

VisDynamics Holdings Berhad

(“VHB” or “COMPANY”)

(Company No. 677095-M)

(Incorporated in Malaysia)

PART A – EXPLANATORY NOTE PURSUANT TO FRS 134

1. Accounting Policies

The interim financial report is unaudited and is prepared in accordance with Financial Reporting Standard (FRS) 134 “Interim Financial Reporting” and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) for the MESDAQ Market.

The interim condensed financial statements have been prepared based on accounting policies and methods of computation which are consistent with those adopted in the preparation of the audited financial statements for the year ended 31 October 2006 except as disclosed per Note 2.

2. Change in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 October 2006 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”) effective for the financial period beginning 1 November 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events After Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 117	Leases
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets

2. Change in Accounting Policies (Cont’d)

The adoption of the above new/revised FRS does not have significant financial impact on the Group except as disclosed below:

(a) FRS 2: Share-based payment

This FRS requires an entity to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.

The Company operates an equity-settled, share-based compensation plan for the employees of the Group. Prior to 1 November 2006, no compensation expense was recognised in profit or loss for share options granted. With the adoption of FRS 2, the compensation expense relating to share options is recognised in profit or loss over the vesting periods of the grants with a corresponding increase in equity. The total amount to be recognised as compensation expense is determined by reference to the fair value of the share options at the date of the grant and the number of share options to be vested by vesting date. The fair value of the share option is computed using Black Scholes model. At every balance sheet date, the Group revises its estimates of the number of share options that are expected to vest by the vesting date. Any revision of this estimate is included in profit or loss and a corresponding adjustment to equity over the remaining vesting period.

Under the transitional provisions of FRS 2, this FRS must be applied to share options that were granted after 31 December 2004 and had not yet vested on 1 January 2006. The application is retrospective and accordingly, the comparative amounts as at 31 October 2006 are restated and the opening balance of retained earnings as at 1 November 2006 has been adjusted. The financial impact to the Group arising from this change in accounting policy is as follows:

	As at 1.11.2006			
	RM'000			
Decrease in retained earnings				(76)
Increase in equity compensation reserve				76
	Individual Quarter		Cumulative Quarter	
	3 months ended		9 months ended	
	31-07-07	31-07-06	31-07-07	31-07-06
	RM'000	RM'000	RM'000	RM'000
Decrease in profit for the period	14	19	79	57

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2. Change in Accounting Policies (Cont’d)

(b) FRS 117: Leases

The adoption of the revised FRS 117 has affected the presentation of leasehold land in the financial statement. Under FRS 117, lease is defined as an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time and operating lease is defined as a lease other than lease that transfers substantially all the risks and awards incidental to the ownership of an asset. The lease payment under the operating lease shall be recognised as expense on the straight-line basis over the lease term. Where an entity has previously recognized lease payment of operating lease as property within its property, plant and equipment, the entity shall reclassify such lease payment as prepaid lease payment.

The financial impact of this FRS on the Group is as follows:

	As at 1.11.2006
	RM’000
Decrease in Property Plant and Equipment	(986)
Increase in Prepaid Lease Payment	986

3. Comparatives

The following comparative amounts have been restated due to the adoption of new and revised FRSs:

	Previously stated	FRS 117	FRS 2	Restated
	RM’000	RM’000	RM’000	RM’000
At 31 October 2006				
Property, Plant and Equipment	1,772	(986)	-	786
Prepaid Lease Payment	-	986	-	986
Retained earnings	2,533	-	(76)	2,457
Equity Compensation Reserve	-	-	76	76

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4. Seasonal or cyclical nature of interim operations

Presently, the Group focuses its range of products and services to customers/end-users principally engaged in test/backend of semiconductor manufacturing. As such, the Group’s performance will inevitably depend heavily on the outlook and cyclical nature of the semiconductor and semiconductor equipment industry which is highly unpredictable and sensitive in nature. Furthermore, semiconductor and semiconductor equipment industry displayed seasonal pattern which was historically experiencing slowdown in activities in the first half of the Group’s financial year post festive seasons and regained its momentum and peaked in the second half of the Group’s financial year in preparation for the coming festive seasons.

5. Unusual Items Due to Their Nature, Size or Incidence

There were no items affecting assets, liabilities, equity, net income, or cash flows that were unusual because of their nature, size, or incidence during the financial year to date ended 31 July 2007.

6. Changes in Estimates

There were no changes in estimates of amounts reported in prior financial years that have a material effect in the financial year to date ended 31 July 2007.

7. Debt and Equity Securities

There were no issuances, cancellations or repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the financial year to date ended 31 July 2007 except for the following:

7.1 Employee’s Share Option Scheme (“ESOS”)

During the current financial year-to-date ended 31 July 2007, the Company issued 145,800 ordinary shares of RM0.10 each for cash at exercise price of RM0.10 per ordinary share under the ESOS.

