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 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/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 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 ending 31 July 2015, was declared on 12 February 2015 and would be payable on 10 April 2015 to shareholders whose shares are registered in the Record of Depositors as of 23 March 2015.

9. Events not reflected in the financial statements

Except as disclosed in Note 8 and 20, 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 RM59,606,000, and disposed plant and equipment of net book value amounting to RM1,715,000.

12. Significant related party transactions

	As at 31/01/2015 RM'000	As at 31/01/2014 RM'000
Transactions with Sunright Limited, immediate holding company of the Group and its subsidiaries:		
Management fees charged by Sunright Limited	2,651	2,880
Interest on loan from Sunright Limited	59	59
Sales to:		
- KES Systems & Service (1993) Pte Ltd	20	129
Purchases from:		
- KES Systems & Service (1993) Pte Ltd	123	81
- Kestronics (M) Sdn Bhd	19	4
- KESU Systems & Service, Inc.	249	-
- KES Systems, Inc.	-	283
- KEST Systems & Service Ltd	50	-
- KES Systems & Service (Shanghai) Co., Ltd	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 RM16,769,000 as at 31 January 2015.

14. Profit before tax

	Individual period		Cumulative period	
	Current year quarter 31/01/2015	Preceding year corresponding quarter 31/01/2014	Current year to date 31/01/2015	Preceding year corresponding period 31/01/2014
	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	619	1,991	643
Plant and equipment written off	-	88	-	89
Net foreign exchange loss	-	269	-	-
And crediting:				
Gain on disposal of property, plant and equipment	57	-	-	-
Gain on disposal on investment securities held for trading	-	-	697	327
Reversal of impairment loss on trade receivables	-	-	21	27
Net foreign exchange gain	814	-	882	183

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 improved by RM0.3 million from RM61.8 million in the preceding year's second quarter to RM62.1 million for the current quarter ended 31 January 2015 ("2QFY2015") mainly because of higher demand from burn-in and testing services.

Interest income decreased by RM0.2 million or 19% due to lower deposits.

Other income was higher by RM0.9 million, mainly due to an exchange gain of RM0.8 million arising from an appreciation of US Dollars against Malaysian Ringgit on US Dollars denominated receivables.

Raw materials and consumables used and changes in work-in-progress decreased by RM3.5 million or 33%, from RM10.8 million to RM7.3 million, because of lower sales from electronic manufacturing services.

Employee benefits expense was higher by RM1.0 million or 5%, mainly due to higher wage rates and staff compensation.

Depreciation increased by RM1.6 million or 12%, as additional machinery and test equipment were purchased during the year.

Other expenses decreased by RM1.0 million or 6%, from RM17.0 million to RM16.1 million, mainly due to lower repair and maintenance expenses by RM0.6 million, and absence of an exchange loss of RM0.3 million.

Consequently, the Group's profit before tax was higher by RM2.8 million, from RM1.4 million to RM4.2 million in 2QFY2015.

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

The Group's revenue increased by RM4.6 million or 4%, from RM126.6 million in the preceding year's corresponding period to RM131.3 million for the current financial period ended 31 January 2015, as a result of higher demand from burn-in and testing services.

Interest income decreased by RM0.3 million or 15%, due to lower deposits.

Other income was higher by RM1.2 million or 68%, primarily due to higher exchange gain of RM0.7 million, arising from an appreciation of US Dollars against Malaysian Ringgit on US Dollars denominated receivables, as well as higher gain on disposal of investment securities by RM0.4 million.

Raw materials and consumables used and changes in work-in-progress decreased by RM7.0 million or 31%, from RM22.7 million to RM15.7 million, because of reduced electronic manufacturing services sales.

Employee benefits expense was higher by RM4.2 million or 10% mainly because of higher wage rates and staff compensation.

Depreciation was higher by RM2.9 million or 11%, as additional machinery and test equipment were purchased during current financial period.

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

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

Other expenses increased by RM1.8 million or 6%, mainly due to higher fair value loss on investment securities by RM1.3 million, and stamp duty fees of RM0.3 million incurred for securing additional term loans in the current financial period.

