

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.

Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities provide clarification and application guidance on legally enforceable right to set-off the financial assets and financial liabilities. These amendments are not expected to have any impact to the Group’s financial position or performance.

Amendments to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets remove the unintended consequences of *MFRS 13 Fair Value Measurement* on the disclosures required under MFRS 136 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (“CGUs”) for which an impairment loss has been recognised or reversed during the period. As this is a disclosure standard, it will not have any impact to the Group’s financial position or performance.

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 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

There were no dividends paid during the current financial year-to-date.

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 property, plant and equipment amounted to RM40,149,000.

12. Significant related party transactions

	As at 31/10/2014 RM'000	As at 31/10/2013 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	1,283	1,301
Interest on loan from Sunright Limited	29	29
Sales to:		
- KES Systems & Service (1993) Pte Ltd	20	68
Purchases from:		
- KES Systems & Service (1993) Pte Ltd	74	1,255
- KEST Systems & Service Ltd	-	283
- Kestronics (M) Sdn Bhd	6	-
- KES Systems & Service (Shanghai) Co., Ltd	75	-
- KESU Systems & Service, Inc.	240	-

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 RM2,777,000 as at 31 October 2014.

14. Profit before tax

	Individual period		Cumulative period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding period
	31/10/2014	31/10/2013	31/10/2014	31/10/2013
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:				
After charging:				
Net fair value loss on investment securities held for trading	1,447	24	1,447	24
Loss on disposal of property, plant and equipment	158	-	158	-
Plant and equipment written off	-	1	-	1
And crediting:				
Reversal of impairment loss on trade receivables	21	27	21	27
Gain on disposal of investment securities held for trading	697	327	697	327
Net foreign exchange gain	68	452	68	452

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

15. Detailed analysis of Group performance

The Group's revenue increased by RM4.4 million or 7%, from RM64.8 million in the preceding year's first quarter to RM69.2 million for the quarter ended 31 October 2014. The improvement was mainly due to higher demand from burn-in and testing services.

Raw materials and consumables used and changes in work-in-progress and finished goods reduced by RM3.5 million or 29%, from RM11.9 million to RM8.4 million, mainly because of lower electronic manufacturing services sales.

Employee benefits expense was higher by RM3.2 million or 15%, mainly due to higher wage rates and staff compensation.

Depreciation increased by RM1.4 million or 11%, because of additions in plant, machinery and test equipment.

Other expenses were higher by RM2.5 million or 16%, mainly due to higher fair value loss on investment securities of RM1.4 million, higher repair and maintenance expenses of RM0.5 million to support increased sales, and increased electricity costs of RM0.7 million due to higher electricity rates.

Consequently, the Group's profit before tax improved by RM0.7 million or 13%, from RM5.2 million to RM5.9 million in the 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 RM5.9 million for the first quarter ended 31 October 2014, compared to RM9.4 million in the preceding quarter ended 31 July 2014.

The decrease in profit before tax by RM3.5 million is primarily due to (i) the unfavourable fair value variance on investment securities of RM1.8 million, (ii) higher employee benefits expense of RM2.9 million as a result of higher wage rates and staff compensation, offset by (iii) lower raw materials and consumables used and changes in work-in-progress and finished goods of RM1.2 million, following the lower sales from electronic manufacturing services.

17. Prospects

World-wide semiconductor revenue is estimated to reach USD338 billion in 2014, representing a growth of 7.3% from USD315 billion in 2013. This projection is a 0.6% improvement from the previous forecast of 6.7%.

However, the current global economic climate remains uncertain in the major economies. International Monetary Fund had further marked down its global growth projection by 0.1% to 3.3%, from its previous quarter's forecast reported in its July 2014 report.

Nevertheless, the Group remains focused to grow and serve world-class automotive semiconductor manufacturers and continue strengthening on our core competencies in the burn-in and test services.

18. Profit forecast / profit guarantee

The Group was not subjected to any profit guarantee.

19. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter 31/10/2014 RM'000	Preceding year corresponding quarter 31/10/2013 RM'000	Current year to date 31/10/2014 RM'000	Preceding year corresponding quarter 31/10/2013 RM'000
Current income tax				
- Malaysian income tax	989	1,010	989	1,010
- Foreign tax	552	662	552	662
	<u>1,541</u>	<u>1,672</u>	<u>1,541</u>	<u>1,672</u>

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

20. Status of uncompleted corporate proposals

The Company has proposed to seek the approval of the shareholders for the Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a revenue or trading nature and the Proposed New Shareholders' Mandate for Additional Recurrent Related Party Transaction of a revenue or trading nature (collectively "Proposed Renewal") at the Extraordinary General Meeting to be convened immediately following the conclusion of the Company's Annual General Meeting to be held on 15 January 2015. A circular which set out the details of the Proposed Renewal had been issued to shareholders of the Company on 29 October 2014.

21. Group borrowings and debt securities

	<u>As at</u> 31/10/2014	<u>As at</u> 31/07/2014
	RM'000	RM'000
(a) Obligations under finance leases - secured	1,928	2,413
Term loans - secured	61,370	70,126
Other loan - unsecured	2,443	1,374
	<u>65,741</u>	<u>73,913</u>
(b) Repayable within 12 months	36,788	37,141
Repayable after 12 months	28,953	36,772
	<u>65,741</u>	<u>73,913</u>
(c) Loans denominated in:		
United States Dollar ("USD")	12,433	15,857
Ringgit Malaysia ("RM")	53,308	58,056
	<u>65,741</u>	<u>73,913</u>

22. Changes in material litigation

Further to the announcement made on 18 September 2014, there were no changes in material litigation as at the date of this announcement.

23. Dividend

No interim dividend has been declared for the financial quarter ended 31 October 2014.

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 RM2,759,000 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 31/10/2014	As at preceding financial year end 31/07/2014
	RM'000	RM'000
- Realised	233,088	225,669
- Unrealised	1,613	4,041
Total retained profits of the Company and its subsidiaries	234,701	229,710
Consolidation adjustments	(38,599)	(36,367)
Total group retained profits as per consolidated accounts	196,102	193,343

BY ORDER OF THE BOARD

Leong Oi Wah
Company Secretary

Petaling Jaya
Date : 24 November 2014