

K-One

K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FIRST QUARTER ENDED 31 MARCH 2015**

**Condensed Consolidated Statements of Comprehensive Income
For The First Quarter Ended 31 March 2015**

Figures in RM'000	3 months ended		3 months ended	
	31.03.2015 Unaudited	31.03.2014 Unaudited	31.03.2015 Unaudited	31.03.2014 Unaudited
Operating revenue	32,623	45,886	32,623	45,886
Cost of sales	(30,358)	(39,252)	(30,358)	(39,252)
Other income	2,265	6,634	2,265	6,634
Interest income	9	78	9	78
Operating expenses	75	1	75	1
Profit from operations	(1,503)	(3,261)	(1,503)	(3,261)
Finance costs	846	3,452	846	3,452
Profit before tax	-	(211)	-	(211)
Income tax expense	846	3,241	846	3,241
Profit for the period	(326)	-	(326)	-
Non-controlling interests	520	3,241	520	3,241
Profit after tax after Non-controlling interests	520	3,241	520	3,241

Profit attributable to:

Owners of the Parent	520	3,241	520	3,241
Non-controlling interests	-	-	-	-
	520	3,241	520	3,241

Profit per share (EPS)
Attributable to owners
of the Parent (sen):

Basic EPS	0.12	0.87	0.12	0.87
Diluted EPS	0.11	0.68	0.11	0.68

Condensed Consolidated Statements of Comprehensive Income (Cont'd)
For The First Quarter Ended 31 March 2015

Figures in RM'000	3 months ended		3 months ended	
	31.03.2015 Unaudited	31.03.2014 Unaudited	31.03.2015 Unaudited	31.03.2014 Unaudited
Profit for the period	520	3,241	520	3,241
Items that may be subsequently reclassified to profit or loss				
Foreign currency translation	14	(3)	14	(3)
Total comprehensive income	534	3,238	534	3,238
Profit attributable to:				
Owners of the Parent	534	3,238	534	3,238
Non-controlling interests	-	-	-	-
	534	3,238	534	3,238

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 2014 and the accompanying explanatory notes attached to the interim financial statements.

**Condensed Consolidated Statements of Financial Position
As At 31 March 2015**

Figures in RM'000	Unaudited 31.03.2015	Audited 31.12.2014
ASSETS		
<i>Non-Current Assets</i>		
Property, plant and equipment	15,534	16,240
Intangible assets	486	513
Goodwill	5,546	5,546
Non-Current Assets	21,566	22,299
<i>Current Assets</i>		
Inventories	13,025	13,531
Trade receivables	26,632	42,685
Other receivables	499	614
Tax recoverable	132	223
Cash and bank balances	35,152	33,131
Total Current Assets	75,440	90,184
TOTAL ASSETS	97,006	112,483

EQUITY AND LIABILITIES		
<i>Equity</i>		
Share capital	42,794	41,779
Share premium	9,855	9,433
Warrant reserves	709	756
Other reserves	(86)	(100)
Retained earnings	11,380	13,000
Total Equity	64,652	64,868

Condensed Consolidated Statements of Financial Position (Cont'd)
As At 31 March 2015

Figures in RM'000	Unaudited 31.03.2015	Audited 31.12.2014
EQUITY AND LIABILITIES		
<i>Non-Current Liabilities</i>		
Deferred tax liability	641	760
Non-Current Liabilities	641	760
<i>Current Liabilities</i>		
Trade payables	28,641	46,025
Other payables and accruals	491	828
Amount due to Directors	2	2
Dividend payable	2,140	-
Tax payable	439	-
Current Liabilities	31,713	46,855
Total Liabilities	32,354	47,615
TOTAL EQUITY AND LIABILITIES	97,006	112,483
Net assets per share attributable to Owners of the Parent (sen)	15.11	15.53

The above condensed consolidated statements of financial position should be read in conjunction with the audited financial statements for the year ended 31 December 2014 and the accompanying explanatory notes attached to the interim financial statements.

