V.S. Industry Berhad
(88160-P)

PRESS STATEMENT / SIARAN AKHBAR

(FOR IMMEDIATE RELEASE)

1QFY17 REVENUE SURGED 11.0% YoY TO RM680.0 MILLION ON HIGHER SALES;
EXPECTS MUCH BETTER PERFORMANCE IN 2ND HALF OF FY2017

- The decline in 1QFY17 net profit was due to set-up cost and surge in labour costs in anticipation of significant increase in box-build orders in the coming months;
- Expects much better financial performance in 2nd half of FY2017 as production volume and efficiency rise to reach optimal level;
- Looking forward to a breakthrough year in FY17 with greater possibility in FY18

Johor Bahru, 23 December 2016 – V.S. Industry Berhad (“VS” or “the Group”) (“威鋮集团”), announced its First Quarter FY17 (“1QFY17”) results today for the financial period ended 31 October 2016.

For the quarter under review, the Group registered a revenue of RM680.0 million, an increase of RM67.5 million or 11.0% as compared to the previous corresponding quarter. The double-digit topline growth was achieved on the back of sustained strong demand from VS’ existing key customers, particularly in Malaysia and Indonesia. Revenue from the Malaysian and Indonesian operations grew 17.1% and 41.1% year-on-year (“YoY”) in 1QFY17. Malaysia remains the largest revenue contributor at 74.2%, followed by China (19.4%) and Indonesia (6.4%).

Notwithstanding the higher revenue, 1QFY17 net profit was 44.3% lower YoY at RM33.5 million, due to weakened contribution from Malaysia and a loss from the operations in China that offset the increase in the smaller-scale Indonesia segment.

The decline in profit contribution from Malaysia was broadly within the management's expectation, as it was mainly attributed to the i) absence of foreign exchange gain in 1QFY17, which by contrast, had boosted 1QFY16's profit by RM14.6 million; ii) initial set-up costs incurred to prepare the box-build plant; and iii) substantial increase in labour-related costs.

To further elaborate, the set-up costs and increase in labour costs were all in relation to the implementation of the vertical integration ("VI") status awarded to VS by a key existing customer who is a world-renowned consumer electrical appliance brand. Pursuant to the VI status, the Group anticipates substantial box-build orders over the next few years. Accordingly, it has hired an additional 1,000 foreign factory operators in 1QFY17, incurring hiring agency costs, foreign employee levies, training costs and salary costs. Meanwhile, the corresponding revenue stream from this batch of workers would only commence gradually from second financial quarter onwards.

Managing Director of VS, Datuk S. Y. Gan (拿督颜森炎) said, "To recap, we were awarded the vertical integration, also known as the "VI" status in May 2016 by our key UK-based client. We are currently busy implementing the VI concept and are gearing up our operations. There will be some costs we have to incur, such as set-up cost and labour costs. These expenditures are necessary in return for what we believe would be significant box-build orders over the next few years. To put things in perspective, we are ramping up our box-build capacity from a negligible amount to three million sets per annum. In fact, our first production line under the VI concept is already in operation and more lines would be coming on-stream soon in due time."

"We expect our financial performance to be much better in the second half of FY2017 by comparison to the first half, as increasing sales orders that come in would push production volume and efficiency higher to reach optimal level. Barring unforeseen circumstances, FY17 would be a breakthrough year for us in terms of financial performance, paving way for greater height in FY18." Datuk Gan added.

The Group's operations in Indonesia continued to perform well in 1QFY17, having recorded higher pre-tax profit in tandem with higher sales orders from key customers. The China segment, on the other hand, recorded a loss in 1QFY17 due to lower sales and higher raw materials incurred arising from a weaker Renminbi (RMB) during the period under review. On brighter note, operations in China are expected to improve in the coming quarters as the mass production of a high volume new product for a key customer has just commenced recently.

On balance sheet strength, net gearing remains healthy at 0.2x as at end-October 2016, backed by net assets of 78 sen per share. The Group also generated positive net operating cash flow of RM90.8 million in 1QFY17, against RM27.1 million in the preceding year's corresponding quarter.

In line with the Group's dividend policy of 40% payout of net profit, the Board has declared a 1st interim single tier dividend of 1.2 sen for the quarter under review.

About VS

VS is the largest Electronics Manufacturing Services (EMS) corporation in Malaysia, and one of the world's top 50 in world, providing integrated manufacturing solutions to multinational corporations mainly from the Europe, USA and Japan. It has advanced manufacturing facilities in Malaysia, Indonesia, China and Vietnam. Backed by a team of highly skilled and innovative R&D personnel, VSI also serves as an Original Design Manufacturer (ODM) in addition to being Original Equipment Manufacturer (OEM). Its comprehensive services include high-precision printed circuit board assembly, plastic injection moulding, sub- and full- assembly as well as tool design and fabrication.

Released on behalf of V.S. Industry Berhad by Capital Front Investor Relations.

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