

K-One

K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2016**

**Condensed Consolidated Statements of Comprehensive Income
For The Third Quarter Ended 30 September 2016**

Figures in RM'000	3 months ended		9 months ended	
	30.9.2016 Unaudited	30.9.2015 Unaudited	30.9.2016 Unaudited	30.9.2015 Audited
Operating revenue	19,380	41,605	60,626	112,152
Cost of sales	(17,571)	(35,398)	(52,971)	(99,500)
Gross profit	1,809	6,007	7,655	12,652
Other income	266	1,308	1,374	2,183
Interest income	404	173	965	365
Operating expenses	(4,741)	(3,028)	(12,133)	(7,415)
(Loss)/ Profit from operations	(2,262)	4,460	(2,139)	7,785
Finance costs	-	-	-	-
(Loss)/ Profit before tax	(2,262)	4,460	(2,139)	7,785
Income tax expense	(99)	(116)	(209)	(403)
(Loss)/ Profit for the period	(2,361)	4,344	(2,348)	7,382
Non-controlling interests	-	-	-	-
(Loss)/ Profit after tax after Non-controlling interests	(2,361)	4,344	(2,348)	7,382

(Loss)/ Profit attributable to:

Owners of the Parent	(2,361)	4,344	(2,348)	7,382
Non-controlling interests	-	-	-	-
	(2,361)	4,344	(2,348)	7,382

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

Basic (LPS)/ EPS	(0.50)	1.00	(0.50)	1.72
Diluted (LPS)/ EPS	(0.50)	0.91	(0.50)	1.55

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

Figures in RM'000	3 months ended		9 months ended	
	30.9.2016 Unaudited	30.9.2015 Unaudited	30.9.2016 Unaudited	30.9.2015 Audited
(Loss)/ Profit for the period	(2,361)	4,344	(2,348)	7,382
Items that may be subsequently reclassified to profit or loss	-	-	-	-
Foreign currency translation	68	(2)	173	17
Total comprehensive income	(2,293)	4,342	(2,175)	7,399
(Loss)/ Profit attributable to:				
Owners of the Parent	(2,293)	4,342	(2,175)	7,399
Non-controlling interests	-	-	-	-
	(2,293)	4,342	(2,175)	7,399

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 September 2016

Figures in RM'000	Unaudited 30.9.2016	Audited 31.12.2015
ASSETS		
<i>Non-Current Assets</i>		
Property, plant and equipment	11,119	13,913
Intangible assets	315	413
Deferred tax assets	512	684
Goodwill	5,546	5,546
Non-Current Assets	17,492	20,556
<i>Current Assets</i>		
Inventories	8,352	9,183
Trade receivables	17,128	26,436
Other receivables	1,174	1,128
Tax recoverable	34	128
Short term cash funds	13,000	-
Time deposits	23,238	-
Cash and bank balances	14,862	52,145
Total Current Assets	77,788	89,020
TOTAL ASSETS	95,280	109,576

EQUITY AND LIABILITIES		
<i>Equity</i>		
Share capital	47,266	47,266
Share premium	15,885	15,885
Warrant reserves	-	-
Other reserves	168	(5)
Retained earnings	19,691	22,039
Total Equity	83,010	85,185

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

Figures in RM'000	Unaudited 30.9.2016	Audited 31.12.2015
EQUITY AND LIABILITIES		
<i>Non-Current Liabilities</i>		
Deferred tax liability	134	270
Non-Current Liabilities	134	270
<i>Current Liabilities</i>		
Trade payables	11,237	22,741
Other payables and accruals	548	668
Amount due to Directors	2	2
Tax payable	349	710
Current Liabilities	12,136	24,121
Total Liabilities	12,270	24,391
TOTAL EQUITY AND LIABILITIES	95,280	109,576
Net assets per share attributable to Owners of the Parent (sen)	17.56	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 Third Quarter Ended 30 September 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	-	-	-	173	-	173	-	173
Net profit for the period	-	-	-	-	(2,348)	(2,348)	-	(2,348)
Dividend declared	-	-	-	-	-	-	-	-
	-	-	-	173	(2,348)	(2,175)	-	(2,175)
At 30 SEPTEMBER 2016	47,266	15,885	-	168	19,691	83,010	-	83,010

<-----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	-	-	-	17	-	17	-	17
Issue of shares – exercise of ESOS	708	-	-	-	-	708	-	708
Issue of shares – exercise of warrants	796	1,076	(120)	-	-	1,752	-	1,752
Net profit for the period	-	-	-	-	7,382	7,382	-	7,382
Dividend declared	-	-	-	-	(2,140)	(2,140)	-	(2,140)
	1,504	1,076	(120))	17	5,242	7,719	-	7,719
At 30 September 2015	43,283	10,509	636	(83)	18,242	72,587	-	72,587

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 Third Quarter Ended 30 September 2016**