**Condensed Consolidated Statements of Changes in Equity
For The First Quarter Ended 31 March 2015**

<-----Attributable to Owners of the Parent ----->								
Figures in RM'000	<i>Non-distributable</i>		Warrant Reserve	<i>Distributable</i>		Total	Non-controlling Interest	Total Equity
	Share Capital	Share Premium		Reserve	Retained Profits			
At 1 January 2015	41,779	9,433	756	(100)	13,000	64,868	-	64,868
Exchange difference arising from foreign subsidiary companies	-	-	-	14	-	14	-	14
Issue of shares – exercise of ESOS	703	-	-	-	-	703	-	703
Issue of shares – exercise of warrants	312	422	(47)	-	-	687	-	687
Net profit for the period	-	-	-	-	520	520	-	520
Dividend declared	-	-	-	-	(2,140)	(2,140)	-	(2,140)
	1,015	422	(47)	14	(1,620)	(216)	-	(216)
At 31 March 2015	42,794	9,855	709	(86)	11,380	64,652	-	64,652

<-----Attributable to Owners of the Parent ----->								
Figures in RM'000	<i>Non-distributable</i>		Warrant Reserve	<i>Distributable</i>		Total	Non-controlling Interest	Total Equity
	Share Capital	Share Premium		Reserve	Retained Profits			
At 1 January 2014	37,455	3,596	1,405	(121)	1,122	43,457	-	43,457
Exchange difference arising from foreign subsidiary companies	-	-	-	(3)	-	(3)	-	(3)
Net for the period	-	-	-	-	3,241	3,241	-	3,241
	-	-	-	(3)	3,241	3,238	-	3,238
At 31 March 2014	37,455	3,596	1,405	(124)	4,363	46,695	-	46,695

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 2014 and the accompanying explanatory notes attached to the interim financial statements.

**Condensed Consolidated Statements of Cash Flows
For The First Quarter Ended 31 March 2015**

Figures in RM'000	3 months ended	
	31.03.2015	31.03.2014
CASH FLOW FROM OPERATING ACTIVITIES		
<i>Profit / (loss) before taxation</i>	846	3,241
Adjustments for:		
Depreciation of property, plant and equipment	795	617
Amortization of intangible assets	27	19
Interest expenses	-	211
Interest income	(75)	(1)
(Gain) on disposal of property, plant and equipment	-	(5)
Foreign exchange loss / (gain) – unrealized	(341)	16
Operating profit before working capital changes	1,252	4,098
Changes in working capital		
Decrease in inventory	506	1,360
Decrease in receivables	15,756	6,530
(Decrease) in payables	(16,967)	(4,437)
Cash generated from operations	547	7,551
Interest paid	-	(211)
Taxation paid	85	(18)
<i>Net cash from operating activities</i>	632	7,322

Condensed Consolidated Statements of Cash Flows (Cont'd)
For The First Quarter Ended 31 March 2015

Figures in RM'000	3 months ended	
	31.03.2015	31.03.2014
CASH FLOW FROM INVESTING ACTIVITIES		
Interest income	75	1
Purchase of property, plant and equipment	(89)	(193)
Proceeds from disposal of property, plant and equipment	-	4
Net cash (used in) investing activities	(14)	(188)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	1,390	-
Net repayment of borrowings	-	(4,622)
Net cash (used in) financing activities	1,390	(4,622)
Net increase in cash and cash equivalents	2,008	2,512
Effect of exchange rate changes	13	(3)
Cash and cash equivalents at beginning of the period	33,131	9,062
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	35,152	11,571

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figures in RM'000	3 months ended	
	31.03.2015	31.03.2014
Cash and bank balances	25,152	13,451
Placements in cash funds	10,000	-
Overdraft	-	(1,880)
	35,152	11,571

The above condensed consolidated statements of cash flows should be read in conjunction with the audited financial statements for the year ended 31 December 2014 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 2014.

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 2014.

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

In the current quarter, a total 10,199,600 shares have been issued pursuant to the exercise of warrants and employee share option scheme respectively. There is an outstanding of 47,272,098 unconverted warrants as at the end of 31 March 2015 which is due to expire in December 2015.

In April 2015, a total of 4,839,400 shares have been issued pursuant to the exercise of warrants. Except for the preceding, there were no other issuances, repurchases and repayments of debt securities during the period under review and up to the date of this report.

7. DIVIDENDS PAID

Since the end of the previous financial year, an interim single tier dividend of 0.5 sen per ordinary share in respect of the financial year ending 31 December 2015 amounting to RM2,139,933 was declared. Such dividend was paid on 30 April 2015.

