

K-One

K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2014**

**Condensed Consolidated Statements of Comprehensive Income
For The Third Quarter Ended 30 September 2014**

Figures in RM'000	3 months ended		9 months ended	
	30.9.2014 Unaudited	30.9.2013 Unaudited	30.9.2014 Unaudited	30.9.2013 Unaudited
Operating revenue	48,918	47,663	131,889	119,477
Cost of sales	(43,508)	(44,594)	(114,152)	(116,042)
Gross profit	5,410	3,069	17,737	3,435
Other income	21	277	169	4,514
Operating expenses	(2,254)	(1,653)	(8,913)	(7,684)
Profit / (Loss) from operations	3,177	1,693	8,993	265
Finance costs	(74)	(362)	(445)	(1,138)
Profit / (Loss) before tax	3,103	1,331	8,548	(873)
Income tax expense	-	-	-	-
Profit / (Loss) for the period	3,103	1,331	8,548	(873)
Non-controlling interests	-	-	-	-
Profit / (Loss) after tax after non-controlling interests	3,103	1,331	8,548	(873)

Profit / (Loss) attributable to:

Owners of the Parent	3,103	1,331	8,548	(873)
Non-controlling interests	-	-	-	-
	3,103	1,331	8,548	(873)

Profit / (Loss) per share (EPS)

Attributable to owners
of the Parent (sen):

Basic EPS	0.83	0.35	2.28	(0.23)
Diluted EPS	0.65	0.28	1.80	(0.23)

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

Figures in RM'000	3 months ended		9 months ended	
	30.9.2014 Unaudited	30.9.2013 Unaudited	30.9.2014 Unaudited	30.9.2013 Unaudited
Profit / (Loss) for the period	3,103	1,331	8,548	(873)
Items that may be subsequently reclassified to profit or loss	-	-	-	-
Foreign currency translation	(1)	28	-	42
Total comprehensive income / (loss)	3,102	1,363	8,548	(831)

Profit / (loss) attributable to:

Owners of the Parent	3,102	1,363	8,548	(831)
Non-controlling interests	-	-	-	-
	3,102	1,363	8,548	(831)

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
At 30 September 2014

Figures in RM'000	Unaudited 30.9.2014	Audited 31.12.2013
ASSETS		
<i>Non-Current Assets</i>		
Property, plant and equipment	16,483	17,210
Intangible assets	541	917
Goodwill	5,546	5,546
Non-Current Assets	22,570	23,673
<i>Current Assets</i>		
Inventories	14,617	20,806
Trade receivables	41,465	45,573
Other receivables	661	962
Tax recoverable	263	300
Cash and bank balances	12,657	13,103
Total Current Assets	69,663	80,744
TOTAL ASSETS	92,233	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	(121)	(121)
Retained earnings	9,670	1,122
Equity Attributable to Owners of the Parent	52,005	43,457
Non-controlling interests	-	-
Total Equity	52,005	43,457

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

Figures in RM'000	Unaudited 30.9.2014	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	37,895	40,527
Other payables and accruals	280	449
Amount due to Directors	2	2
Bank overdraft	-	4,041
Bank borrowings	957	14,732
Tax payables	-	4
Current Liabilities	39,134	59,755
Total Liabilities	40,228	60,960
TOTAL EQUITY AND LIABILITIES	92,233	104,417
Net assets per share attributable to Owners of the Parent (sen)	13.88	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 Third Quarter Ended 30 September 2014**

Figures in RM'000	<-----Attributable to Owners of the Parent ----->							Non-controlling Interest	Total Equity
	Share Capital	Non-distributable Share		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	-	-	-	-	-	-	-	-	
Net profit for the period	-	-	-	-	8,548	8,548	-	8,548	
	-	-	-	-	8,548	8,548	-	8,548	
At 30 September 2014	37,455	3,596	1,405	(121)	9,670	52,005	-	52,005	

Figures in RM'000	<-----Attributable to Owners of the Parent ----->							Non-controlling Interest	Total Equity
	Share Capital	Non-distributable Share		Warrant Reserve	Reserve	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	-	-	-	42	-	42	-	42	
Net (loss) for the period	-	-	-	-	(873)	(873)	-	(873)	
	-	-	-	42	(873)	(831)	-	(831)	
At 30 September 2013	37,455	3,596	1,405	(61)	(765)	41,630	-	41,630	

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 Third Quarter Ended 30 September 2014**