Figures in RM'000	9 months ended	
	30.9.2016	30.9.2015
CASH FLOW FROM OPERATING ACTIVITIES		
<i>(Loss)/ Profit before taxation</i>	(2,139)	7,785
Adjustments for:		
Depreciation of property, plant and equipment	2,004	2,379
Amortization of intangible assets	98	81
Impairment of property, plant and equipment	1,598	-
Inventory write- off	-	1,579
Interest income	(965)	(365)
Foreign exchange loss / (gain) – unrealized	346	(2,128)
Operating profit before working capital changes	942	9,331
Changes in working capital		
Decrease / (Increase) in inventory	832	(434)
Decrease in receivables	9,391	5,765
Decrease in payables	(12,212)	(12,199)
Cash (used in)/ generated from operations	(1,047)	2,463
Taxation (paid)/refund	(440)	44
<i>Net cash (used in) / from operating activities</i>	(1,487)	2,507

Condensed Consolidated Statements of Cash Flows
For The Third Quarter Ended 30 September 2016 (Cont'd)

Figures in RM'000	9 months ended	
	30.9.2016	30.9.2015
CASH FLOW FROM INVESTING ACTIVITIES		
Interest income	965	365
Placement in short term cash funds	(13,000)	(10,000)
Placement in time deposits	(23,238)	-
Purchase of property, plant and equipment	(807)	(303)
<i>Net cash (used in) investing activities</i>	(36,080)	(9,938)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	-	2,460
Dividend paid	-	(2,140)
<i>Net cash from financing activities</i>	-	320
Net decrease in cash and cash equivalents	(37,567)	(7,111)
Effect of exchange rate changes	280	2,156
Cash and cash equivalents at beginning of the period	52,149	33,131
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	14,862	28,176

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		9 months ended	
	30.9.2016	30.9.2015	30.9.2016	30.9.2015
Depreciation of property, plant and equipment	(673)	(790)	(2,004)	(2,379)
Amortization of intangible assets	(33)	(26)	(98)	(81)
Impairment of property, plant and equipment	(1,598)	-	(1,598)	-
Inventory written off	-	(1,579)	-	(1,579)
Foreign exchange (loss) / gain - realized	146	119	(1,244)	133
Foreign exchange (loss) / gain - unrealized	(1,381)	1,269	(346)	2,128
Interest income	373	173	965	365

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	737	59,889	-	-	60,626
Internal sales	-	-	-	-	-
Total operating sales	737	59,889	-	-	60,626
Others and interest income	785	1,304	1	-	1,305
	1,522	61,192	1	-	61,931
Results					
Segment results	(96)	(1,855)	(158)	-	(2,139)
Finance costs	-	-	-	-	-
Income tax	(176)	(33)	-	-	(209)
Loss after tax before non-controlling interest					(2,348)
Non-controlling interest					-
Loss after tax after non-controlling interest					(2,348)

	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	46,199	47,132	1,402	-	94,733
Unallocated assets					547
					95,280
Segment liabilities	216	11,546	23	-	11,785
Unallocated liabilities					485
					12,270

9. SEGMENT INFORMATION (Cont'd)

(b) Sales Contribution by Geography

The geographical sales breakdown are as follows:

	9 months ended	
	30.9.2016	30.9.2015
	RM'000	RM'000
Malaysia	292	388
Asia (excluding M'sia)	9,467	52,848
Europe	48,475	56,990
Oceania	120	-
USA	2,253	1,912
Middle East	19	14
	<u>60,626</u>	<u>112,152</u>

(c) Sales to Major Customers

For the 9 months ended 30 September 2016, three (3) major international customers (each with revenue of more than 10% of the Group revenue) contributed total revenue of approximately RM46.3million (2015: RM79.3 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 September 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
(3Q'16 vs 3Q'15)**

For the third quarter ended 30 September 2016, the Group saw its revenue declined by 53% to RM 19.4 million from RM 41.6 million in the previous corresponding quarter, primarily impacted by the programmed shifting away from the mobile phone accessories' business since the beginning of 2015. It is a vital, strategic exit from this fiercely competitive, razor-thin margin segment so as to enable the Group to release its resources and diversify into higher margin businesses to brace for a fast-changing environment which is coloured with global economic uncertainties. Besides, sluggish sales in the network camera segment compounded the sales decline.

On the other hand, the Group experienced a surge in demand for electronic headlamps and floor-care products which, however, were insufficient to make up for the preceding causes of sales shortfall. The Group is intensifying its efforts to diversify into the newer business segments such as IoT devices, healthcare/medical equipment and automotive aggregates in an attempt to replenish premium sales for long term growth.