8. Dividends Paid

There was no dividend paid during the financial year to date ended 31 July 2007.

9. Subsequent Material Events

There were no material events since the end of the current quarter to the date of this announcement that have not been reflected in the interim financial statements.

10. Change in the Composition of the Group

There were no changes in the composition of the Group during the financial year to date ended 31 July 2007.

11. Contingent Liabilities and Contingent Assets

As at 31 July 2007, other than those disclosed below, there have been no changes in the contingent liabilities/assets since the last annual balance sheet date.

	RM'000
Provision of corporate guarantee to subsidiary	<u>500</u>

12. Segmental Information

No segmental information was prepared as the Group was principally engaged in the provision of test/backend equipment in the automated test equipment industry for semiconductors and the Group operated principally in Malaysia.

13. Capital Commitments

The amount of commitments for the purchase of property, plant and equipment not provided for in the interim financial statements as at 31 July 2007 is as follow:

	<u>RM '000</u>
Approved and contracted for	3,206
TOTAL	<u><u>3,206</u></u>

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Part B - Explanatory Notes Pursuant to Appendix 9B of the Listing Requirements of Bursa Securities for the MESDAQ Market

14. Performance Review

The Group posted a higher revenue of RM 2,983,842 in the current quarter ended 31 July 2007, an increase of RM 1,517,491 or 103% from the previous corresponding year quarter ended 31 July 2006. The substantial increase in the revenue was mainly due to customers’ acceptance of higher quantity of Tape and Reel systems in the current quarter as compared to the previous corresponding year quarter. The Group’s revenue recognition for equipment was based on customers’ acceptance instead of delivery made.

With higher revenue generated, the Group posted a profit before taxation during the current quarter ended 31 July 2007 of RM 292,439 as compared to a loss before taxation of RM 212,847 during the previous corresponding year quarter ended 31 July 2006 despite higher administrative expenses and sales and distribution expenses, incurred in the current quarter.

The Group posted a higher revenue of RM 5,774,762 in the current financial year to date ended 31 July 2007, an increase of RM 903,410 or 19% from the previous corresponding financial year to date ended 31 July 2006. The increase in revenue in the current financial year to date was due to higher quantity of Gravity-based Tape and Reel system accepted by the customers as well as the acceptance of the Tray-based Tape and Reel system, which was launched on September 2006.

Despite the higher revenue generated, the Group posted a loss before taxation of RM 183,782 during the current financial year to date ended 31 July 2007 as compared to a profit before taxation of RM 543,315 during the previous corresponding financial year to date ended 31 July 2006. The incurrence of loss before taxation during the current financial year to date was due to lower gross profit margin as a result of strengthening of MYR against USD as well as the increase in fixed overheads mainly due to higher sales and distribution expenses and administration expenses.

15. Commentary on Material Change in Profit/(Loss) before Taxation

As a higher quantity of Tape and Reel systems are accepted by customers during the current quarter ended 31 July 2007 as compared to the previous quarter ended 30 April 2007, the Group posted a higher revenue of RM 2,983,842 as compared to the previous quarter of RM 604,548, an increase of RM 2,379,294 or 394%.

The Group achieved a profit before taxation in the current quarter ended 31 July 2007 of RM 292,439 as compared to a loss before taxation RM 536,806 in the previous quarter due to higher revenue generated during the current quarter despite higher sales and distribution expenses in the current quarter.

16. Commentary on the Prospects

The Group’s revenue recognition for machine/system is based on customers’ acceptance of the machine/system delivered. As such the revenue and hence, the profit before taxation depend on the success rate and timing of securing the customers’ acceptance for the machines/systems delivered.

As at 31 July 2007, approximately 39% of the inventory comprises finished goods that have been consigned for testing and demonstration at the premises of prospective customers pending their acceptance.

With the Group’s continuous effort to secure customers’ acceptance within the shortest possible period, the Directors are of the opinion that, barring unforeseen circumstances, the Group should be able to post positive result for the full financial year ending 31 October 2007.

17. Profit Forecast and Profit Guarantee

The Group did not issue any profit forecast or profit guarantee in any public document and hence, is not applicable.

18. Qualification of Audit Reports

The audited financial statements of the Company and its subsidiary, VisDynamics Research Sdn Bhd, for the preceding financial years/periods were reported without any qualification.

