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

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

	Note	As At 30/09/2019 RM'000	As At 31/12/2018 RM'000
ASSETS			
Plant and equipment		2,366	2,418
Investment properties		9,395	9,416
Right-of-use assets	18(a)	2,549	-
Investment in an associate		19,856	-
Investment in a joint venture		13,697	13,410
Investment in club membership		62	62
Intangible asset		571	571
Deferred tax assets		1,266	1,249
Total non-current assets		49,762	27,126
Inventories		101,645	132,748
Receivables, deposits and prepayments		294,534	264,124
Cash and cash equivalents		30,855	54,541
Total current assets		427,034	451,413
TOTAL ASSETS		476,796	478,539
EQUITY			
Share capital		90,000	90,000
Reserves		211,525	198,096
Total equity attributable to owners of the Company		301,525	288,096
LIABILITIES			
Lease liabilities	18(a)	608	-
Total non-current liabilities		608	-
Payables and accruals		170,589	189,112
Lease liabilities	18(a)	1,983	-
Tax payable		2,091	1,331
Total current liabilities		174,663	190,443
Total liabilities		175,271	190,443
TOTAL EQUITY AND LIABILITIES		476,796	478,539
Net assets per share attributable to owners of the Company (RM)		1.68	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.

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

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

	Note	Individual Quarter Three Months Ended 30/09/2019 RM'000	Individual Quarter Three Months Ended 30/09/2018 RM'000	Cumulative Quarter Nine Months Ended 30/09/2019 RM'000	Cumulative Quarter Nine Months Ended 30/09/2018 RM'000
Revenue		459,572	436,211	1,260,188	1,186,219
Cost of sales		(434,756)	(412,100)	(1,195,194)	(1,123,960)
Gross profit		24,816	24,111	64,994	62,259
Distribution expenses		(10,396)	(9,465)	(27,278)	(26,652)
Administrative expenses		(5,487)	(5,133)	(15,756)	(15,414)
Other income/(expenses)	17	552	14	1,515	(286)
Results from operating activities	17	9,485	9,527	23,475	19,907
Finance income		64	524	471	1,368
Finance costs		(82)	(1)	(191)	(1)
Net finance (cost)/income		(18)	523	280	1,367
Share of profit of equity-accounted associate, net of tax		1,060	-	1,060	-
Share of profit of equity-accounted joint venture, net of tax		175	168	536	502
Profit before tax		10,702	10,218	25,351	21,776
Tax expense	21	(2,445)	(2,552)	(6,492)	(5,455)
Profit for the period / Total comprehensive income for the period		8,257	7,666	18,859	16,321
Profit for the period / Total comprehensive income for the period attributable to:					
Owners of the Company		8,257	7,666	18,859	16,321
Non-controlling interest		-	-	-	-
		8,257	7,666	18,859	16,321
Earnings per share attributable to owners of the Company:					
Basic (sen)	26	4.6	4.3	10.5	9.1
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 NINE MONTHS ENDED 30 SEPTEMBER 2019

	<- Attributable to owners of the Company - >					
	Share Capital RM'000	Treasury Shares RM'000	Distributable Retained Earnings RM'000	Total RM'000	Non-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	-	-	16,321	16,321	-	16,321
Dividend	-	-	(4,500)	(4,500)	-	(4,500)
At 30 September 2018	90,000	-	194,313	284,313	-	284,313
At 1 January 2019	90,000	-	198,096	288,096	-	288,096
Profit for the period / Total comprehensive income for the period	-	-	18,859	18,859	-	18,859
Own shares acquired	-	(930)	-	(930)	-	(930)
Dividend	-	-	(4,500)	(4,500)	-	(4,500)
At 30 September 2019	90,000	(930)	212,455	301,525	-	301,525

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 NINE MONTHS ENDED 30 SEPTEMBER 2019

