

K-One

K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 30 JUNE 2016**

**Condensed Consolidated Statements of Comprehensive Income
For The Second Quarter Ended 30 June 2016**

Figures in RM'000	3 months ended		6 months ended	
	30.6.2016 Unaudited	30.6.2015 Unaudited	30.6.2016 Unaudited	30.6.2015 Audited
Operating revenue	18,985	37,924	41,246	70,547
Cost of sales	(16,305)	(33,544)	(35,400)	(63,902)
Gross profit	2,680	4380	5,846	6,645
Other income	1,069	7	1,108	16
Interest income	373	117	561	192
Operating expenses	(2,806)	(2,025)	(7,392)	(3,528)
Profit from operations	1,316	2,479	123	3,325
Finance costs	-	-	-	-
Profit before tax	1,316	2,479	123	3,325
Income tax credit / (expense)	56	39	(110)	(287)
Profit for the period	1,372	2,518	13	3,038
Non-controlling interests	-	-	-	-
Profit after tax after Non-controlling interests	1,372	2,518	13	3,038

Profit attributable to:

Owners of the Parent	1,372	2,518	13	3,038
Non-controlling interests	-	-	-	-
	1,372	2,518	13	3,038

Earnings per share (EPS)
attributable to owners
of the Parent (sen):

Basic EPS	0.29	0.58	0.00	0.71
Diluted EPS	0.29	0.53	0.00	0.64

**Condensed Consolidated Statements of Comprehensive Income
For The Second Quarter Ended 30 June 2016 (Cont'd)**

Figures in RM'000	3 months ended		6 months ended	
	30.6.2016 Unaudited	30.6.2015 Unaudited	30.6.2016 Unaudited	30.6.2015 Audited
Profit for the period	1,372	2,518	13	3,038
Items that may be subsequently reclassified to profit or loss	-	-	-	-
Foreign currency translation	105	5	159	19
Total comprehensive income	1,477	2,523	172	534
Profit attributable to:				
Owners of the Parent	1,477	2,523	172	3,057
Non-controlling interests	-	-	-	-
	1,477	2,523	172	3,057

The above condensed consolidated statements of comprehensive income should be read in conjunction with the audited financial statements for the year ended 31 December 2015 and the accompanying explanatory notes attached to the interim financial statements.

Condensed Consolidated Statements of Financial Position
As At 30 June 2016

Figures in RM'000	Unaudited 30.6.2016	Audited 31.12.2015
ASSETS		
<i>Non-Current Assets</i>		
Property, plant and equipment	13,305	13,913
Intangible assets	346	413
Deferred tax assets	512	684
Goodwill	5,546	5,546
Non-Current Assets	19,709	20,556
<i>Current Assets</i>		
Inventories	11,369	9,183
Trade receivables	16,122	26,436
Other receivables	1,006	1,128
Tax recoverable	12	128
Cash and bank balances	53,931	52,145
Total Current Assets	82,440	89,020
TOTAL ASSETS	102,149	109,576

EQUITY AND LIABILITIES		
<i>Equity</i>		
Share capital	47,266	47,266
Share premium	15,885	15,885
Warrant reserves	-	-
Other reserves	154	(5)
Retained earnings	22,052	22,039
Total Equity	85,357	85,185

**Condensed Consolidated Statements of Financial Position
As At 30 June 2016 (Cont'd)**

Figures in RM'000	Unaudited 30.6.2016	Audited 31.12.2015
EQUITY AND LIABILITIES		
<i>Non-Current Liabilities</i>		
Deferred tax liability	183	270
Non-Current Liabilities	183	270
<i>Current Liabilities</i>		
Trade payables	15,352	22,741
Other payables and accruals	549	668
Amount due to Directors	2	2
Tax payable	706	710
Current Liabilities	16,609	24,121
Total Liabilities	16,792	24,391
TOTAL EQUITY AND LIABILITIES	102,149	109,576
Net assets per share attributable to Owners of the Parent (sen)	18.06	18.02

