

K-One

K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 30 JUNE 2014**

**Condensed Consolidated Statements of Comprehensive Income
For The Second Quarter Ended 30 June 2014**

Figures in RM'000	3 months ended		6 months ended	
	30.06.2014 Unaudited	30.6.2013 Unaudited	30.06.2014 Unaudited	30.6.2013 Unaudited
Operating revenue	37,085	35,728	82,971	71,814
Cost of sales	(31,392)	(32,634)	(70,644)	(71,448)
Gross profit	5,693	3,094	12,327	366
Other income	69	3,773	148	4,237
Operating expenses	(3,398)	(3,077)	(6,659)	(6,031)
Profit / (Loss) from operations	2,364	3,790	5,816	(1,428)
Finance costs	(160)	(397)	(371)	(776)
Profit / (Loss) before tax	2,204	3,393	5,445	(2,204)
Income tax expense	-	-	-	-
Profit / (Loss) for the period	2,204	3,393	5,445	(2,204)
Non-controlling interests	-	-	-	-
Profit / (Loss) after tax after Non-controlling interests	2,204	3,393	5,445	(2,204)

Profit / (Loss) attributable to:

Owners of the Parent	2,204	3,393	5,445	(2,204)
Non-controlling interests	-	-	-	-
	2,204	3,393	5,445	(2,204)

Profit / (Loss) per share (EPS)

Attributable to owners
of the Parent (sen):

Basic EPS	0.59	0.91	1.45	(0.59)
Diluted EPS	0.46	0.71	1.15	(0.46)

Condensed Consolidated Statements of Comprehensive Income (Cont'd)
For The Second Quarter Ended 30 June 2014

Figures in RM'000	3months ended		6 months ended	
	30.06.2014 Unaudited	30.6.2013 Unaudited	30.06.2014 Unaudited	30.6.2013 Unaudited
Profit / (Loss) for the period	2,204	3,393	5,445	(2,204)
Items that may be subsequently reclassified to profit or loss	-	-	-	-
Foreign currency translation	4	(4)	1	14
Total comprehensive income / (loss)	2,208	3,389	5,446	(2,190)

Profit / (loss) attributable to:

Owners of the Parent	2,208	3,389	5,446	(2,190)
Non-controlling interests	-	-	-	-
	2,208	3,389	5,446	(2,190)

The above condensed consolidated statements of comprehensive income statement should be read in conjunction with the audited financial statements for the year ended 31 December 2013 and the accompanying explanatory notes attached to the interim financial statements.

Condensed Consolidated Statements of Financial Position
As At 30 June 2014

Figures in RM'000	Unaudited 30.06.2014	Audited 31.12.2013
ASSETS		
<i>Non-Current Assets</i>		
Property, plant and equipment	16,170	17,210
Intangible assets	995	917
Goodwill	5,546	5,546
Non-Current Assets	22,711	23,673
<i>Current Assets</i>		
Inventories	17,732	20,806
Trade receivables	28,845	45,573
Other receivables	637	962
Tax recoverable	239	300
Cash and bank balances	13,673	13,103
Total Current Assets	61,126	80,744
TOTAL ASSETS	83,837	104,417

EQUITY AND LIABILITIES		
<i>Equity</i>		
Share capital	37,455	37,455
Share premium	3,596	3,596
Warrant reserves	1,405	1,405
Other reserves	(120)	(121)
Retained earnings	6,567	1,122
Equity Attributable to Owners of the Parent	48,903	43,457
Non-controlling interests	-	-
Total Equity	48,903	43,457

Condensed Consolidated Statements of Financial Position (Cont'd)
As At 30 June 2014

Figures in RM'000	Unaudited 30.06.2014	Audited 31.12.2013
EQUITY AND LIABILITIES		
<i>Non-Current Liabilities</i>		
Deferred tax liability	131	131
Bank borrowings	963	1,074
Non-Current Liabilities	1,094	1,205
<i>Current Liabilities</i>		
Trade payables	25,875	40,527
Other payables and accruals	344	449
Amount due to Directors	2	2
Bank overdraft	2,214	4,041
Bank borrowings	5,405	14,732
Tax payables	-	4
Current Liabilities	33,840	59,755
Total Liabilities	34,934	60,960
TOTAL EQUITY AND LIABILITIES	83,837	104,417
Net assets per share attributable to Owners of the Parent (sen)	13.06	11.60

The above condensed consolidated statements of financial position should be read in conjunction with the audited financial statements for the year ended 31 December 2013 and the accompanying explanatory notes attached to the interim financial statements.

