity RM'000
At 1 August 2012	182,327	61,976	166,188	410,491	430	410,921
Profit for the period	--	--	43,910	43,910	(3,943)	39,967
Foreign currency translation differences for foreign operations	--	4,938	--	4,938	1,736	6,674
Surplus on revaluation of properties net of deferred tax	--	35,589	--	35,589	158	35,747
Total comprehensive income for the period	--	40,527	43,910	84,437	(2,049)	82,388
Share buy back	--	(23)	--	(23)	--	(23)
Equity settled share-based transactions	--	858	12	870	49	919
Dividends to shareholders	--	--	(14,497)	(14,497)	--	(14,497)
Dilution arising from new issue of shares in a subsidiary	--	--	(1,632)	(1,632)	4,570	2,938
Acquisition of new subsidiary	--	--	--	--	113,116	113,116
Increase in share capital in a subsidiary	--	--	--	--	1,108	1,108
Total transactions with owners of the Company	--	835	(16,117)	(15,282)	118,843	103,561
Deemed disposal of associate	--	(30,776)	30,776	--	--	--
Realisation of revaluation reserve	--	(1,702)	1,702	--	--	--
Transferred from retained profits	--	142	(142)	--	--	--
At 31 July 2013	182,327	71,002	226,317	479,646	117,224	596,870

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Condensed consolidated statement of cash flows for the period ended 31 July 2014 - unaudited

	12 months ended 31 July	
	2014 RM'000	2013 RM'000
Cash flows from operating activities		
Profit before tax	41,993	49,447
Adjustments for:		
Depreciation and amortisation	61,585	32,681
Other non-cash items	6,495	(1,669)
Non-operating items	15,068	(15,126)
Operating profit before changes in working capital	125,141	65,333
Changes in working capital:		
Change in inventories	(92,034)	(21,702)
Change in trade and other receivables	(39,161)	31,050
Change in trade and other payables	66,976	(47,803)
Interest received	799	929
Tax paid	(15,353)	(8,141)
Net cash (used in)/from operating activities	46,368	19,666
Cash flows from investing activities		
Acquisition of property, plant and equipment	(56,326)	(39,639)
Proceeds from disposal of property, plant and equipment	3,955	10,674
Increase in pledged deposit placed with licensed bank	732	(9,416)
Acquisition of a subsidiary	-	16,217
Net cash (used in)/from investing activities	(51,639)	(22,164)
Cash flows from financing activities		
Bank borrowings	36,467	23,083
Dividend paid to owners of the Company	(9,422)	(14,497)
Proceeds from issuance of shares	6,203	-
Funds from non-controlling interests	6,721	4,046
Repurchase of treasury shares	(14)	(23)
Net cash (used in)/from financing activities	39,955	12,609
Exchange differences on translation of the financial statements of foreign operations	(3,934)	9,904
Net change in cash and cash equivalents	30,750	20,015
Cash and cash equivalents at beginning of period	77,843	56,978
Foreign exchange differences on opening balances	(950)	850
Cash and cash equivalents at end of period	107,643	77,843
Cash and cash equivalent comprise:		
Cash and bank balances	98,217	75,872
Deposit with licensed banks	16,563	12,000
Bank overdrafts	(7,137)	(10,029)
	107,643	77,843

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Notes to the condensed consolidated interim financial statements

V.S. Industry Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of the Bursa Malaysia Securities Berhad.

The condensed consolidated interim financial statements of the Group as at and for the twelve months period ended 31 July 2014 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interests in associates.

The consolidated financial statements of the Group as at and for the year ended 31 July 2013 are available upon request from the Company's registered office at:

Registered office

Suite 7E, Level 7
Menara Ansar
65, Jalan Trus
80000 Johor Bahru
Johor
Malaysia

These condensed consolidated interim financial statements were approved by the Board of Directors on 30 September 2014.

1. Basis of preparation

(a) Statement of compliance

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 of 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 year ended 31 July 2013.

2. Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 July 2013.

3. Seasonal or cyclical factors

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

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4. 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.

5. Material changes in estimates

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

6. 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 the following:-

(a) Issuance of shares

4,028,000 ordinary shares of RM1.00 each were issued during the financial year pursuant to the exercise of share options under the Company's Employees Share Option Scheme.

(b) Share repurchase

The shares repurchased during the financial year to date and are being held as treasury shares are as follows:-

Month	No. of shares repurchased	Lowest price paid (RM)	Highest price paid (RM)	Average price paid (RM)	Total consideration (RM)
September 2013	5,000	1.29	1.27	1.29	6,439
March 2014	5,000	1.50	1.50	1.50	7,555
Total	10,000				13,994

As at the date of this interim report, a total of 1,129,336 of the repurchased shares are being held as treasury shares and carried at cost.

