

## **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

### **1. Basis of preparation**

The interim financial statements are unaudited and have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”) 134: “Interim Financial Reporting” issued by the Malaysian Accounting Standards Board and paragraph 9.22 and Part A of Appendix 9B of the Bursa Malaysia Securities Berhad’s Main Market Listing Requirements. The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 July 2015. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 July 2015.

### **2. Significant accounting policies**

The significant accounting policies and methods of computation adopted by the Group in the interim financial statements are consistent with those of the audited financial statements for the year ended 31 July 2015.

In the current financial period, the Group had adopted all the new/revised standards and interpretations that are effective for annual periods beginning on or after 1 August 2015. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group.

### **3. Audit report of preceding annual financial statements**

The audit report of the Group’s most recent audited financial statements for the year ended 31 July 2015 was not qualified.

### **4. Seasonality or cyclicity of operations**

There was no material seasonal or cyclical fluctuation in the operations of the Group.

### **5. Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence**

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows during the reporting period.

### **6. Changes in estimates of amounts reported in prior interim periods of the current financial year or in prior financial years**

There were no changes in estimates of amounts reported in prior financial years.

### **7. Issues, repurchases, and repayments of debt and equity securities**

There were no issues, repurchases and repayments of debt and equity securities for the current financial year-to-date.

## 8. Dividends paid/payable

A first and final tax exempt dividend of 3 sen per ordinary share, amounting to RM1,290,000, in respect of the previous financial year ended 31 July 2015, was paid on 5 February 2016.

## 9. Events not reflected in the financial statements

There were no material subsequent events to be disclosed as at the date of this report.

## 10. Changes in the composition of the Group

There were no changes in the composition of the Group for the financial year to date.

## 11. Acquisition or disposal of items of property, plant and equipment

During the reporting period, the Group acquired plant and equipment amounting to RM9,174,000, and disposed plant and equipment of net book value amounting to RM27,000.

## 12. Significant related party transactions

	Current year to date  31/01/2016  RM'000	Preceding year corresponding year to date 31/01/2015  RM'000
Transactions with Sunright Limited, holding company of the Company, and its subsidiaries:		
Management fees charged by Sunright Limited	3,557	2,651
Dividend paid to Sunright Limited	625	-
Interest on loan from Sunright Limited	-	59
Sales to:		
- KES Systems & Service (1993) Pte Ltd	-	20
Purchases from:		
- KES Systems & Service (1993) Pte Ltd	41	123
- Kestronics (M) Sdn Bhd	40	19
- KESU Systems & Service, Inc.	-	249
- KEST Systems & Service Ltd	15	50
- KES Systems & Service (Shanghai) Co., Ltd	21	211

The Directors are of the opinion that the above transactions were in the normal course of business and at terms mutually agreed between the companies.

## 13. Significant commitments for purchase of property, plant and equipment

Commitments for purchase of property, plant and equipment amounted to RM3,225,000 as at 31 January 2016.

#### 14. Profit before tax

	Individual period		Cumulative period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding period
	31/01/2016	31/01/2015	31/01/2016	31/01/2015
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:				
After charging:				
Loss on disposal of property, plant and equipment	-	-	-	101
Fair value loss on investment securities held for trading	-	544	-	1,991
Plant and equipment written off	13	-	27	-
Net foreign exchange loss	1,176	-	-	-
And crediting:				
Gain on disposal of property, plant and equipment	-	57	65	-
Gain on disposal on investment securities held for trading	-	-	-	697
Fair value gain on investment securities held for trading	163	-	61	-
Reversal of impairment loss on trade receivables	-	-	-	21
Net foreign exchange gain	-	814	960	882

There was no gain or loss arising from derivatives, disposal of unquoted investments and exceptional items.

## 15. Detailed analysis of Group performance

### Analysis of the performance for the current quarter

The Group's revenue improved by RM8.2 million from RM62.1 million in the preceding year's second quarter to RM70.3 million for the current quarter ended 31 January 2016 ("2QFY2016"), mainly because of higher demand for all services.

Other income was lower by RM1.1 million, mainly due to absence of an exchange gain and reversal of sundry payables in the current quarter.

Raw materials and consumables used and changes in work-in-progress increased by RM1.3 million or 17%, from RM7.3 million to RM8.5 million, because of higher sales from electronic manufacturing services.

Employee benefits expense was higher by RM1.6 million or 7%, mainly due to higher wage rates, and staff compensation resulting from the translation of Renminbi following the weakening of Malaysian Ringgit ("MYR").

Depreciation was lower by RM1.0 million or 7%, as certain machinery and test equipment were fully depreciated during the period under review.