**Condensed Consolidated Statements of Changes in Equity
For The Second Quarter Ended 30 June 2014**

Figures in RM'000	<-----Attributable to Owners of the Parent ----->							Non-controlling Interest	Total Equity
	Share Capital	Non-distributable Share Premium	Warrant Reserve	Reserve	Distributable Retained Profits	Total			
At 1 January 2014	37,455	3,596	1,405	(121)	1,122	43,457	-	43,457	
Exchange difference arising from foreign subsidiary companies	-	-	-	1	-	1	-	1	
Net profit for the period	-	-	-	-	5,445	5,445	-	5,445	
	-	-	-	(1)	5,445	5,446	-	5,446	
At 30 June 2014	37,455	3,596	1,405	(120)	6,567	48,903	-	48,903	

Figures in RM'000	<-----Attributable to Owners of the Parent ----->							Non-controlling Interest	Total Equity
	Share Capital	Non-distributable Share Premium	Warrant Reserve	Reserve	Distributable Retained Profits	Total			
At 1 January 2013	37,455	3,596	1,405	(103)	108	42,461	-	42,461	
Exchange difference arising from foreign subsidiary companies	-	-	-	14	-	14	-	14	
Net (loss) for the period	-	-	-	-	(2,204)	(2,204)	-	(2,204)	
	-	-	-	14	(2,204)	(2,190)	-	(2,190)	
At 30 June 2013	37,455	3,596	1,405	(89)	(2,096)	40,271	-	40,271	

The above condensed consolidated statements of changes in equity should be read in conjunction with the audited financial statements for the year ended 31 December 2013 and the accompanying explanatory notes attached to the interim financial statements.

Condensed Consolidated Statements of Cash Flows
For The Second Quarter Ended 30 June 2014

Figures in RM'000	6 months ended	
	30.06.2014	30.6.2013
CASH FLOW FROM OPERATING ACTIVITIES		
<i>Profit / (loss) before taxation</i>	5,445	(2,204)
Adjustments for:		
Depreciation of property, plant and equipment	1,225	1,168
Amortization of intangible assets	43	29
Interest expenses	371	777
Interest income	(1)	(1)
Gain on early settlement of hire purchase	(9)	-
Gain on disposal of property, plant and equipment	(45)	(337)
Foreign exchange loss / (gain) – unrealized	305	(123)
Operating profit before working capital changes	7,334	(691)
Changes in working capital		
Decrease in inventory	3,074	8,846
Decrease in receivables	15,565	8,544
Decrease in payables	(13,575)	(4,735)
Cash generated from operations	12,398	11,964
Interest paid	(371)	(777)
Taxation paid	57	(53)
<i>Net cash from operating activities</i>	12,084	11,134

Condensed Consolidated Statements of Cash Flows (Cont'd)
For The Second Quarter Ended 30 June 2014

Figures in RM'000	6 months ended	
	30.06.2014	30.6.2013
CASH FLOW FROM INVESTING ACTIVITIES		
Interest income	1	1
Purchase of property, plant and equipment	(330)	(1,205)
Proceeds from disposal of property, plant and equipment	71	1,900
Net cash (used in) investing activities	(258)	696
CASH FLOW FROM FINANCING ACTIVITIES		
Net repayment of borrowings	(9,430)	(7,133)
Net cash (used in) financing activities	(9,430)	(7,133)
Net increase in cash and cash equivalents	2,396	4,697
Effect of exchange rate changes	1	(18)
Cash and cash equivalents at beginning of the period	9,062	4,103
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	11,459	8,782

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figures in RM'000	6 months ended	
	30.06.2014	30.6.2013
Cash and Bank Balances	13,673	13,459
Overdraft	(2,214)	(4,677)
	11,459	8,782

The above condensed consolidated statements of cash flows should be read in conjunction with the audited financial statements for the year ended 31 December 2013 and the accompanying explanatory notes attached to the interim financial statements.

Part A: Explanatory Notes Pursuant to Financial Reporting Standard 134 (“FRS 134”) - Interim Financial Reporting

1. BASIS OF PREPARATION

The interim financial statements are unaudited and has been prepared in accordance with MFRS 134 – Interim Financial Reporting issued by the Malaysian Accounting Standards Board (MASB) and Rule 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Securities) for the ACE Market and should be read in conjunction with the audited statutory financial statements presented for the financial year ended 31 December 2013.