The above condensed consolidated statements of financial position should be read in conjunction with the audited financial statements for the year ended 31 December 2015 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 2016**

<-----Attributable to Owners of the Parent ----->									
Figures in RM'000	Non-distributable			Foreign Currency Translation Reserve		Distributable		Non- controlling Interest	Total Equity
	Share Capital	Share Premium	Warrant Reserve	Retained Profits	Total				
At 1 January 2016	47,266	15,885	-	(5)	22,039	85,185	-	85,185	
Exchange difference arising from foreign subsidiary companies	-	-	-	159	-	159	-	159	
Net profit for the period	-	-	-	-	13	13	-	13	
Dividend declared	-	-	-	-	-	-	-	-	
	-	-	-	159	13	172	-	172	
At 30 June 2016	47,266	15,885	-	154	22,052	85,357	-	85,357	

<-----Attributable to Owners of the Parent ----->									
Figures in RM'000	Non-distributable			Foreign Currency Translation Reserve		Distributable		Non- controlling Interest	Total Equity
	Share Capital	Share Premium	Warrant Reserve	Retained Profits	Total				
At 1 January 2015	41,779	9,433	756	(100)	13,000	64,868	-	64,868	
Exchange difference arising from foreign subsidiary companies	-	-	-	19	-	19	-	19	
Issue of shares – exercise of ESOS	708	-	-	-	-	708	-	708	
Issue of shares – exercise of warrants	796	1,075	(120)	-	-	1,751	-	1,751	
Net profit for the period	-	-	-	-	3,038	3,038	-	3,038	
Dividend declared	-	-	-	-	(2,140)	(2,140)	-	(2,140)	
	1,504	1,075	(120))	19	898	3,376	-	3,376	
At 31 June 2015	43,283	10,508	636	(81)	13,898	64,244	-	68,244	

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 2015 and the accompanying explanatory notes attached to the interim financial statements.

**Condensed Consolidated Statements of Cash Flows
For The Second Quarter Ended 30 June 2016**

Figures in RM'000	6 months ended	
	30.6.2016	30.6.2015
CASH FLOW FROM OPERATING ACTIVITIES		
<i>Profit before taxation</i>	123	3,325
Adjustments for:		
Depreciation of property, plant and equipment	1,333	1,589
Amortization of intangible assets	67	55
Interest income	(561)	(192)
Foreign exchange gain – unrealized	(1,035)	(859)
Operating (loss)/ profit before working capital changes	(73)	3,918
Changes in working capital		
(Increase)/Decrease in inventory	(2,186)	1,274
Decrease in receivables	11,882	10,690
Decrease in payables	(8,256)	(14,104)
Cash generated from operations	1,367	1,778
Taxation refund	87	65
<i>Net cash from operating activities</i>	1,454	1,843

**Condensed Consolidated Statements of Cash Flows
For The Second Quarter Ended 30 June 2016 (Cont'd)**

Figures in RM'000	6 months ended	
	30.6.2016	30.6.2015
CASH FLOW FROM INVESTING ACTIVITIES		
Interest income	561	192
Purchase of property, plant and equipment	(725)	(140)
Net cash used in investing activities	(164)	(52)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	-	2,459
Dividend paid	-	(2,140)
Net cash financing activities	-	319
Net increase in cash and cash equivalents	1,290	2,214
Effect of exchange rate changes	496	455
Cash and cash equivalents at beginning of the period	52,145	33,131
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	53,931	35,800

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figures in RM'000	6 months ended	
	30.06.2016	30.06.2015
Cash and bank balances	24,693	25,800
Placement in time deposits	23,238	-
Placement in cash funds	6,000	10,000
	53,931	35,800

The above condensed consolidated statements of cash flows should be read in conjunction with the audited financial statements for the year ended 31 December 2015 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 2015.

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 2015.