Consequently, the Group's profit before tax improved by RM3.5 million or 52%, from RM6.7 million to RM10.1 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 RM4.2 million for the second quarter ended 31 January 2015, compared to RM5.9 million in the preceding quarter ended 31 October 2014.

The decrease in profit before tax by RM1.7 million was mainly due to (i) lower sales, offset by (ii) lower employee benefits expense by RM2.8 million due to reduced headcount, (iii) higher exchange gain of RM0.7 million, and (iv) lower electricity costs and repairs and maintenance expenses by RM0.9 million following lower sales.

17. Prospects

World-wide semiconductor revenue is projected to reach USD358 billion in 2015, representing a growth of 5.4% from USD339.8 billion in 2014.

The International Monetary Fund has projected moderate GDP growth in 2015 which aligns well for the semiconductor industry outlook. The United States economy has raised its growth projections and the global growth is expected to benefit from the lower oil prices. However, the prolonged weakness in demand and low inflation or the possibility of deflation in the Eurozone and Japan, and the uncertainty over monetary policy adjustments in key advanced economies are still key concerns.

The Group will continue with its vigilant and innovative efforts to render customer service par excellence. In particular focus will be given to testing services for microchips used in automotives following the encouraging growth prospects of the global car market.

18. Profit forecast / profit guarantee

The Group was not subjected to any profit guarantee.

19. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter 31/01/2015	Preceding year corresponding quarter 31/01/2014	Current year to date 31/01/2015	Preceding year corresponding quarter 31/01/2014
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	728	(272)	1,717	738
- Foreign tax	356	436	908	1,098
- Over provision in prior years	-	(58)	-	(58)
	1,084	106	2,625	1,778
Deferred tax				
- Relating to origination and reversal of temporary differences	-	-	-	-
	1,084	106	2,625	1,778

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

On 13 February 2015, the Company announced it had entered into a conditional share sale agreement with Sunright Limited (“Sunright”) to acquire the remaining 692,308 ordinary shares of RM1.00 each in KESM Test (M) Sdn Bhd (“KESM Test”), representing approximately 34.62% of the equity interest not already owned by the Company, for a total cash consideration of RM35.0 million (“Proposed Acquisition”). KESM Test is currently an approximately 65.38% subsidiary of the Company.

The Proposed Acquisition is subject to among others, the approval of the shareholders of the Company and Sunright and the Ministry of Trade and Industry (“MITI”). KESM Test had submitted the application to MITI on 16 February 2015 and approval is pending.

The Company will convene an Extraordinary General Meeting (“EGM”) to seek the approval of the shareholders for the Proposed Acquisition and a circular will be dispatched to shareholders in due course.

21. Group borrowings and debt securities

		As At 31/01/2015	As At 31/07/2014
		RM'000	RM'000
(a)	Obligations under finance leases - secured	1,457	2,413
	Term loans – secured	86,142	70,126
	Other loan – unsecured	1,374	1,374
		88,973	73,913
(b)	Repayable within 12 months	49,203	37,141
	Repayable after 12 months	39,770	36,772
		88,973	73,913
(c)	Loans denominated in:		
	United States Dollar ("USD")	10,042	15,857
	Ringgit Malaysia ("RM")	78,931	58,056
		88,973	73,913

22. Changes in material litigation

Further to the announcement made on 24 November 2014, there were no changes in material litigation as at the date of this announcement.

23. Dividend

There is 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 parent of RM4,848,000 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 31/01/2015	As at preceding financial year end 31/07/2014
	RM'000	RM'000
- Realised	234,186	225,669
- Unrealised	2,997	4,041
Total retained profits of the Company and its subsidiaries	237,183	229,710
Consolidation adjustments	(40,840)	(36,367)
Total group retained profits as per consolidated accounts	196,343	193,343

BY ORDER OF THE BOARD

Leong Oi Wah
Company Secretary

Petaling Jaya
Date : 11 March 2015