The accounting policies and presentation adopted for this interim report are consistent with those adopted in the audited financial statements for the financial year ended 31 December 2013.

2. AUDITORS’ REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENT

The audited financial statements of the preceding financial year were not subjected to any qualification.

3. COMMENTS ABOUT SEASONAL OR CYCLICAL FACTORS

The Group’s business, being predominantly export in nature and caters largely for the consumer electronics market, is subject to seasonal fluctuations. Business in the second half of the year is normally stronger than the first half of the year due to surge in consumer demand during Christmas and New Year seasons overseas.

4. UNUSUAL ITEM DUE TO THEIR NATURE, SIZE OR INCIDENCE

During the quarter under review, there were no unusual items affecting assets, liabilities, equity, net income or cash flows to the effect that is unusual in nature, size or incidence.

5. MATERIAL ESTIMATES AND CHANGES IN ESTIMATES

There were no changes in estimates that have had any material effect on the financial year-to-date results.

6. ISSUANCE OR REPAYMENT OF DEBT AND EQUITY SECURITIES

There were no issuances, repurchases and repayments of debt securities during the period under review and up to the date of this report.

7. DIVIDENDS PAID

For the quarter under review, there were no dividends declared.

8. Notes to Consolidated Statement of Comprehensive Income

Figures in RM'000	3 months ended		6 months ended	
	30.06.2014	30.6.2013	30.06.2014	30.6.2013
Depreciation of property, plant and equipment	(608)	(566)	(1,225)	(1,168)
Amortization of intangible assets	(24)	(17)	(43)	(29)
Interest expenses	(160)	(397)	(371)	(777)
Gain on disposal of property, plant and equipment	40	336	45	337
Gain on early settlement of hire purchase	45	-	45	-
Foreign exchange (loss) / gain – unrealized	(289)	(306)	(305)	123
Interest income	-	1	1	1

9. SEGMENT INFORMATION

Segment information is provided based on contribution by activities, sales contribution by geography and sales by major customers. Expenses, assets and liabilities which are common and cannot be meaningfully allocated to the segments are presented under unallocated expenses, assets and liabilities respectively.

(a) The segmental information for the financial period ended 30 June 2014 is as follows:-

	Research, D&D and Sales RM'000	Manu- facturing RM'000	Digital Pen & Paper Solutions RM'000	Invest- ment Holding RM'000	Elimina- tion RM'000	Total RM'000
Revenue						
External Revenue	1,170	81,801	-	-	-	82,971
Total operating sales	1,170	81,801	-	-	-	82,971
Other income	27	121	-	-	-	148
	1,197	81,922	-	-	-	83,119
Results						
Segment results	(456)	6,289	(4)	(13)	-	5,816
Finance costs	-	(211)	-	-	-	(371)
Income tax	-	-	-	-	-	-
Profit after tax						5,445
Other information						
Segment assets	6,305	76,832	171	290		83,598
Unallocated assets						239
Total assets						83,837
Segments liabilities	423	25,773	8	15		26,219
Unallocated liabilities						8,715
Total liabilities						34,934

9. SEGMENT INFORMATION (Cont'd)

(b) The segmental information for the financial period ended 30 June 2013 is as follows:-

	Research, D&D and Sales RM'000	Manu- facturing RM'000	Digital Pen & Paper Solutions RM'000	Invest- ment holding RM'000	Elimina- tion RM'000	Total RM'000
Revenue						
External Revenue	1,623	70,191	-	-	-	71,814
Internal Revenue		512			(512)	-
Total operating sales	1,623	70,703	-	-	(512)	71,814
Other income	44	4,193	-	-	-	4,237
	1,667	74,896	-	-	(512)	76,051
Results						
Segment results	181	(1,517)	(38)	(54)	-	(1,428)
Finance costs	-	(211)	-	-	-	(776)
Income tax	-	-	-	-	-	-
Profit after tax						(2,204)
Other information						
Segment assets	9,806	82,087	298	315	-	92,506
Unallocated assets						366
Total assets						92,872
Segments liabilities	520	31,579	71	18	-	32,188
Unallocated liabilities						20,413
Total liabilities						52,601

(c) Sales Contribution by Geography

The geographical sales breakdown are as follows:

	6 months ended	
	30.06.2014 RM'000	30.6.2013 RM'000
Malaysia	831	904
Europe	47,468	39,397
USA	892	1,868
Oceania	180	9
Africa	79	16
Middle East	34	14
North Asia	33,487	29,606
	82,971	71,814

9. SEGMENT INFORMATION(Cont'd)

(d) Sales to Major Customers

For the 6 months ended 30 June 2014, 3 major customers contributed RM 67 million, representing approximately 81% of total sales revenue (2013: RM 60 million, representing 83% of total sales revenue).

10. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

There was no revaluation of property, plant and equipment during the financial quarter under review.

11. CHANGES IN COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the financial quarter ended 30 June 2014.

12. CONTINGENT ASSETS & LIABILITIES

As at the end of the quarter under review, the corporate guarantee for credit facilities granted to subsidiary companies were :-

	RM'000
K-One Industry Sdn Bhd	<u>28,756</u>
	<u>28,756</u>

13. CAPITAL COMMITMENTS

There were no material capital commitments for the period under review.

14. SUBSEQUENT EVENT

There are no subsequent events which have a material impact on the financial statements under review.

15. PERFORMANCE REVIEW

(a) Current quarter compared to the corresponding quarter of last year (2Q'14 vs 2Q'13)

For the second quarter ended 30 June 2014, the Group achieved sales revenue of RM 37.1 million as compared to sales revenue of RM 35.7 million for the corresponding quarter last year. The increase of 4 % in sales was mainly attributed to the rising demand of mobile phone accessories, contributions from new consumer electronic products' customers and also health-care devices' customers.

The Group registered profit attributable to equity holders of the parent company of RM 2.2 million as compared to the same of RM 3.4 million for the corresponding quarter last year. However, discounting the insurance claim reimbursement of RM 3.3 million in the same quarter last year, profit from the operations only stood at RM 0.1 million. Hence, for a like-to-like comparison, profit from the operations improved by 2100 % (ie. RM 2.2 million vs RM 0.1 million). The improved profit was mainly attributed to the measures taken in reducing materials cost, cutting expenses and divesting from the unprofitable household appliances' wire-harness system business. The launching of new product lines for specific customers also helped to improve profitability.

(b) Current quarter versus the preceding quarter (2Q'14 vs 1Q'14)

Sales revenue for the second quarter ended 30 June 2014 at RM 37.1 million was 19 % lower than the preceding quarter of RM 45.9 million. The decline in sales was mainly attributed to the phasing out of production of 2 product lines relating to network cameras and the temporary slowing down of demand for electronic headlamps. The delay in specific new products launch by certain customers hampered the ramp up of mass production, thus, dampening sales growth for the quarter concerned. Consequently, the mass production ramp up is scheduled to be pushed forward to the next quarter to complement the revised new products launch dates.

The Group registered profit attributable to equity holders of the parent company of RM 2.2 million as compared to the same of RM 3.2 million in the preceding quarter, representing a 31% decline in profitability. The decreased profit was mainly due to a decline in sales turnover and the higher operating expenses caused by increased travelling and marketing expenses spent to pitch for new sales overseas.

16. COMMENTARY ON PROSPECTS AND TARGETS

Although there is a dip in sales in the second quarter of 2014 as compared to the first quarter of 2014, nevertheless, it registered sales growth of 4% as compared to the same (second) quarter in 2013. For the first half of 2014, Group sales increased by 16% to RM 83 million as compared to RM 71.8 million in the first half of 2013. This is encouraging and we expect sales to pick up further in the second half of 2014. The Group anticipates the new products launched in the mobile phone accessories sector to scale up production substantially in the second half of 2014 to meet the escalating demand of smart mobile phones worldwide.

Furthermore, with the global economy showing signs of sustained recovery, we expect the temporary slow down in demand of electronic headlamps to pick up steam in the second half of 2014. It is also expected that the new customers from the consumer electronics and health-care sectors to make a stronger sales impact in the second half of 2014 as mass production ramps up. Therefore, the sales for the second half of 2014 is expected to be far stronger than that of the first half. In any event, historically, the second half sales has always been much higher than the first half as there is a surge in demand to meet the year end festive seasons in Europe and the US.