8. Notes to Consolidated Statement of Comprehensive Income

Figures in RM'000	3 months ended		3 months ended	
	31.03.2015	31.03.2014	31.03.2015	31.03.2014
Depreciation of property, plant and equipment	(795)	(617)	(795)	(617)
Amortization of intangible assets	(27)	(19)	(27)	(19)
Interest expenses	-	(211)	-	(211)
Gain on disposal of property, plant and equipment	-	5	-	5
Foreign exchange (loss) / gain – unrealized	(341)	(16)	(341)	(16)
Interest income	75	1	75	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) Contribution by Activities

	Research, D&D and Sales RM'000	Manu- facturing RM'000	Invest- ment Holding RM'000	Elimina- tion RM'000	Total RM'000
Sales					
External sales	666	31,957	-	-	32,623
Internal sales	-	-	-	-	-
Total operating sales	666	31,957	-	-	32,623
Others and interest income	34	50	-	-	84
	700	32,007	-	-	32,707
Results					
Segment results	(275)	1,128	(7)	-	846
Finance costs	-	-	-	-	-
Income tax	-	(326)	-	-	(326)
Profit after tax before non-controlling interest					520
Non-controlling interest					-
Profit after tax after non-controlling interest					520

	Research, D&D and Sales RM'000	Manu- facturing RM'000	Invest- ment holding RM'000	Elimina- tion RM'000	Total RM'000
Other information					
Segment assets	17,132	79,283	459	-	96,874
Unallocated assets					132
					97,006
Segment liabilities	471	28,624	37	-	29,132
Unallocated liabilities					3,222
					32,354

9. SEGMENT INFORMATION (Cont'd)

(b) Sales Contribution by Geography

The geographical sales breakdown are as follows:

	3 months ended	
	31.03.2015	31.03.2014
	RM'000	RM'000
Malaysia	61	69
Asia (excluding M'sia)	16,461	16,288
Europe	15,334	29,157
USA	767	352
Middle East	-	20
	<u>32,623</u>	<u>45,886</u>

(c) Sales to Major Customers

For the 3 months ended 31 March 2015, 5 major international customers (each with revenue of more than 10% of the Group revenue) from the manufacturing segment contributed total revenue of approximately RM21.6 million (2014: RM39.1 million).

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 year ended 31 March 2015.

12. CONTINGENT ASSETS & LIABILITIES

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

	RM'000
K-One Industry Sdn Bhd	<u>24,256</u>
	<u>24,256</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
(1Q'15 vs 1Q'14)**

For the first quarter ended 31 March 2015, the Group achieved sales revenue of RM 32.6 million as compared to sales revenue of RM 45.9 million for the corresponding quarter last year. The significant decrease of 29 % in sales was mainly attributed to the reduced demand of network cameras and to a small extent, electronic headlamps. In any event, the sales achieved in the first quarter of 2014 was the highest recorded first quarter sales in the history of the Group which incidentally magnified the sales decrease for this quarter. Otherwise, the sales decrease would have been smaller and more normal based on historical trends that the first quarter sales is usually lower than the preceding fourth quarter. Nevertheless, the weak demand of network cameras in the first quarter of 2015 was caused by the customer recalibrating downwards its inventory level requirements and also the transfer of a couple of our network camera product lines for production in their other manufacturing partner's site located in North America due to the customer's corporate reasons since the second half of 2014.

The Group registered profit attributable to equity holders of the parent company of RM 0.5 million as compared to the same of RM 3.2 million for the corresponding quarter last year. The profit decline of 84% was mainly attributed to three key reasons, namely: i) sales price reduction given for various product lines which were going end of life resulting in margin compression for these product lines; ii) increased costs resulting from the development of numerous prototypes and samples to pitch for new business expected for potential launch in the subsequent quarters and iii) difference in product mix in the current quarter as compared to the same last year, with the current quarter's product mix yielding an overall lower margin.

15. PERFORMANCE REVIEW (Cont'd)

**(b) Current quarter versus the preceding quarter
(1Q'15 vs 4Q'14)**

Sales revenue for the first quarter ended 31 March 2015 at RM 32.6 million was 40% lower than the preceding quarter of RM 54.2 million. Sales decrease was registered mainly with the mobile phone accessories and network cameras' segments. The sales decline for the former was due to the customer taking the decision to end the life of certain mid-end phone models, whilst, preferring to focus on high end phones. As for the latter, the sales decline was caused by the customer's realignment downwards of its inventory level requirements. However, the forecasted market demand for network cameras is expected to experience growth in the near term.

On a positive note, electronic headlamps, industrial products, healthcare/medical products and wearable devices had significant growth in the first quarter of 2015 as compared to the last quarter of 2014.