		Nine Months Ended	
		30/09/2019	**30/09/2018**
	Note	**RM'000**	**RM'000**
Cash Flows from Operating Activities			
Profit before tax		25,351	21,776
Adjustments for:			
Non-cash items		2,232	1,725
Non-operating items		(1,876)	(1,869)
Operating profit before changes in working capital		25,707	21,632
Change in inventories		31,103	478
Change in receivables, deposits and prepayment		(29,336)	31,643
Change in payables and accruals		(19,504)	(22,234)
Cash generated from operations		7,970	31,519
Tax paid		(5,749)	(5,822)
Net cash generated from operating activities		2,221	25,697
Cash Flows from Investing Activities			
Purchase of plant and equipment		(898)	(5,984)
Proceeds from disposal of plant and equipment		116	48
Acquisition of an associate company		(18,796)	-
Net cash used in investing activities		(19,578)	(5,936)
Cash Flows from Financing Activities			
Interest received		471	1,173
Interest paid		(191)	(1)
Repayment of lease liabilities	18 (b)	(1,429)	-
Purchase of treasury shares		(930)	-
Dividend received from a joint Venture		250	100
Dividend paid		(4,500)	(4,500)
Net cash used in financing activities		(6,329)	(3,228)
Net (decrease)/increase in cash and cash equivalents		(23,686)	16,533
Cash and cash equivalents at beginning of period		54,541	50,526
Cash and cash equivalents at end of period		30,855	67,059
Cash and cash equivalents comprise the following:			
Cash and bank balances		30,855	67,059

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 NINE MONTHS ENDED 30 SEPTEMBER 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 NINE MONTHS ENDED 30 SEPTEMBER 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 NINE MONTHS ENDED 30 SEPTEMBER 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 909,600 ordinary shares amounted to RM930,505.

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 NINE MONTHS ENDED 30 SEPTEMBER 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
9 months financial period ended 30 September 2019				
External revenue	852,147	367,695	40,346	1,260,188
Inter-segment revenue	9,529	4,221	6,156	19,906
Total revenue	861,676	371,916	46,502	1,280,094
Reportable segment profit before tax	11,499	10,544	1,166	23,209
9 months financial period ended 30 September 2018				
External revenue	840,664	317,174	28,381	1,186,219
Inter-segment revenue	13,781	880	3,603	18,264
Total revenue	854,445	318,054	31,984	1,204,483
Reportable segment profit before tax	10,949	8,875	505	20,329

(b) Reconciliation of reportable segment profit and loss:

	Current Year To-date 30/09/2019 RM'000	Preceding Year Corresponding Period 30/09/2018 RM'000
Total profit for reportable segments before tax	23,209	20,329
Other non-reportable segments profit	11,697	7,845
Eliminate of inter-segments profit and loss	(9,555)	(6,398)
Consolidated profit before tax	25,351	21,776

(c) Disaggregation of the Group's revenue

	Current Year-to-date 30/09/2019		Preceding Year-to-date 30/09/2018	
	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	852,147	-	840,664	-
Enterprise Systems				
Server, storage, software and networking products	367,695	-	317,174	-
ICT Services				
Services and maintenance	39,850	496	27,667	714
	1,259,692	496	1,185,505	714

UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 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 30/09/2019 RM'000	**As at 31/12/2018 RM'000**
ICT Distribution	338,655	328,783
Enterprise Systems	132,569	142,490
ICT Services	4,867	3,432
Total reportable segment assets	476,091	474,705
Reconciliation of reportable segment:		
Total reportable segment assets	476,091	474,705
Other non-reportable segments assets	132,517	127,459
Elimination of inter-segment balances	(131,812)	(123,625)
Consolidated total	476,796	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 ISATEC Sdn Bhd ("ISATEC") (formerly known as I.S.A. Technologies Sdn Bhd) on 10 May 2019, ISAT becomes 30%-owned associate company of VSTECS Berhad.

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

11. Contingent liabilities and contingent assets

(a) Contingent liabilities

	As At 30/09/2019 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	144,989	144,935

UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 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 RM620,000.

