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 2012. 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 2012.

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 2012, except for the adoption of Malaysian Financial Reporting Standards (MFRS), Amendments to MFRS and IC Interpretations effective for financial year beginning 1 August 2012.

The application of the new/revised MFRS, Amendments to MFRS and IC Interpretations did not result in any material financial impact to the Group, except for below changes.

First time adoption of MFRS

These condensed consolidation interim financial reports are the Group's first MFRS condensed consolidated interim financial reports for part of the period covered by the Group's first MFRS annual financial statements for the year ended 31 July 2013. *MFRS 1: First time adoption of Malaysian Financial Reporting Standards ("MFRS 1")* has been applied.

In preparing its opening MFRS Statement of Financial Position as at 1 August 2011 (which is also the date of transition), the Group has adjusted the amounts previously reported in financial statements prepared in accordance with Financial Reporting Standards ("FRS"). An explanation of how the transition from FRS to MFRS has affected the Group's financial position is as set out below. These notes include reconciliations of equity for the comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS. The transition from FRS to MFRS has not had a material impact on the consolidated statement of comprehensive income and consolidated statement of cash flows.

Measurement of leasehold land and buildings at deemed cost

The Group's and the Company's leasehold land and buildings were revalued based on a valuation conducted by Colliers, Jordan Lee & Jaafar, a firm of independent professional valuers in April 2009. The valuers used the comparison method of valuation to determine the market value of the leasehold land and buildings. The surplus arising from this revaluation had been credited to revaluation reserve.

Upon transition to MFRS, the Group elected to measure its leasehold land and buildings using the cost model under *MFRS 116 Property, Plant and Equipment.* At the date of transition to MFRS, the Group elected to regard the revalued amount as deemed cost as these amounts were broadly comparable to fair value at that date. Consequently, the asset revaluation reserve of RM12,915,000 was transferred to retained earnings on the date of transition to MFRS.

2. Significant accounting policies (cont'd)

The reconciliations of equity for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS are provided below:

i. Reconciliation of equity as at 1 August 2011 (date of transition)

	FRS as at 1 August 2011 RM'000	Effects of adopting MFRS RM'000	MFRS as at 1 August 2011 RM'000
Asset revaluation reserve	12,915	(12,915)	-
Retained earnings	167,101	12,915	180,016

ii. Reconciliation of equity as at 31 July 2012

	FRS as at 31 July 2012 RM'000	Effects of adopting MFRS RM'000	MFRS as at 31 July 2012 RM'000
Asset revaluation reserve	12,915	(12,915)	-
Retained earnings	169,972	12,915	182,887

Segmental reporting

The Group has changed its basis of segmentation from two segments to one segment. From 1 August 2012 onwards, the only operating segment of the Group is burn-in, testing and electronic manufacturing services which is evaluated regularly by management in deciding how to allocate resources and in assessing performance of the Group.

In the financial statements for the financial year ended 31 July 2012, investment holding segment is disclosed in the segment information which comprises Group-level corporate services, treasury functions and investment in marketable securities, and consolidation adjustments which are not directly attributable to the burn-in, testing and electronic manufacturing services segment. The investment holding segment is not significant to be separately reported and evaluated by management.

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 2012 was not qualified.

4. Seasonality or cyclicality 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 2012, was paid on 6 February 2013.

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 financial year, the Group acquired property, plant and equipment amounted to RM37,806,000.

12. Significant related party transactions

	As at 31/07/2013 RM'000	As at 31/07/2012 RM'000
Transactions with Sunright Limited, a corporate shareholder in which certain Directors have financial interests, and its subsidiaries:		
Management fees charged by Sunright Limited	5,183	4,656
Interest on loan from Sunright Limited	117	117
Sales to:		
- KES Systems & Service (1993) Pte Ltd	251	471
- KES Systems, Inc.	42	48
Purchases from:		
- KES Systems & Service (1993) Pte Ltd	788	1,969
- Kestronics (M) Sdn Bhd	3	2,327
- KEST Systems & Service Ltd	-	17
- KES Systems, Inc.	405	-

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 RM3,999,000 as at 31 July 2013.

14. Profit before tax

	Individual period		Cumulative period	
	Current year quarter 31/07/2013	Preceding year corresponding quarter 31/07/2012	Current year to date 31/07/2013	Preceding year corresponding period 31/07/2012
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:				
After charging:				
Loss on disposal of property, plant and equipment	-	16	-	-
Fair value loss on investment securities held for trading	243	-	1,936	-
Plant and equipment written off	6	170	6	186
Inventories written down	-	1,222	160	1,822
Loss on disposal on investment securities held for trading	-	-	-	15
Net foreign exchange loss	-	382	-	-
Impairment of trade receivables	67	6,967	67	6,967
And crediting:				
Gain on disposal of property, plant and equipment	-	-	376	185
Fair value gain on investment securities held for trading	-	233	-	479
Gain on disposal on investment securities held for trading	302	-	1,039	-
Net foreign exchange gain	874	-	1,855	2,482

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 declined by RM5.3 million or 8%, from RM69.7 million in the preceding year's fourth quarter to RM64.4 million for the current quarter ended 31 July 2013 ("4QFY2013"), because of lower sales in electronic manufacturing services.

