

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 2014. 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 2014.

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 2014.

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 2014. 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 2014 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 year.

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.

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 2014, was paid on 17 February 2015.

A special interim tax exempt dividend of 3 sen per ordinary share, amounting to RM1,290,000, in respect of the current financial year ended 31 July 2015, was paid on 10 April 2015.

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

The acquisition of the remaining 34.62% equity interest in KESM Test (M) Sdn Bhd ("KESM Test") was completed on 13 May 2015 and KESM Test is now a wholly-owned subsidiary of the Company.

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

During the reporting period, the Group acquired plant and equipment amounting to RM82,224,000, and disposed (including write-off) plant and equipment of net book value amounting to RM1,825,000.

12. Significant related party transactions

	<u>As at</u> <u>31/07/2015</u> RM'000	<u>As at</u> <u>31/07/2014</u> RM'000
Transactions with Sunright Limited, holding company of the Company, and its subsidiaries:		
Management fees charged by Sunright Limited	5,697	4,758
Dividend paid to Sunright Limited	1,249	624
Acquisition of non-controlling interests	35,000	-
Dividend paid to non-controlling interests	10,386	-
Interest on loan from Sunright Limited	59	117
Sales to:		
- KES Systems & Service (1993) Pte Ltd	31	375
- KES Systems, Inc.	190	1,614
Purchases from:		
- KES Systems & Service (1993) Pte Ltd	243	1,334
- Kestronics (M) Sdn Bhd	25	39
- KES Systems, Inc.	957	-
- KESU Systems & Service, Inc.	261	-
- KES Systems & Service (Shanghai) Co., Ltd	437	-
- KEST Systems & Service Ltd	108	545

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 RM6,605,000 as at 31 July 2015.

14. Profit before tax

	Individual period		Cumulative period	
	Current year quarter 31/07/2015 RM'000	Preceding year corresponding quarter 31/07/2014 RM'000	Current year to date 31/07/2015 RM'000	Preceding year corresponding period 31/07/2014 RM'000
Profit before tax is arrived at:				
After charging:				
Net fair value loss on investment securities held for trading	809	-	3,021	-
Plant and equipment written off	-	5	4	94
Inventories written down	227	279	227	279
Loss on disposal of property, plant and equipment	-	3	-	9
Net foreign exchange loss	-	-	-	342
And crediting:				
Gain on disposal of property, plant and equipment	267	-	172	-
Net fair value gain on investment securities held for trading	-	377	-	165
Gain on disposal on investment securities held for trading	-	-	697	327
Reversal of impairment loss on trade receivables	-	-	21	48
Net foreign exchange gain	1,066	151	1,910	-

There were 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 for the current quarter ended 31 July 2015 ("4QFY2015") was RM68.9 million, comparable to the preceding year's fourth quarter of RM68.6 million.

Other income was higher by RM1.1 million or 96%, primarily due to higher exchange gain by RM0.9 million, arising from an appreciation of US Dollars against Malaysian Ringgit on US Dollars denominated receivables.

Employee benefits expense was higher by RM0.8 million or 4%, mainly due to higher wage rates and staff compensation.

Depreciation was lower by RM0.9 million or 6%, as certain plant, machinery and test equipment were fully depreciated during the year.

Finance costs were higher by RM0.5 million or 99%, mainly due to higher borrowings to fund the purchases of test equipment.

Other expenses were higher by RM0.6 million or 4%, mainly due to fair value loss on investment securities of RM0.8 million, partially offset by an absence of stamp duties of RM0.2 million incurred for securing additional term loans.

Consequently, the Group's profit before tax increased by RM0.4 million or 4%, from RM9.4 million to RM9.8 million in 4QFY2015.

Analysis of the performance for the current financial year

The Group's revenue was higher by RM8.8 million or 3%, from RM254.4 million in the preceding year to RM263.1 million for the current financial year. The improvement was mainly due to higher demand from burn-in and testing services.

Other income was higher by RM2.8 million or 92%, primarily due to an exchange gain of RM1.9 million arising from an appreciation of US Dollars against Malaysian Ringgit on US Dollars denominated receivables and higher gain on disposal of investment securities and property, plant and equipment by RM0.4 million and by RM0.2 million respectively.

Raw materials and consumables used and changes in work-in-progress and finished goods were reduced by RM9.2 million or 23%, from RM39.6 million to RM30.4 million, mainly due to lower electronic manufacturing services sales.