Figures in RM'000	9 months ended	
	30.9.2014	30.9.2013
CASH FLOW FROM OPERATING ACTIVITIES		
<i>Profit / (loss) before taxation</i>	8,548	(873)
Adjustments for:		
Depreciation of property, plant and equipment	1,814	1,750
Amortization of intangible assets	69	44
Interest expenses	445	1,138
Interest income	(1)	(1)
Gain on early settlement of hire purchase	(9)	-
Gain on disposal of property, plant and equipment	(59)	(337)
Foreign exchange loss / (gain) – unrealized	(77)	(109)
Operating profit before working capital changes	10,730	1,612
Changes in working capital		
Decrease in inventory	6,190	11,697
Decrease in receivables	3,303	3,864
Increase in amount due to Director	-	(23)
Decrease in payables	(1,617)	(3,736)
Cash generated from operations	18,606	13,414
Interest paid	(445)	(1,138)
Taxation paid	33	(78)
Net cash from operating activities	18,194	12,198

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

Figures in RM'000	9 months ended	
	30.9.2014	30.9.2013
CASH FLOW FROM INVESTING ACTIVITIES		
Interest income	1	1
Purchase of property, plant and equipment	(1,334)	(1,700)
Proceeds from disposal of property, plant and equipment	612	1,900
Net cash (used in) investing activities	(721)	201
CASH FLOW FROM FINANCING ACTIVITIES		
Net repayment of borrowings	(13,879)	(5,616)
Net cash (used in) financing activities	(13,879)	(5,616)
Net increase in cash and cash equivalents	3,594	6,783
Effect of exchange rate changes	1	2
Cash and cash equivalents at beginning of the period	9,062	4,103
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	12,657	10,888

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figures in RM'000	9 months ended	
	30.9.2014	30.9.2013
Cash and Bank Balances	12,657	12,420
Overdraft	-	(1,532)
	12,657	10,888

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		9 months ended	
	30.9.2014	30.9.2013	30.9.2014	30.9.2013
Depreciation of property, plant and equipment	(589)	(582)	(1,814)	(1,750)
Amortization of intangible assets	(26)	(15)	(69)	(44)
Interest expenses	(74)	(362)	(445)	(1,138)
Gain on disposal of property, plant and equipment	14	-	59	337
Gain on early settlement of hire purchase	-	-	45	-
Foreign exchange (loss) / gain – unrealized	228	(14)	(77)	109
Interest income	-	-	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 September 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	2,820	129,069	-	-	-	131,889
Total operating sales	2,820	129,069	-	-	-	131,889
Other income	48	121	-	-	-	169
	2,868	129,190	-	-	-	132,058
Results						
Segment results	(571)	9,589	(5)	(20)	-	8,993
Finance costs	-	(211)	-	-	-	(445)
Income tax	-	-	-	-	-	-
Profit after tax						8,548
Other information						
Segment assets	5,375	86,134	168	292		91,969
Unallocated assets						264
Total assets						92,233
Segments liabilities	354	37,796	5	20		38,175
Unallocated liabilities						2,053
Total liabilities						40,228

9. SEGMENT INFORMATION (Cont'd)

(b) The segmental information for the financial period ended 30 September 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	2,897	116,580	-	-	-	119,477
Internal Revenue		512			(512)	-
Total operating sales	2,897	117,092	-	-	(512)	119,477
Other income	59	4,455	-	-	-	4,514
	2,956	121,547	-	-	(512)	123,991
Results						
Segment results	(799)	1,175	(46)	(65)	-	265
Finance costs	-	(211)	-	-	-	(1,138)
Income tax	-	-	-	-	-	-
Profit after tax						(873)
Other information						
Segment assets	6,832	85,785	296	296	-	93,209
Unallocated assets						391
Total assets						93,600
Segments liabilities	459	32,688	25	16	-	33,188
Unallocated liabilities						18,782
Total liabilities						51,970

(c) Sales Contribution by Geography

The geographical sales breakdown are as follows:

	9 months ended	
	30.9.2014 RM'000	30.9.2013 RM'000
Malaysia	1,135	1,347
Europe	69,754	71,044
USA	1,655	2,592
Oceania	180	9
Africa	79	26
Middle-East	49	69
North Asia	59,037	44,390
	131,889	119,477

9. SEGMENT INFORMATION(Cont'd)

(d) Sales to Major Customers

For the 9 months ended 30 September 2014, 3 major customers contributed RM 106 million, representing approximately 80% of total sales revenue (2013: RM 101 million, representing 85% 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 September 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 (3Q'14 vs 3Q'13)

For the third quarter ended 30 September 2014, the Group achieved sales revenue of RM48.9 million as compared to sales revenue of RM47.7 million for the corresponding quarter last year. The increase of 3% 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 RM3.1 million as compared to the same of RM1.3 million for the corresponding quarter last year. Profit increased by 138% due mainly to the contributions from the streaming of new products with better margins and the existing products having improved margins as a result of various profit enhancement measures taken thus far. The profit enhancement measures taken include reducing materials costs, improving productivity and prudently managing overheads.