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 (99.7% export in 2015) 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	
	30.6.2016	30.6.2015	30.6.2016	30.6.2015
Depreciation of property, plant and equipment	(673)	(795)	(1,333)	(1,589)
Amortization of intangible assets	(33)	(27)	(67)	(55)
Gain on disposal of property, plant and equipment	-	-	-	-
Foreign exchange (loss) / gain - realized	(2,489)	207	(2,425)	14
Foreign exchange (loss) / gain - unrealized	(1,307)	518	1,035	859
Interest income	373	117	561	192

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	314	40,932	-	-	41,246
Internal sales	-	-	-	-	-
Total operating sales	314	40,932	-	-	41,246
Others and interest income	427	1,241	1	-	1,669
	741	42,173	1	-	42,915
Results					
Segment results	(336)	570	(111)	-	123
Finance costs	-	-	-	-	-
Income tax	-	(110)	-	-	(110)
Loss after tax before non-controlling interest					13
Non-controlling interest					-
Loss after tax after non-controlling interest					13

	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	40,288	59,993	1,344	-	101,625
Unallocated assets					524
					102,149
Segment liabilities	109	15,766	26	-	15,901
Unallocated liabilities					891
					16,792

9. SEGMENT INFORMATION (Cont'd)

(b) Sales Contribution by Geography

The geographical sales breakdown are as follows:

	6 months ended	
	30.6.2016	30.6.2015
	RM'000	RM'000
Malaysia	109	183
Asia (excluding M'sia)	7,955	33,166
Europe	31,130	35,696
Oceania	30	-
USA	2,007	1488
Middle East	15	14
	<u>41,246</u>	<u>70,547</u>

(c) Sales to Major Customers

For the 6 months ended 30 June 2016, three (3) major international customers (each with revenue of more than 10% of the Group revenue) contributed total revenue of approximately RM30.3million (2015: RM28.7 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 quarter ended 30 June 2016.

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>22,756</u>
	<u>22,756</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'16 vs 2Q'15)**

For the second quarter ended 30 June 2016, the Group achieved sales revenue of RM19.0 million as compared to RM 37.9 million for the corresponding quarter last year. The sales decline of approximately 50% was mainly due to the shifting away from the mobile phone accessories' business which had become and is still in an extremely competitive market facing steep margin squeeze. This is consistent with the Group's roadmap of de-emphasizing this weak margin segment with products that deliver higher returns. Apart from floor-care products which registered strong sales following the delivery of specific components which were short in the last quarter in the current quarter to make the complete end products available for shipment, the other key product lines such as electronic headlamps and network cameras experienced a softer market in the current quarter. This may be the reflection of the on-going dull and volatile global markets.

The Group posted profit attributable to equity holders of the parent company of RM1.4 million as compared to the same of RM 2.5 million for the corresponding quarter last year. The current quarter's profit was largely derived from strengthening of the USD in the current quarter. Adjusting for this foreign exchange gain, the Group made an operating profit of approximately RM 0.2 million.

15. PERFORMANCE REVIEW (Cont'd)

**(b) Current quarter compared to the preceding quarter
(2Q'16 vs 1Q'16)**

Sales revenue for the second quarter ended 30 June 2016 at RM 19.0 million represented a 15% decline from the preceding quarter of RM 22.3 million. The sales decrease was mainly attributed to the continuous reduction in the reliance on mobile phone accessories' business to drive its top line. Besides, the sluggish sales in the network camera segment, to some extent, compounded the sales decline.

Nevertheless, it was heartening to note that sales of electronic headlamps and floor-care products registered encouraging growth quarter over quarter, although these sales increases were not able to cushion the adverse impact from the mobile phone accessories' segment.

The Group posted profit attributable to equity holders of the parent company of RM1.4 million as compared to a loss RM 1.4 million in the preceding quarter. The profit improvement was chiefly arising from strengthening of the USD against the MYR in the current quarter (2Q'16). Discounting the impact of foreign exchange fluctuation, the Group's operating profits for 2Q'16 and 1Q'16 were RM0.2 million and RM 0.9 million respectively which was in line with the sales decline.