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 30/09/2019 RM'000	**Current Year To-date 30/09/2019 RM'000**
Addition to plant and equipment	204	898

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 30/09/2019 RM'000	**Balance Due From/(To) As at 30/09/2019 RM'000**
Transactions with a company in which a Director has interests:		
Rental expenses	(1,481)	-
Administrative and accounting charges	7	1
Transactions with a company in which a Director has common directorship :		
Sales	278	47
Transactions with an associate company:		
Sales	94	-

UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 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 30/09/2019 RM'000	Preceding Year Corresponding Quarter 30/09/2018 RM'000	Changes %	Current Year To-date 30/09/2019 RM'000	Preceding Year Corresponding Period 30/09/2018 RM'000	Changes %
Revenue	459,572	436,211	5.4	1,260,188	1,186,219	6.2
Gross profit	24,816	24,111	2.9	64,994	62,259	4.4
GP margin %	*5.4%*	*5.5%*		*5.2%*	*5.2%*	
Profit before tax	10,702	10,218	4.7	25,351	21,776	16.4
Profit for the period	8,257	7,666	7.7	18,859	16,321	15.6

Q3 2019 compared with Q3 2018

For Q3 2019, the revenue increased by 5.4% to RM459.6 million from RM436.2 million last year due to improved market sentiment compared with last year when there were a change of government and a transitional period of Goods & Services Tax (GST) being replaced with Sales & Service Tax (SST). In tandem with higher sales, the gross profit (GP) increased by 2.9% to RM24.8 million from RM24.1 million last year after inventories written-down of RM106,000 compared with reversal of inventories write down of RM592,000 last year.

Finance income decreased by RM460,000 mainly due to lower cash balance after some fund was utilised to acquire shares in an associate company. In return, the Group share of equity-accounted joint venture and associate increased by RM1.1 million.

With higher GP, lower finance income and higher share of profit in joint venture and associate, the profit before tax (PBT) increased by 4.7% to RM10.7 million compared with RM10.2 million last year.

Quarterly Segmental Result

The performance of the three business segments for Q3 FY2019 compared with Q3 FY2018 were as follows:

a) ICT Distribution

With improved market sentiment, revenue increased by 1.1% mainly from sales of printer supplies and consumables. However, with higher impairment on inventories and accounts receivables, PBT decreased by 27.5% to RM4.9 million from RM6.7 million last year.

b) Enterprise Systems

Revenue increased by 12.1% with higher sales mainly from networking, storage and software. With higher sales and GP arising from the product mix, the PBT increased by 46.9% to RM4.2 million compared with RM2.9 million last year.

c) ICT Services

Revenue increased by RM5.2 million and PBT increased to RM330,000 compared with RM125,000 last year mainly due to higher sales from the Enterprise Systems segment.

UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 2019

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

15. Review of performance (continue)

9 months ended 30 September 2019 compared with 30 September 2018

The demand for ICT products from consumer spending 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 RM1,260.2 million, an increase of 6.2% compared with RM1,186.2 million last year contributed by all three segments.

With higher sales and GP, the PBT increased by 16.4% to RM25.4 million compared with RM21.8 million last year.

Year-to-date Segmental Result

The performance of the three business segments for 9 months period ended 30 September 2019 as compared to previous year-to-date were as below:

a) ICT Distribution

Revenue increased by 1.4% with higher sales mainly from mobility products, notebook, printer consumables and accessories. With higher sales, the PBT increased by 5.0% to RM11.5 million compared with RM10.9 million last year.

b) Enterprise Systems

Revenue increased by 15.9% with higher sales mainly from software, networking and storage equipment. With higher sales and GP, PBT increased by 18.8% to RM10.5 million compared with RM8.9 million last year.

c) ICT Services

Revenue increased by RM12.0 million mainly due to higher revenue from Enterprise Systems. With higher sales and GP, the PBT increased to RM1.2 million compared with RM505,000 last year.

UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 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 30/09/2019 RM'000	Immediate Preceding Quarter 30/06/2019 RM'000	Changes %
Revenue	459,572	421,783	9.0
Gross Profit	24,816	21,906	13.3
GP margin %	*5.4%*	*5.2%*	
Profit before tax	10,702	8,515	25.7
Profit for the period	8,257	6,357	29.9

The Group's revenue in current quarter increased by 9.0% to RM459.6 million compared with RM421.8 million in preceding quarter due to improved market sentiment. All three segments recorded better results. Sales of ICT Distribution, Enterprise Systems and ICT Services increased by 8.3%, 11.0% and 5.2% respectively.

With higher sales and GP, and share of profit in associate and joint venture, PBT increased by 25.7%.