(b) Current quarter versus the preceding quarter (3Q'14 vs 2Q'14)

Sales revenue for the third quarter ended 30 September 2014 at RM48.9 million was 32% higher than the preceding quarter of RM37.1 million. The increase in sales was mainly attributed to the ramping up of production of mobile phone accessories to tie in with new product launches, increased demand of network cameras and fulfilment of higher demand from the health-care devices' customers.

The Group registered profit attributable to equity holders of the parent company of RM3.1 million as compared to the same of RM2.2 million in the preceding quarter, representing a 41% increase in profitability. The profit increase was mainly due to a significant growth in sales turnover of RM11.8 million ie 32% increase in sales in the third quarter of 2014 over the second quarter in the same year and lower operating expenses.

16. COMMENTARY ON PROSPECTS AND TARGETS

Sales for the cumulative 9 months (January-September) of 2014 hit RM131.9 million against the same for last year (9 months of 2013) of RM119.5 million. This translates to a growth of RM12.4 million, representing a 10% growth.

The third quarter sales for 2014 increased by RM11.8 million or 32% against the preceding second quarter (2014) sales. Sales in the second half of 2014, as forecasted earlier in the year to be much better than the first half of 2014 is unfolding according to expectation. The first 9 months of 2014 are showing promising growth in the mobile phone accessories and the network cameras business segments. The newer healthcare devices segment and new consumer electronic products (such as wearable gadgets) segments have begun to make improved contributions to the overall growth in the second half of 2014.

We thus expect the sales growth momentum in the balance of the second half of 2014 to continue its upswing and peaking in the last quarter of the year. This is premised upon the projected healthy demand from our existing core customers and the increasing contributions from our healthcare and other consumer devices clients. Nonetheless, we take cognizance that the current state of the global economy is uncertain but we expect the recovery process to be sustainable.

With respect to profitability, the Group registered profit of RM8.5 million in the first 9 months (January-September) of 2014 which represents a major turnaround from the loss of RM0.9 million in the corresponding period last year (2013). This incidentally means that profit grew by 1,044%, comparing the cumulative 9 months of 2014 against the same for last year (2013). The Group expects its profitability to be sustainable for the balance of the year. It will continue to exercise prudence 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.

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 September 2014 are as follows:

	RM'000
<i>Short term borrowings</i>	
Revolving Credits (Unsecured)	760
Term Loan (Secured)	197
	957
<i>Long term borrowings</i>	
Term Loan (Secured)	963
	963
Total Borrowings	1,920

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 September 2014, the realized and unrealized profits are as follows:

	9 months ended 30.9.2014 RM'000
Realised profit / (loss)	9,593
Unrealised profit / (loss)	77
Total Retained Profit	9,670

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

	9 months ended 30.9.2013 RM'000
Realised profit / (loss)	(874)
Unrealised profit / (loss)	109
Total Retained Profit	(765)

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	
	30.9.2014	30.9.2013	30.9.2014	30.9.2013
Profit / (loss) attributable to equity holders of the parent (RM'000)	3,103	1,331	8,548	(873)
Weighted average number of Ordinary Shares in issue '000)	374,549	374,548	374,549	374,548
Basic Earnings /(loss) Per Ordinary Share (sen)	0.83	0.35	2.28	(0.23)

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	
	30.9.2014	30.9.2013	30.9.2014	30.9.2013
Profit /(loss) attributable to equity holders of the parent (RM'000)	3,103	1,331	8,548	(873)
Weighted average number of Ordinary Shares in issue ('000)	374,549	374,548	374,549	374,548
Effect of dilution of share options and warrants ('000)	100,725	100,726	100,725	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)	0.65	0.28	1.80	(0.23)*

*Diluted loss per ordinary share is equivalent to basic loss per ordinary share due to anti-dilutive effect

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 30 October 2014.

BY ORDER OF THE BOARD
NG YIM KONG (LS 0009297)
Company Secretary
Dated: 30 October 2014.