

## **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

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 RM19,254,000, and disposed plant and equipment of net book value amounting to RM27,000.

## 12. Significant related party transactions

	<u>Current year to date 30/04/2016 RM'000</u>	<u>Preceding year Corresponding year to date 30/04/2015 RM'000</u>
Transactions with Sunright Limited, holding company of the Company, and its subsidiaries:		
Management fees charged by Sunright Limited	4,872	4,076
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	578	154
- Kestronics (M) Sdn Bhd	58	25
- KESU Systems & Service, Inc.	-	255
- KES Systems, Inc.	-	957
- KEST Systems & Service Ltd	19	51
- KES Systems & Service (Shanghai) Co., Ltd	21	250

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 RM11,245,000 as at 30 April 2016.

**14. Profit before tax**

	Individual period		Cumulative period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding period
	30/04/2016	30/04/2015	30/04/2016	30/04/2015
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:				
After charging:				
Fair value loss on investment securities held for trading	-	221	-	2,212
Plant and equipment written off	-	4	27	4
Loss on disposal of property, plant and equipment	-	-	-	95
Inventories written down	-	-	247	-
Net foreign exchange loss	794	38	-	-
And crediting:				
Gain on disposal of property, plant and equipment	31	6	96	-
Fair value gain on investment securities held for trading	75	-	136	-
Reversal of inventories written down	36	16	-	16
Gain on disposal on investment securities held for trading	-	-	-	697
Reversal of impairment loss on trade receivables	-	-	-	21
Net foreign exchange gain	-	-	166	844

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 increased by RM7.8 million or 12%, from RM62.9 million in the preceding year's third quarter to RM70.8 million for the current quarter ended 30 April 2016 ("3QFY2016"), mainly because of higher demand for all services.

Raw materials and consumables used and changes in work-in-progress and finished goods increased by RM1.5 million or 27%, from RM5.5 million to RM7.0 million, due to higher sales from electronic manufacturing services.

Depreciation decreased by RM1.7 million or 11%, as certain machinery and test equipment were fully depreciated during the period under review.

Other expenses increased by RM2.1 million or 14%, from RM15.0 million to RM17.2 million, mainly due to higher exchange loss by RM0.8 million resulting from depreciation of United States Dollars ("USD") against Malaysian Ringgit ("MYR") on USD denominated receivables, and higher expenses on repair and maintenance by RM0.9 million and utilities by RM0.7 million to support the increased revenue.

Consequently, the Group's profit before tax increased by RM5.1 million, from RM4.2 million to RM9.2 million in 3QFY2016.

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

The Group's revenue increased by RM17.0 million or 9%, from RM194.2 million in the preceding year's corresponding period to RM211.2 million for the current financial period ended 30 April 2016 as a result of higher demand for all services.

Other income was lower by RM2.8 million or 76%, mainly due to absence of reversal of sundry payables of RM2.0 million as well as, lower exchange gain by RM0.7 million arising from relatively smaller appreciation of USD against MYR on USD denominated receivables.

Raw materials and consumables used and changes in work-in-progress and finished goods increased by RM2.6 million or 12%, from RM21.2 million to RM23.8 million, because of higher sales from electronic manufacturing services.

Consequently, the Group's profit before tax increased by RM12.6 million or 88%, from RM14.3 million to RM26.9 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 RM9.2 million for the third quarter ended 30 April 2016, compared to RM7.8 million in the preceding quarter ended 31 January 2016. The increase in profit by RM1.4 million was mainly due to higher net revenue<sup>1</sup> by RM2.0 million and lower exchange loss by RM0.4 million offset by increased employee benefits expense by RM1.1 million.

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<sup>1</sup> Revenue less raw materials and consumables used and changes in work-in-progress and finished goods.

## 17. Prospects

World-wide semiconductor revenue is forecasted at USD333 billion in 2016, representing a decrease of 0.6% from 2015, and two consecutive years of revenue decline. This is mainly attributable to weakened demand for key electronic equipment such as personal computers, smartphones and tablets, high inventory levels and the continuing impact of the strong USD in key markets outside of the United States.

According to International Monetary Fund report in April 2016, the global growth forecast for 2016 was further reduced by another 0.2% to 3.2%. Key economic risks include depreciation of exchange rates in emerging market economics, protracted period of low oil prices, the slowdown of China economy and non-economic concerns such as political discord, terrorism and refugee inflows, could significantly weigh down growth.

Given the lackluster economic growth, the Group will be cautious in its capital spending, focused on improving costs and managing resources efficiently, whilst continuing to drive growth in serving growing markets.

## 18. Profit forecast / profit guarantee

The Group was not subjected to any profit guarantee.

## 19. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter 30/04/2016	Preceding year corresponding quarter 30/04/2015	Current year to date 30/04/2016	Preceding year corresponding quarter 30/04/2015
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	1,647	1,012	4,230	2,729
- Foreign tax	-	122	-	1,030
	1,647	1,134	4,230	3,759

The effective tax rate was lower than the statutory tax rate, mainly due to the availability of 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>30/04/2016</u> RM'000	<u>As At</u> <u>31/07/2015</u> RM'000
(a) Obligations under finance leases - secured	3,488	657
Term loans – unsecured	44,664	72,701
	<u>48,152</u>	<u>73,358</u>
(b) Repayable within 12 months	31,093	40,375
Repayable after 12 months	17,059	32,983
	<u>48,152</u>	<u>73,358</u>
(c) Loans denominated in:		
USD	-	2,693
MYR	48,152	70,665
	<u>48,152</u>	<u>73,358</u>

## 22. Changes in material litigation

Further to the announcement made on 10 March 2016, 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 RM22,638,000 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 30/04/2016	As at preceding financial year end 31/07/2015
	RM'000	RM'000
- Realised	251,927	234,984
- Unrealised	2,023	692
Total retained profits of the Company and its subsidiaries	253,950	235,676
Consolidation adjustments	(34,419)	(36,743)
Total group retained profits as per consolidated accounts	219,531	198,933

BY ORDER OF THE BOARD

Leong Oi Wah  
Company Secretary

Petaling Jaya  
Date : 2 June 2016