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

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter 30/09/2019 RM'000	Preceding Year Corresponding Quarter 30/09/2018 RM'000	Current Year To-date 30/09/2019 RM'000	Preceding Year Corresponding Period 30/09/2018 RM'000
Depreciation	(802)	(317)	(2,435)	(962)
Impairment loss on trade receivables	(781)	(288)	(587)	(732)
(Written down)/Reversal of write down of inventories	(106)	592	(451)	340
Other income/(expenses):				
Bad debts recovered	-	1	4	8
Foreign exchange gain - Realised	408	132	1,301	460
Foreign exchange (loss)/gain - Unrealised	(535)	483	(821)	(3,450)
Fair value gain/(loss) on financial instruments	676	(606)	914	2,645
Gain on fixed assets disposal	-	-	109	42
Others	3	4	8	9
	552	14	1,515	(286)

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 NINE MONTHS ENDED 30 SEPTEMBER 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 40% shares in an associate company for RM18.8 million.

(c) Trade receivables

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

	Gross carrying amount RM'000	**Loss allowance RM'000**	**Net balance RM'000**
Current not past due	153,177	-	153,177
Past due 1 - 30 days	72,389	-	72,389
Past due 31 - 60 days	29,030	-	29,030
Past due 61 - 90 days	21,533	-	21,533
	276,129	-	276,129
Past due more than 90 days	6,641	(1,167)	5,474
Individual impaired	57	(57)	-
	282,827	(1,224)	281,603

The Group uses aging analysis to monitor the credit quality of the receivables. Invoices which are past due more than 90 days are considered as credit impaired. The gross carrying amount of credit impaired trade receivables are written off when there is no realistic prospect of recovery.

19. Prospects

The overall market sentiment for Malaysia remains challenging as consumers and businesses continued with their cautious ICT spending.

In the recent Malaysian Budget announcement, the government has given many incentives and grants for businesses to pursue digitalisation and automation in embracing the new digital economy. We welcome the initiatives to provide encouragement to the market for investments which will spur the ICT industry growth and contribute to the nation's overall productivity and global competitiveness.

We shall expand our retail business by distributing more consumer brands and products. On the Enterprise systems, we expect several large projects for the commercial and public sectors to be concluded in Q4 2019.

With better consumer spending during the year-end holiday season and higher billings of enterprise systems for projects, we are optimistic for Q4 FY 2019.

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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 30/09/2019 RM'000	Preceding Year Corresponding Quarter 30/09/2018 RM'000	Current Year To-date 30/09/2019 RM'000	Preceding Year Corresponding Period 30/09/2018 RM'000
Current income tax:				
Current year	2,840	2,938	6,689	6,102
(Over)/Under provision prior year	(180)	(163)	(180)	(163)
	2,660	2,775	6,509	5,939
Deferred tax	(215)	(223)	(17)	(484)
	2,445	2,552	6,492	5,455
Effective tax rate	22.8%	25.0%	25.6%	25.1%

The effective tax rate was different from the statutory tax rate of 24% due to share of profit in associate and joint venture which was net of tax and certain expenses which were not deductible for tax purposes.

22. Corporate proposals

On 21 November 2018, the Company entered into a Term Sheet with ISATEC 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 ISATEC 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 ISATEC, representing 30% of the total issued share capital of ISATEC 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 ISATEC 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 ISATEC 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 ISATEC.

With the completion of the above Acquisition and Subscription, ISATEC 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.

UNAUDITED INTERIM FINANCIAL REPORT FOR THE QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 2019

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

The Board of Directors has declared a single tier interim dividend of 2.5 sen per ordinary share each for the financial year ending 31 December 2019.

The dividend will be paid on 18 December 2019 in respective of deposited securities as at 4 December 2019.

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 30/09/2019	Preceding Year Corresponding Quarter 30/09/2018	Current Year To-date 30/09/2019	Preceding Year Corresponding Period 30/09/2018
Profit attributable to equity holders of the Company (RM'000)	8,257	7,666	18,859	16,321
Weighted average number of ordinary shares ('000)	179,222	180,000	179,737	180,000
Basic earnings per share (sen)	4.6	4.3	10.5	9.1
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

7 November 2019
Selangor