7. Dividends paid

Since the end of the previous financial year, the Company paid:-

- (a) a second interim single tier dividend of 3.0 sen per ordinary share of RM1.00 each totalling RM5,436,071 in respect of the financial year ended 31 July 2013 on 30 October 2013;

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- (b) a first interim single tier dividend of 2.2 sen per ordinary share of RM1.00 each totalling RM3,986,446 in respect of the financial year ending 31 July 2014 on 28 January 2014; and
- (c) a second interim single tier dividend of 2.5 sen per ordinary share of RM1.00 each totalling RM4,628,186 in respect of the financial year ended 31 July 2014 on 15 August 2014.

8. Segment information

- (a) Information about reportable segments

	12 months ended 31 July 2014			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	1,077,254	66,709	567,610	1,711,573
Segment profit/(loss) before tax	56,028	(2,582)	(9,499)	43,947

	12 months ended 31 July 2013			
	Malaysia RM'000	Indonesia RM'000	China RM'000	Total RM'000
External revenue	1,019,048	96,210	44,712	1,159,970
Inter-segment revenue	356	--	--	356
Segment profit/(loss) before tax	31,358	4,341	(5,362)	30,337

- (b) Reconciliation of reportable segment profit or loss

	12 months ended 31 July	
	2014 RM'000	2013 RM'000
Total profit for reportable segments	43,947	30,337
Other non-reportable segments	(2,702)	(2,532)
Elimination of inter-segment profits	748	2,267
Effect of acquisition of subsidiary	-	30,413
Loss on dilution of interest in an associate	-	(5,878)
Share of profit of associate not included in reportable segments	-	(5,160)
Consolidated profit before tax	41,993	49,447

9. 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.

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10. 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 except for the followings:

- (a) increase in shareholding in V.S. International Group Limited from 53.84% to 54.13% upon exercise of bonus warrants; and
- (b) incorporation of a new subsidiary, Serumi International Private Limited.

11. Contingent liabilities and contingent assets

The Group does not have any contingent liabilities and contingent assets as at 31 July 2014.

12. Related party transactions

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

	12 months ended 31 July	
	2014 RM'000	2013 RM'000
Subsidiaries in which certain Directors have financial interest		
- Purchases	8,238	1,207
- Sales	1,182	-
A company which is wholly owned by close family member of certain Directors		
- Sales commission income/sales	670	1,417
- Purchases	6,022	1,815
A company in which certain Directors have substantial financial interest		
- Rental payable	58	233
Companies in which a major shareholder has financial interest		
- Purchases	15,780	4,719
Associates		
- Sales	3,767	-
A company which is controlled by close family member of a Director		
- Sub-contracting fee payable	4,094	955
A company which is controlled by a Director		
- Operating lease charges and management fee payable	4,184	328
A company which is controlled by close family member of a key management personnel		
- Repair and maintenance services payable	415	-
Remuneration paid to staff who are close family member of certain Directors	1,312	804

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

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Additional Information on Interim Financial Report required on the Bursa Malaysia Listing Requirements

13. Review of performance

For the current quarter under review, the Group recorded a higher revenue of RM534.5 million as compared to RM359.8 million in the preceding year's corresponding quarter, whilst profit before tax was RM21.3 million versus RM38.8 million previously.

For the financial year ended 31 July 2014, the Group recorded a higher revenue of RM1,715.1 million as compared to RM1,163.9 million previously, whilst profit before tax was RM42.0 million versus RM49.4 million previously.

The higher revenue for the current quarter under review and financial year was mainly attributable to consolidation of V.S. International Group Limited and its subsidiaries, effective 10 July 2013.

Included in preceding year's corresponding quarter and cumulative quarter was net gain of RM28.5 million arising from acquisition of an additional 17.18% of equity interest in V.S. International Group Limited resulting in it becoming a subsidiary in preceding year. By excluding the abovementioned one-off item, the profit before tax for the preceding year's corresponding quarter and cumulative quarter was RM10.3 million and RM20.9 million respectively. The higher profit before tax after this adjustment for the current quarter and financial year compared to respective periods were mainly due to improved sales mix for the Malaysian operations and were affected by the following items :-

	3 months ended 31 July		12 months ended 31 July	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Net foreign exchange (gain)/loss	2,108	591	2,752	(921)
Derivative (gain)/loss on currency forward contracts	(1,350)	(329)	(20)	1,181
Loss on dilution of interest in an associate	-	-	-	5,878
Allowance for slow moving inventories	349	375	2,403	375
Impairment on receivables	401	480	401	480

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The comparison of the results of the segment are tabulated below:-

	Individual Quarter 31 July		Cumulative Quarter 31 July	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Revenue				
Malaysia	372,625	295,870	1,077,254	1,019,048
Indonesia	14,079	19,050	66,709	96,210
China	145,031	44,712	567,610	44,712
Profit/(loss) before tax				
Malaysia	27,665	15,404	56,028	31,358
Indonesia	(2,981)	(361)	(2,582)	4,341
China	(3,696)	(5,362)	(9,499)	(5,362)

Malaysia segment

The higher profit before tax in both the current quarter and cumulative quarter was mainly due to improved sales mix.

Indonesia segment

The loss before tax incurred in both the current quarter and cumulative quarter was mainly due to lower sales order from key customers and higher operation cost as the operation moved into new factory in May 2014.