15. PERFORMANCE REVIEW (Cont'd)

**(a) Current quarter compared to the corresponding quarter of last year
(3Q'16 vs 3Q'15) (Cont'd)**

The Group posted loss attributable to equity holders of the parent company of RM2.4 million as compared to a profit of RM 4.3 million for the corresponding quarter last year. The current quarter's loss was largely due to the impairment on tooling of RM1.6 million in view of prudence following the Group's moving away from the mobile phone accessories' ODM business and the increased cost of sales resulting from materials costs escalation and labor costs increase following the revised minimum wage from RM900 to RM1,000 per month effective 1 July 2016. The foreign exchange gain from the USD for the current quarter was subdued as compared to the corresponding quarter last year when the USD was moving towards new highs.

**(b) Current quarter compared to the preceding quarter
(3Q'16 vs 2Q'16)**

Sales revenue for the third quarter ended 30 September 2016 at RM 19.4 million was 2% higher than the preceding quarter of RM 19.0 million. The sales increase was driven by stronger sales in electronic headlamps, electronic wearables and other consumer electronic lifestyle products after off-setting the softer demand in floor-care products.

The Group posted loss attributable to equity holders of the parent company of RM2.4 million as compared to a profit of RM 1.4 million in the preceding quarter. The loss was mainly attributed to the impairment on tooling of RM 1.6 million subsequent to the exit from the mobile phone accessories' ODM business reflecting the Group's cautious management practices and the reduced gross margin caused primarily by materials and labour costs escalation.

16. COMMENTARY ON PROSPECTS AND TARGETS

Cumulative sales for the initial 9 months of the year ended 30 September 2016 clocked in at RM 60.6 million against the same of RM 112.2 million for the corresponding period last year, representing a decrease of 46% which was chiefly contributed by the programmed phasing out of the mobile phone accessories' ODM business and, to a lesser degree, weaker sales performance from the network camera segment. The exit from the mobile phone accessories' ODM market is in line with the Group's strategy to intentionally move away from this highly competitive business where severe margin compression prevails. However, it will contemplate to revisit this business if circumstances and conditions turn conducive in the future or re-enter through a different business model which is more sustainable.

Although electronic headlamps, floor-care and other consumer electronic lifestyle products witnessed improved sales during the period under review against the same period last year, sales growth for the balance of the year is expected to be subdued in view of the current lackluster and uncertain global economy. Nevertheless, the Group's strategic roadmap to diversify into the medical/healthcare, automotive, electronic wearables, consumer electronic lifestyle and IoT markets which yield higher margins, longer product life cycles and with upwards industry dynamics is on-going. New ventures in the likes of co-working space business venture, strategic alliance partnership and the launch of own-brand products to support the said diversification is gathering momentum.

Despite the group's intensified diversification plans, we foresee strong global economic headwinds moving forward. Therefore, contributions from the diversification plans may be restrained for a while until the global economy finds its footing back to stable growth. In such event, we expect the current year's business to consolidate and earnings to be adversely impacted.

On a brighter note, it is worthwhile to share that the Group has recently co-founded the Malaysia IoT Consortium (MyIoT) with certain like-minded local prominent ICT corporations with the aims to realize the promise of IoT and unlock its business value.

17. INCOME TAX EXPENSE

	3 months ended		9 months ended	
	30.9.2016	30.9.2015	30.9.2016	30.9.2015
	RM'000	RM'000	RM'000	RM'000
Deferred tax	49	198	(36)	32
Current tax	(148)	(82)	(173)	371
Total Income Tax Expense	(99)	116	(209)	403

Income tax is calculated at the Malaysian statutory tax rate of 24% 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 September 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 September 2016, the realized and unrealized profits are as follows:

	9 months ended 30.9.2016 RM'000
Realised profit	13,876
Unrealised Loss	(346)
Consolidation adjustments	6,161
Total Retained Profit	19,691

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

	9 months ended 30.9.2015 RM'000
Realised profit	9,933
Unrealised profit	2,128
Consolidation adjustments	6,181
Total Retained Profit	18,242

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		9 months ended	
	30.9.2016	30.9.2015	30.9.2016	30.9.2015
(Loss)/ Profit attributable to equity holders of the parent (RM'000)	(2,361)	4,344	(2,348)	7,382
Weighted average number of Ordinary Shares in issue '000)	472,655	432,826	472,655	427,901
Basic (Loss)/ Earnings Per Ordinary Share (sen)	(0.50)	1.00	(0.50)	1.72

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		9 months ended	
	30.9.2016	30.9.2015	30.9.2016	30.9.2015
(Loss)/ Profit attributable to equity holders of the parent (RM'000)	(2,361)	4,344	(2,348)	7,382
Weighted average number of Ordinary Shares in issue ('000)	472,655	432,826	472,655	427,901
Effect of dilution of share options and warrants ('000)	-	42,432	-	48,418
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	472,655	475,258	472,655	4476,319
Diluted (Loss)/ Earnings Per Ordinary Share (sen)	(0.50)	0.91	(0.50)	1.55

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 14 November 2016.

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

14 Nov 2016