19. Tax Expense

Taxation comprises the following:

	Current Year Quarter	Previous Year Quarter	Current Year 9 Months Cumulative To-Date	Previous Year 9 Months Cumulative To-Date
	31 July 2007	31 July 2006	31 July 2007	31 July 2006
	RM’000	RM’000	RM’000	RM’000
In respect of:-				
Taxation	5	2	18	2
Deferred taxation	-	-	-	-
	5	2	18	2

19. Tax Expense (Cont'd)

The effective tax rate of the Group is lower than the statutory tax rate due to Pioneer Status granted to VRSB under the Promotion of Investments Act, 1986. Under Pioneer Status incentive granted to its subsidiary, 100% of the subsidiary’s statutory income from pioneer activities is exempted from income tax for a period of five (5) years, commencing from 1 June 2003. The Pioneer Status may be extended for another five (5) years upon expiry.

20. Profits/(Losses) on Sale of Unquoted Investments and/or Properties

There was no disposal of unquoted investments or properties during the current quarter and year to date ended 31 July 2007.

21. Purchase and Disposal of Quoted and marketable securities

There was no purchase or disposal of quoted and marketable securities during the current quarter and year to date ended 31 July 2007.

22. Status of Corporate Proposal and Utilisation of Proceeds

22.1. Status of Corporate Proposal Proposed and Not Complete

There was no corporate proposal announced but not completed as at the date of this announcement.

22.2. Utilisation of Proceeds

As at 31 July 2007, the proceeds raised from the Public Issue of RM11.022 million have been utilised in the following manner:

Purpose	Proposed Utilisation RM'000	Actual Utilisation RM'000	Balance RM'000	Utilisation To Be Completed By	Deviation	Explanations
Capital expenditure	3,500	2,229	1,271	12 April 08	N/A	N/A
R & D	2,500	1,998	502	12 April 09	N/A	N/A
Working Capital	3,522	2,384	1,330*	12 April 08	N/A	N/A
Listing Expenses	1,500	1,308	NIL *	12 April 08	N/A	N/A
TOTAL	11,022	7,919	3,103			

Note: * Unutilised amount of RM191,888 from listing expenses will be utilised for working capital purposes as per prospectus.

23. Group Borrowings and Debt Securities

Group borrowings as at 31 July 2007 were as follows:

<u>Short term</u>	<u>RM '000</u>
Secured	234
<u>Long term</u>	
Secured	89
TOTAL	323

The Groups borrowings are all in Ringgit Malaysia.

24. Off Balance Sheet Financial Instruments

As at 19 September 2007, the Group has foreign currency forward contract with financial institution which are yet to be exercised of total Ringgit equivalent of RM 689,000. The maturity dates of these contracts are 27 September 2007 and 15 October 2007. These foreign currency forward contracts were enter to hedge the Group’s foreign currency risk in respect of its foreign currency denominated receipts.

These foreign currency forward contracts carry minimal credit risk as these contracts were entered into with reputable banks. All gains and losses arising from forward foreign exchange contracts are dealt with through the Income Statement upon maturity.

25. Changes in Material Litigation Since the Last Annual Balance Sheet Date

As at the date of this announcement, the Group is not engaged in any material litigation either as plaintiff or defendant and the Directors do not have any knowledge of any proceedings pending or threatened against the Group.

26. Dividend Payable

The Group has not recommended or declared any dividend during the current quarter and year to date ended 31 July 2007.

27. Earnings Per Share (“EPS”)

27.1. Basic EPS

	Current Year Quarter	Previous Year Quarter	Current Year 9 Months Cumulative To-Date	Previous Year 9 Months Cumulative To-Date
	31 July 2007	31 July 2006	31 July 2007	31 July 2006
Net profit/(loss) for the period (RM'000)	287	(215)	(201)	542
Weighted average number of shares in issue ('000)	66,997	66,851	66,958	57,250
Basic EPS (sen)	0.43	(0.32)	(0.30)	0.95

27.2. Diluted EPS

The calculation of diluted EPS has taken into consideration of the adjustment of weighted average number of ordinary shares in issue during the period for the dilutive effect of all potential ordinary shares in relation to the outstanding ESOS in existence.

For current financial year to date ended 31 July 2007, 208,600 outstanding options granted to certain employees have anti-dilutive potential as the Group suffered net loss during the financial year to date.

	Current Year Quarter	Previous Year Quarter	Current Year 9 Months Cumulative To-Date	Previous Year 9 Months Cumulative To-Date
	31 July 2007	31 July 2006	31 July 2007	31 July 2006
Net profit for the period (RM'000)	287	N/A	N/A	542
Weighted average number of shares in issue ('000)	66,997	N/A	N/A	57,250
Effect of dilution ('000): ESOS	162	N/A	N/A	306
Adjusted weighted average number of shares in issue and issuable ('000)	67,159	N/A	N/A	57,556
Diluted EPS (sen)	0.43	N/A	N/A	0.94