15. Detailed analysis of Group performance (cont'd)

Analysis of the performance for the current financial year (cont'd)

Employee benefits expense was higher by RM7.5 million or 9%, mainly because of higher wage rates and staff compensation.

Depreciation was higher by RM3.9 million or 7%, as additional machinery and test equipment were purchased.

Finance costs increased by RM1.3 million or 59%, mainly due to higher borrowings to fund the purchases of test equipment.

Other expenses increased by RM3.1 million or 5%, mainly because of fair value loss on investment securities of RM3.0 million.

Consequently, the Group's profit before tax increased by RM4.2 million or 21%, from RM19.8 million to RM24.0 million in the current financial year.

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

The Group achieved profit before tax of RM9.8 million for the fourth quarter ended 31 July 2015, compared to RM4.2 million in the preceding quarter ended 30 April 2015.

The increase in profit before tax was largely due to (i) higher net revenue (revenue net of material costs) by RM2.3 million, (ii) an exchange gain of RM1.1 million, (iii) lower depreciation by RM1.2 million, and (iv) lower employee benefits expense by RM1.3 million.

17. Prospects

World-wide semiconductor revenue is projected to reach USD348 billion in 2015, from USD339.8 billion in 2014, representing a further reduction in growth of 2.2%, from the previous quarter's forecast of 4.0%.

Several organisations have revised their forecasts of worldwide semiconductor revenue and global economic growth rates, downwards from their earlier forecasts for 2015 and 2016 respectively, as the strength of the United States economy recovery slipped, coupled with the rebalancing of the China economy. The unexpected Yuan devaluation and the meltdown of major equity markets will further impact financial markets and growth rates.

Even as the macro-economics is challenging, the Group will continue its efforts to further improve its core competencies in technical, operational and production efficiencies in order to service existing and new customers for our burn-in and testing services.

18. Profit forecast / profit guarantee

The Group was not subjected to any profit guarantee.

19. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter 31/07/2015 RM'000	Preceding year corresponding quarter 31/07/2014 RM'000	Current year to date 31/07/2015 RM'000	Preceding year corresponding quarter 31/07/2014 RM'000
Current income tax				
- Malaysian income tax	(802)	(411)	1,927	1,131
- Foreign tax	302	593	1,332	2,173
- (Over)/under provision in prior years	(13)	217	(13)	160
	(513)	400	3,246	3,464
Deferred tax				
- Relating to origination and reversal of temporary differences	(345)	(504)	(345)	(504)
- Under provision in prior years	160	504	160	504
	(185)	-	(185)	-
	(698)	400	3,061	3,464

The effective tax rate was lower than the statutory tax rate, mainly due to lower effective Malaysian tax, arising from certain tax incentives, offset by higher effective foreign tax.

20. Status of uncompleted corporate proposals

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

21. Group borrowings and debt securities

	<u>As At</u> <u>31/07/2015</u>	<u>As At</u> <u>31/07/2014</u>
	RM'000	RM'000
(a) Obligations under finance leases - secured	657	2,413
Term loans – secured	72,701	70,126
Other loan – unsecured	-	1,374
	<u>73,358</u>	<u>73,913</u>
(b) Repayable within 12 months	40,375	37,141
Repayable after 12 months	32,983	36,772
	<u>73,358</u>	<u>73,913</u>
(c) Loans denominated in:		
United States Dollar (“USD”)	2,693	15,857
Ringgit Malaysia (“RM”)	70,665	58,056
	<u>73,358</u>	<u>73,913</u>

22. Changes in material litigation

Further to the announcement made on 2 June 2015, there were no changes in material litigation as at the date of this announcement.

23. Dividend

The Board recommends for shareholders’ approval at the forthcoming Annual General Meeting a final tax exempt dividend of 3.0 sen per share in respect of the financial year ended 31 July 2015.

24. Earnings per share

Basic earnings per ordinary share

The calculation of basic earnings per share for the year was based on the profit attributable to owners of the Company of RM17,031,000 and the weighted average number of 43,015,000 ordinary shares outstanding during the reporting year.

25. Realised and unrealised profits

	As at end of current quarter 31/07/2015	As at preceding financial year end 31/07/2014
	RM'000	RM'000
- Realised	234,984	225,669
- Unrealised	692	4,041
Total retained profits of the Company and its subsidiaries	235,676	229,710
Consolidation adjustments	(36,743)	(36,367)
Total group retained profits as per consolidated accounts	198,933	193,343

BY ORDER OF THE BOARD

Leong Oi Wah
Company Secretary

Petaling Jaya
Date : 22 September 2015