16. COMMENTARY ON PROSPECTS AND TARGETS

The Group's sales for the first half of 2016 decreased by 42% to RM41.2 million as compared to RM70.5 million for the same period last year. This was mainly caused by sales contraction in the mobile phone accessories' business, which is in line with the Group's strategy to intentionally move away from this highly competitive business where severe margin compression prevails. The Group is on the verge of completing this exit and shall revisit it in the future, if circumstances and conditions become conducive. The Group's strategic roadmap to diversify into products with higher margins and longer product life cycles in the likes of medical/healthcare products, industrial products, automotive aggregates, electronic wearables, lifestyle consumer electronic gadgets and IoT devices is on-going and gathering momentum. Albeit slow and currently insufficient to offset decline in the mobile phone accessories' business, the Group is finding its way to greener pastures, riding the increasing global demand of these higher margin products.

16. COMMENTARY ON PROSPECTS AND TARGETS (Cont'd)

To augment the diversification plan, the Group is in the process of establishing a co-working business venture in conjunction with strategic alliance partners. The Group acknowledges that this venture is not free from difficulties but believe that it will complement its diversification process.

The second half of 2016 remains uncertain in the midst of the continuing global market volatility. The Brexit fallout has yet to fully unfold and the timing of further interest rate hike in the US is unclear. Heightened uncertainties aside, the Group will continue to instill the necessary capital and operational disciplines, streamline production activities and develop innovative ways of working with suppliers to lower its costs. Equally important, the Group will concentrate on improving sales through diversification as described above to sustain profitability.

In a period of time defined by the acceleration of change, the Group expects sales for the second half to be satisfactory, which is expected to surpass the first half, although restrained as the Group pushes forward to conclude its strategic withdrawal from low margin products, while refocusing its resources on the above mentioned niche and high barrier to entry products which are in their introductory and growth stages. The long term prospects of the Group is expected to be resilient as it escalates execution of its stated growth strategy.

17. INCOME TAX EXPENSE

	3 months ended		6 months ended	
	30.6.2016	30.6.2015	30.6.2016	30.6.2015
	RM'000	RM'000	RM'000	RM'000
Deferred tax	62	8	(85)	(166)
Current tax	(6)	(47)	(25)	453
Total Income Tax Expense	56	(39)	(110)	287

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

The income tax expenses for the current quarter arose from tax on non-statutory business income.

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 30 June 2016.

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 PROFIT / (LOSS)

As at the end of the current quarter under review ended 30 June 2016, the realized and unrealized profits are as follows:

	6 months ended 30.6.2016 RM'000
Realised profit	14,856
Unrealised profit	1,035
Consolidation adjustments	6,161
Total Retained Profit	22,052

As at the end of the previous financial period ended 30 June 2015, the realized and unrealized profits are as follows:

	6 months ended 30.6.2015 RM'000
Realised profit	6,858
Unrealised profit	859
Consolidation adjustments	6,181
Total Retained Profit	13,898

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	
	30.6.2016	30.6.2015	30.6.2016	30.6.2015
Profit attributable to equity holders of the parent (RM'000)	1,372	2,518	13	3,038
Weighted average number of Ordinary Shares in issue '000)	472,655	431,914	472,655	425,398
Basic Earnings Per Ordinary Share (sen)	0.29	0.58	0.00	0.71

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	
	30.6.2016	30.6.2015	30.6.2016	30.6.2015
Profit attributable to equity holders of the parent (RM'000)	1,372	2,518	13	3,038
Weighted average number of Ordinary Shares in issue ('000)	472,655	431,914	472,655	425,398
Effect of dilution of share options and warrants ('000)	-	44,089	-	49,869
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	472,655	476,003	472,655	475,267
Diluted Earnings Per Ordinary Share (sen)	0.29	0.53	0.00	0.64

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 8 August 2016.

BY ORDER OF THE BOARD
NG YIM KONG (LS 0009297)
Company Secretary

8 August 2016