With respect to profitability, the Group registered profit of RM 5.4 million in the first half of 2014 which represents a major turnaround from the loss of RM 2.2 million in the first half of 2013. The Group expects its profitability to be sustainable for the balance of the year. It will continue to be prudent and will follow through with its cost reduction exercise, expense/overhead control, productivity improvement, business risk mitigation and sales price management. It is expected that foreign currency fluctuation, particularly, the USD vs MYR would positively or negatively affect profitability depending on the strength or weakness of the USD. In this regard, the Group continues to mitigate this risk to the best it can through natural hedging ie paying the suppliers in the same USD currency as its receiving remittances. Nonetheless, it will still have some exposure to currency fluctuations.

17. INCOME TAX EXPENSE

Income tax is calculated at the Malaysian statutory tax rate of 25% of the estimated assessable profit for the year.

There is no provision for subsidiaries that have available unabsorbed business losses.

18. SALES OF UNQUOTED SECURITIES AND PROPERTIES

There were no purchases or disposal of unquoted securities during the quarter and financial year to-date. The Group has not disposed off any properties for the current quarter.

19. QUOTED SECURITIES

There were no purchases or disposal of quoted securities during the financial quarter under review.

20. CORPORATE PROPOSALS

There are no corporate proposals announced but not completed as at the reporting date.

21. BORROWINGS AND DEBTS SECURITIES

Particulars of the Group's borrowings denominated in Ringgit Malaysia as at 30 June 2014 are as follows:

	RM'000
<i>Short term borrowings</i>	
Bankers' Acceptance	4,265
Revolving Credits	820
Bank Overdraft	2,214
Term Loan	320
Hire-Purchase Payables	-
	7,619
<i>Long term borrowings</i>	
Term Loan	963
Hire-Purchase Payables	-
	963
Total Borrowings	8,582

22. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

As at the end of the current quarter and up to the date of this report, there is no off balance sheet financial instruments which have a material impact to the financial statements under review.

23. CHANGES IN MATERIAL LITIGATION

As at the date of this report, the Group is not engaged in any material litigation as plaintiff or defendant and the Directors do not have any knowledge of any proceedings pending or threatened against the Group.

24. PROPOSED DIVIDEND

There is no dividend proposed in the current quarter and the previous corresponding quarter.

25. REALISED AND UNREALISED PROFITS / LOSSES

As at the end of the current quarter under review ended 30 June 2014, the realized and unrealized profits are as follows:

	6 months ended 30.06.2014 RM'000
Realised profit / (loss)	6,872
Unrealised profit / (loss)	(305)
Total Retained Profit	6,567

As at the end of the previous financial period ended 31 March 2013, the realized and unrealized profits are as follows:

	6 months ended 30.6.2013 RM'000
Realised profit / (loss)	(2,219)
Unrealised profit / (loss)	123
Total Retained Profit	(2,096)

26. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profits for the period attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	3 months ended		6 months ended	
	30.06.2014	30.6.2013	30.06.2014	30.6.2013
Profit / (loss) attributable to equity holders of the parent (RM'000)	2,204	3,393	5,445	(2,204)
Weighted average number of Ordinary Shares in issue '000)	374,548	374,548	374,548	374,548
Basic Earnings /(loss) Per Ordinary Share (sen)	0.59	0.91	1.45	(0.59)

26. EARNINGS PER SHARE (cont'd)

(b) Diluted earnings per share

For the purpose of calculating diluted earnings per share, the weighted average number of shares has been adjusted for the dilutive effects of the shares options granted to the employees and warrants.

	3 months ended		6 months ended	
	30.06.2014	30.6.2013	30.06.2014	30.6.2013
Profit /(loss) attributable to equity holders of the parent (RM'000)	2,204	3,393	5,445	(2,204)
Weighted average number of Ordinary Shares in issue ('000)	374,548	374,548	374,548	374,548
Effect of dilution of share options and warrants ('000)	100,726	100,726	100,726	100,726
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	475,274	475,274	475,274	475,274
Diluted Earnings /(loss) Per Ordinary Share (sen)	0.46	0.71	1.15	(0.46)

27. AUTHORIZED FOR ISSUE

The interim financial statements are authorized for issue by the Board of Directors in accordance with a resolution of the Directors on 22 August 2014.

BY ORDER OF THE BOARD
NG YIM KONG (LS 0009297)
Company Secretary
Dated: 22 August 2014.