Other expenses increased by RM1.5 million or 9%, from RM16.1 million to RM17.6 million, mainly due to an exchange loss of RM1.2 million resulting from depreciation of United States Dollars ("USD") against MYR on USD denominated receivables, and higher repair and maintenance expenses by RM0.3 million to support the increased sales.

Consequently, the Group's profit before tax was higher by RM3.6 million, from RM4.2 million to RM7.8 million in 2QFY2016.

### Analysis of the performance for the current financial year-to-date

The Group's revenue increased by RM9.2 million or 7%, from RM131.3 million in the preceding year's corresponding period to RM140.4 million for the current financial period ended 31 January 2016, as a result of higher demand for all services.

Other income was lower by RM1.6 million or 52%, mainly due to absence of reversal of sundry payables of RM1.3 million.

Raw materials and consumables used and changes in work-in-progress were higher by RM1.1 million, because of higher sales from electronic manufacturing services.

Consequently, the Group's profit before tax improved by RM7.5 million or 74%, from RM10.1 million to RM17.6 million in the reporting period under review.

## 16. Material change in the profit before taxation compared to the results of the preceding quarter

The Group achieved profit before tax of RM7.8 million for the second quarter ended 31 January 2016, compared to RM9.8 million in the preceding quarter ended 31 October 2015 ("1QFY2016").

The decrease in profit before tax by RM2.0 million was primarily due to (i) an exchange loss of RM1.2 million in 2QFY2016, resulting from depreciation of USD against MYR on USD denominated receivables, as compared to an exchange gain of RM2.1 million in 1QFY2016, offset by (ii) a decrease in depreciation by RM0.8 million as certain machinery and test equipment were fully depreciated and (iii) a fair value gain on investment securities held for trading of RM0.2 million as compared to a fair value loss of RM0.1 million in 1QFY2016.

## 17. Prospects

World-wide semiconductor revenue was reported at USD333.7 billion in 2015, representing a decrease of 1.9% from USD340.3 billion in 2014. This was the result of softer demand for key electronic equipment, including smartphones and personal computers, high inventory levels and the continued impact of the strong US dollar in key markets outside of the United States.

According to International Monetary Fund report in January 2016, the global growth forecast was revised downwards by 0.2% to 3.4% in 2016. The gradual slowdown and rebalancing of the China economy, continued declines in oil prices, falling commodity prices and the fears of currency wars weigh on the growth prospects.

Given this economic backdrop, the Group will remain cautious on its capital spending, whilst continuing its focus on developing its core test capability, especially in the automotive market.

## 18. Profit forecast/profit guarantee

The Group was not subjected to any profit guarantee.

## 19. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter 31/01/2016 RM'000	Preceding year corresponding quarter 31/01/2015 RM'000	Current year to date 31/01/2016 RM'000	Preceding year corresponding quarter 31/01/2015 RM'000
Current income tax				
- Malaysian income tax	810	728	2,583	1,717
- Foreign tax	-	356	-	908
	810	1,084	2,583	2,625

The effective tax rate was lower than the statutory tax rate, mainly due to lower Malaysian tax expenses that arose from certain tax incentives.

## 20. Status of uncompleted corporate proposals

There was no corporate proposal announced and not completed as at the date of this report.

## 21. Group borrowings and debt securities

	<u>As At</u> <u>31/01/2016</u> RM'000	<u>As At</u> <u>31/07/2015</u> RM'000
(a) Obligations under finance leases - secured	3,692	657
Term loans - unsecured	54,134	72,701
	<u>57,826</u>	<u>73,358</u>
(b) Repayable within 12 months	33,563	40,375
Repayable after 12 months	24,263	32,983
	<u>57,826</u>	<u>73,358</u>
(c) Loans denominated in:		
USD	-	2,693
MYR	57,826	70,665
	<u>57,826</u>	<u>73,358</u>

## 22. Changes in material litigation

Further to the announcement made on 24 November 2015, there were no changes in material litigation as at the date of this announcement.

## 23. Dividend

There was no dividend declared for the quarter under review.

## 24. Earnings per share

### Basic earnings per ordinary share

The calculation of basic earnings per share for the period was based on the profit attributable to owners of the Company of RM15,065,000 and the weighted average number of 43,015,000 ordinary shares outstanding during the reporting period.

**25. Realised and unrealised profits**

	As at end of current quarter 31/01/2016	As at preceding financial year end 31/07/2015
	RM'000	RM'000
- Realised	244,879	234,984
- Unrealised	1,253	692
Total retained profits of the Company and its subsidiaries	246,132	235,676
Consolidation adjustments	(34,174)	(36,743)
Total group retained profits as per consolidated accounts	211,958	198,933

BY ORDER OF THE BOARD

Leong Oi Wah  
Company Secretary

Petaling Jaya  
Date : 10 March 2016