Other income increased by RM1.0 million or 56%, primarily due to an exchange gain of RM0.9 million recorded in the current quarter.

Raw materials and consumables used and changes in work-in-progress and finished goods were lower by RM5.3 million or 30%, from RM17.5 million to RM12.3 million, mainly because of lower material usage associated with reduced sales and absence of inventory written down.

Employee benefits expense was higher by RM2.4 million or 12%, mainly due to more hires of contract workers and adjustments to wage rates in response to the minimum wage rates in China and Malaysia.

Depreciation expense reduced by RM1.0 million or 7%, as certain plant, machinery and test equipment were fully depreciated.

Other expenses decreased by RM4.8 million or 24%, from RM20.0 million to RM15.2 million, mainly due to lower impairment loss of trade receivables by RM6.9 million, offset by higher utilities following absence of tariff rates, and increase in repair and maintenance expenses by RM0.4 million.

In effect, the Group's profit before tax improved by RM4.5 million, from RM0.5 million to RM5.0 million in 4QFY2013.

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

The Group's revenue increased by RM10.7 million or 5%, from RM236.9 million in the preceding year to RM247.6 million for the current financial year ended 31 July 2013, as a result of higher demand from burn-in, testing and electronic manufacturing services.

Other income reduced by RM3.4 million or 35%, primarily due to absence of a RM2.7 million incentive grant given by the China government for technology upgrade.

Raw materials and consumables used and changes in work-in-progress decreased by RM3.3 million or 6%, from RM37.5 million to RM39.5 million, because of lower inventory written down and material usage.

Employee benefits expense was higher by RM10.0 million or 15% mainly because of more hires of contract workers and adjustments to wage rates in response to the minimum wage rates in China and Malaysia.

Finance costs were lower by RM1.1 million or 34%, following repayments of loans and borrowings.

In effect, the Group's profit before tax improved by RM2.0 million or 17%, from RM12.0 million to RM14.0 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 RM5.0 million for the fourth quarter ended 31 July 2013, compared to RM3.1 million in the preceding quarter ended 30 April 2013.

The increase in profit before tax was mainly due to higher sales.

17. Prospects

World-wide semiconductor revenue is projected to improve to US$311 billion in 2013, representing a modest growth of 3.7% from 2012.

The global environment remains uncertain. The US economy is recovering well with the Fed signaling a halt to its “quantitative easing measures”. The Eurozone reported an end to its recession but expects a bumpy road ahead. On the other hand, the effects of a slowdown in China’s growth appears to dampen the global outlook.

Wage costs in Asia have also spiraled up particularly in Malaysia and China, where the Group operates in. The Group will continue to focus on its drive for productivity and costs improvements.

18. Profit forecast / profit guarantee

The Group was not subjected to any profit guarantee.

19. Taxation

	Individual Quarter		Cumulative Period	
	Current year quarter 31/07/2013	Preceding year corresponding quarter 31/07/2012	Current year to date 31/07/2013	Preceding year corresponding quarter 31/07/2012
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	(2,105)	(998)	1,349	1,374
- Foreign tax	(193)	831	2,116	3,979
- Under/(Over) provision in prior years	817	(126)	875	(159)
	(1,481)	(293)	4,340	5,194
Deferred tax				
- Relating to origination and reversal of temporary differences	(465)	1,943	(465)	(610)
- Under provision in prior years	708	14	708	14
	243	1,957	243	(596)
	(1,238)	1,664	4,583	4,598

The effective tax rate was higher than the statutory tax rate, mainly due to higher foreign tax and certain non-deductible expenses.

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

		As At 31/07/2013	As At 31/07/2012
		RM'000	RM'000
(a)	Obligations under finance leases - secured	4,293	2,199
	Term loans – secured	61,847	57,763
	Term loans – unsecured	-	890
	Other loan – unsecured	1,374	1,374
		67,514	62,226
(b)	Repayable within 12 months	29,954	26,958
	Repayable after 12 months	37,560	35,268
		67,514	62,226
(c)	Loans denominated in:		
	United States Dollar ("USD")	28,966	42,535
	Ringgit Malaysia ("RM")	38,548	19,691
		67,514	62,226

22. Changes in material litigation

Further to the announcement made on 9 May 2013 on the Demand for Arbitration made by Datamatic, Ltd as the Claimant and the Company's subsidiary, KESP Sdn Bhd as the Respondent, the Company's solicitors has informed that a trial date has been scheduled for mid-May 2014.

23. Dividend

The Board recommends for shareholders' approval at the forthcoming Annual General Meeting a first and final tax exempt dividend of 3.0 sen per share in respect of the financial year ended 31 July 2013.

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 parent of RM4,569,000 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 31/07/2013	As at preceding financial year end 31/07/2012
	RM'000	RM'000
- Realised	210,014	202,976
- Unrealised	6,182	6,555
Total retained earnings of the Company and its subsidiaries	216,196	209,531
Consolidation adjustments	(31,559)	(26,644)
Total group retained earnings as per consolidated accounts	184,637	182,887

BY ORDER OF THE BOARD

Leong Oi Wah
Company Secretary

Petaling Jaya
Date : 19 September 2013