China segment

The associate, V.S. International Group Limited became a subsidiary effective 10 July 2013. China's operations continued incurred loss due to high operational and finance cost.

14. Variation of results against preceding quarter

For the current quarter under review, the Group recorded a higher profit before tax of RM21.3 million as compared to profit before tax of RM4.1 million in the preceding quarter was mainly attributable to higher sales generated by the Malaysian operations compared to the preceding quarter coupled with improved gross profit margin resulting from improved sales mix for the Malaysian operations.

15. Current year prospects

The Board is mindful of the continuing challenges faced by the global economy. The Group would continue to develop more new customers to contribute to its future growth and performance.

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16. Profit forecast

Not applicable.

17. Tax expense

	Individual 3 months ended 31 July		Cumulative 12 months ended 31 July	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Tax expense				
Malaysia – Current year	6,425	3,951	13,865	7,439
– Prior years	(167)	(266)	(167)	(266)
Overseas – Current year	1,234	135	4,369	1,490
– Prior years	(3)	-	(3)	-
	7,489	3,820	18,064	8,663
Deferred tax expense				
Malaysia – Current year	(20,383)	2,050	(21,952)	776
– Prior years	201	33	201	33
Overseas – Current year	(384)	8	(942)	8
	(20,566)	2,091	(22,693)	817
	<u>(13,077)</u>	<u>5,911</u>	<u>(4,629)</u>	<u>9,480</u>

The tax income for the current quarter and financial year was mainly due to the recognition of tax incentive in relation to the enhanced export incentive.

18. Status of uncompleted corporate proposals

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

19. Borrowing and debt securities

	31.07.2014 RM'000	31.07.2013 RM'000
Non-current		
Secured		
Term loans	80,132	94,584
Finance lease liabilities	112	251
Unsecured		
Term loans	59,782	55,755
	<u>140,026</u>	<u>150,590</u>

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Current

Secured

Term loan	12,738	12,974
Bank overdraft	5,684	10,029
Short term loan	36,063	26,438
Trust receipts	31,751	24,038
Finance lease liabilities	55	395

Unsecured

Term loans	19,875	20,243
Bank overdraft	1,453	-
Bankers' acceptance	114,838	81,794
Trust receipts	19,834	13,317
Short term loan	19,474	16,939
Revolving credit	8,000	5,000
	<u>269,765</u>	<u>211,167</u>
	<u>409,791</u>	<u>361,757</u>

Borrowings denominated in US Dollar amounted to RM150.4 million.
(31.7.2013 : RM143.6 million)

20. 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.

21. Profit for the period

	3 months ended		12 months ended	
	31 July		31 July	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Profit for the period is arrived at after charging/(crediting)				
Depreciation and amortisation	14,826	10,782	61,585	32,681
Net foreign exchange (gain)/loss	2,108	591	2,752	(921)
(Gain)/Loss on disposal of property, plant and equipment	1,176	71	1,025	(413)
Derivative (gain)/loss on currency forward contracts	(1,350)	(329)	(20)	1,181
Allowance for slow moving inventories	349	375	2,403	375
Impairment on receivables	401	480	401	480
Loss on dilution of interest in an associate	-	-	-	5,878

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22. Dividends

- (a) A third interim single tier dividend of 3.5 sen per ordinary share of RM1.00 each amounting to RM6.9 million was declared on 30 September 2014 for the financial year ended 31 July 2014 and will be paid on 30 October 2014 to shareholders whose names appear on the Company's Record of Depositors on 15 October 2014.
- (b) The Board is proposing for the shareholders' approval at the forthcoming Annual General Meeting, a final single tier dividend of 3.5 sen per ordinary share for the financial year ended 31 July 2014. The details of the book closure date and payment date will be announced at a later date.
- (c) The total dividend per share for the current financial year is 11.7 sen (previous year corresponding period: 5.0 sen).

23. 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 owners of the Company of RM36.5 million and RM53.6 million respectively and the weighted average number of ordinary shares of 182,541,000 and 181,537,000 respectively.

(b) *Diluted earnings per share*

The calculation of diluted earnings per share for the current quarter is based on net profit attributable to owners of the Company of RM36.5 million and the weighted average number of ordinary shares, adjusted for the dilutive effects of potential ordinary shares of 184,480,000.

No disclosure is made for the diluted earnings per share for the financial year-to-date as it is anti-dilutive.

24. Disclosure of realised and unrealised profits/losses

	Current Quarter 31.07.2014	Preceding Quarter 30.04.2014
Total retained profits of the Company and its subsidiaries		
- Realised	149,464	127,088
- Unrealised	(8,000)	(15,861)
	<hr/> 141,464	<hr/> 111,227
Total share of retained profit from associates		
- Realised	(4,972)	(4,972)
	<hr/> 136,492	<hr/> 106,255
Consolidation adjustments	131,371	129,231
Total group retained profit as per consolidated accounts	<hr/> 267,863	<hr/> 235,486