The Group registered profit attributable to equity holders of the parent company of RM 0.5 million as compared to the same of RM 3.3 million in the preceding quarter, representing a 85% decrease in profitability. The decline was mainly attributed to sales price reduction given for various product lines going end of life leading to margin compression for these product lines. At the same time, there was a substantial increase in the costs of development of prototypes and samples in the bid for new business expected to be potentially launched in the subsequent quarters.

16. COMMENTARY ON PROSPECTS AND TARGETS

Sales for the first quarter of 2015 at RM32.6 million is lower than expected for reasons which were explained earlier. The Group expects sales to pick up in the subsequent quarters, especially in the second half of 2015 where sales is normally higher than the first half. The expected sales pick up is based upon the potential launch of new product lines in the core businesses of mobile phone accessories, network cameras and electronic headlamps as we move forward.

Additionally, we expect to see rising sales contributions from our potential newer market segments such as wearable devices, healthcare/medical products, automotive aggregates, industrial products and other consumer electronic products in the like of headphones and robotic vacuum cleaners when our project (design and/or manufacturing) bids become successful in the near term.

The global economic growth these days is uneven and uncertain. This makes the global corporate and business world very challenging. This is further compounded by the consumer market changing faster than ever before. Nonetheless, we prefer to look at things positively, be it changes at our customer(s) end such as merger or acquisition or a change in consumer expectations or technological shifts. The Group has resolved to adapt to new situations and grow stronger from it. In fact, one of our key customers has recently been acquired by a substantially larger multinational. In this respect, we prefer to view it positively as we move forward and expect to earn more business from the significantly enlarged entity.

With respect to profitability, the Group's first quarter profit of RM 0.5 million has anticipated room for improvement. The Group expects its profitability to improve 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. The strength of the USD, which we anticipate to continue for the rest of the year will work in favour to the Group's business.

17. INCOME TAX EXPENSE

	3 months ended		3 months ended	
	30.03.2015	30.03.2014	30.03.2015	30.03.2014
	RM'000	RM'000	RM'000	RM'000
Deferred tax	(174)	-	(174)	-
Current tax	500	-	500	-
Total Income Tax Expense	326	-	326	-

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

Effective tax rate is higher than the statutory tax rate due to non-tax deductible expenses.

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 property 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

The Group does not have any secured nor unsecured borrowings as at 31 March 2015.

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

An interim single tier dividend of 0.5 sen per ordinary share in respect of the financial year ending 31 December 2015 amounting to RM 2,139,933 was declared. Such dividend was paid on 30 April 2015.

25. REALISED AND UNREALISED PROFIT / (LOSS)

As at the end of the current quarter under review ended 31 March 2015, the realized and unrealized profits were as follows:

	3 months ended 31.03.2015 RM'000
Realised profit	4,858
Unrealised profit	341
Consolidation adjustments	6,181
Total Retained Profit	11,380

25. REALISED AND UNREALISED PROFIT / (LOSS) (Cont'd)

As at the end of the previous financial period ended 31 March 2014, the realized and unrealized profits were as follows:

	3 months ended 31.03.2014 RM'000
Realised profit	441
Unrealised profit / (loss)	(16)
Consolidation adjustments	3,938
Total Retained Profit	4,363

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		3 months ended	
	31.03.2015	31.03.2014	31.03.2015	31.03.2014
Profit attributable to equity holders of the parent (RM'000)	520	3,241	520	3,241
Weighted average number of Ordinary Shares in issue '000)	418,808	374,548	418,808	374,548
Basic Earnings Per Ordinary Share (sen)	0.12	0.87	0.12	0.87

(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.

26. EARNINGS PER SHARE (Cont'd)

	3 months ended		3 months ended	
	31.03.2015	31.03.2014	31.03.2015	31.03.2014
Profit attributable to equity holders of the parent (RM'000)	520	3,241	520	3,241
Weighted average number of Ordinary Shares in issue ('000)	418,808	374,548	418,808	374,548
Effect of dilution of share options and warrants ('000)	34,028	100,726	34,028	100,726
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	452,836	475,274	452,836	475,274
Diluted Earnings Per Ordinary Share (sen)	0.11	0.68	0.11	0.68

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 27 May 2015.

BY ORDER OF THE BOARD
NG YIM KONG (LS 0009297)
Company Secretary
Dated: 27 May 2015.