

K-One

K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FIRST QUARTER ENDED 31 MARCH 2016**

**Condensed Consolidated Statements of Comprehensive Income
For The First Quarter Ended 31 March 2016**

Figures in RM'000	3 months ended		3 months ended	
	31.3.2016 Unaudited	31.3.2015 Unaudited	31.3.2016 Unaudited	31.3.2015 Audited
Operating revenue	22,261	32,623	22,261	32,623
Cost of sales	(19,095)	(30,358)	(19,095)	(30,358)
Gross profit	3,166	2,265	3,166	2,265
Other income	51	9	51	9
Interest income	188	75	188	75
Operating expenses	(4,598)	(1,503)	(4,598)	(1,503)
(Loss)/Profit from operations	(1,193)	846	(1,193)	846
Finance costs	-	-	-	-
(Loss)/Profit before tax	(1,193)	846	(1,193)	846
Income tax expense	(166)	(326)	(166)	(326)
(Loss)/Profit for the period	(1,359)	520	(1,359)	520
Non-controlling interests	-	-	-	-
(Loss)/Profit after tax after Non-controlling interests	(1,359)	520	(1,359)	520

(Loss)/Profit attributable to:

Owners of the Parent	(1,359)	520	(1,359)	520
Non-controlling interests	-	-	-	-
	(1,359)	520	(1,359)	520

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

Basic (LPS)/EPS	(0.29)	0.12	(0.29)	0.12
Diluted (LPS)/EPS	(0.29)	0.11	(0.29)	0.11

**Condensed Consolidated Statements of Comprehensive Income
For The First Quarter Ended 31 March 2016 (Cont'd)**

Figures in RM'000	3 months ended		3 months ended	
	31.3.2016 Unaudited	31.3.2015 Unaudited	31.3.2016 Unaudited	31.3.2015 Audited
(Loss)/Profit for the period	(1,359)	520	(1,359)	520
Items that may be subsequently reclassified to profit or loss	-	-	-	-
Foreign currency translation	54	14	54	14
Total comprehensive (loss)/income	(1,305)	534	(1,305)	534

(Loss)/Profit attributable to:

Owners of the Parent	(1,305)	534	(1,305)	534
Non-controlling interests	-	-	-	-
	(1,305)	534	(1,305)	534

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 31 March 2016

Figures in RM'000	Unaudited 31.3.2016	Audited 31.12.2015
ASSETS		
<i>Non-Current Assets</i>		
Property, plant and equipment	13,702	13,913
Intangible assets	379	413
Deferred tax assets	653	684
Goodwill	5,546	5,546
Non-Current Assets	20,280	20,556
<i>Current Assets</i>		
Inventories	10,263	9,183
Trade receivables	16,221	26,436
Other receivables	858	1,128
Tax recoverable	130	128
Cash and bank balances	54,603	52,145
Total Current Assets	82,075	89,020
TOTAL ASSETS	102,355	109,576

EQUITY AND LIABILITIES		
<i>Equity</i>		
Share capital	47,266	47,266
Share premium	15,885	15,885
Warrant reserves	-	-
Other reserves	49	(5)
Retained earnings	20,679	22,039
Total Equity	83,879	85,185

**Condensed Consolidated Statements of Financial Position
As At 31 March 2016 (Cont'd)**

Figures in RM'000	Unaudited 31.3.2016	Audited 31.3.2015
EQUITY AND LIABILITIES		
<i>Non-Current Liabilities</i>		
Deferred tax liability	386	270
Non-Current Liabilities	386	270
<i>Current Liabilities</i>		
Trade payables	16,879	22,741
Other payables and accruals	493	668
Amount due to Directors	2	2
Tax payable	716	710
Current Liabilities	18,090	24,121
Total Liabilities	18,476	24,391
TOTAL EQUITY AND LIABILITIES	102,355	109,576
Net assets per share attributable to Owners of the Parent (sen)	17.75	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 First Quarter Ended 31 March 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 2015	47,266	15,885	-	(5)	22,038	85,184	-	85,184
Exchange difference arising from foreign subsidiary companies	-	-	-	54	-	54	-	54
Net loss for the period	-	-	-	-	(1,359)	(1,359)	-	(1,359)
Dividend declared	-	-	-	-	-	-	-	-
	-	-	-	54	(1,359)	(1,305)	-	(1,305)
At 31 March 2016	47,266	15,885	-	49	20,679	83,879	-	83,879

<-----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	-	-	-	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

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 First Quarter Ended 31 March 2016

Figures in RM'000	3 months ended	
	31.3.2016	31.3.2015
CASH FLOW FROM OPERATING ACTIVITIES		
<i>(Loss) / Profit before taxation</i>	(1,193)	846
Adjustments for:		
Depreciation of property, plant and equipment	660	795
Amortization of intangible assets	34	27
Interest income	(188)	(75)
Foreign exchange loss / (gain) – unrealized	2,342	(341)
Operating profit before working capital changes	1,655	1,252
Changes in working capital		
(Increase)/Decrease in inventory	(1,081)	506
Decrease in receivables	9,140	15,756
(Decrease) in payables	(4,917)	(16,967)
Cash generated from operations	4,797	547
Taxation (paid) / refund	(15)	85
<i>Net cash from operating activities</i>	4,782	632

**Condensed Consolidated Statements of Cash Flows
For The First Quarter Ended 31 March 2016 (Cont'd)**

Figures in RM'000	3 months ended	
	31.3.2016	31.3.2015
CASH FLOW FROM INVESTING ACTIVITIES		
Interest income	188	75
Purchase of property, plant and equipment	(448)	(89)
Net cash (used in) investing activities	(260)	(14)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	-	1,390
Net cash financing activities	-	1,390
Net increase in cash and cash equivalents	4,522	2,008
Effect of exchange rate changes	(2,064)	13
Cash and cash equivalents at beginning of the period	52,145	33,131
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	54,603	35,152

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figures in RM'000	3 months ended	
	31.03.2016	31.03.2015
Cash and bank balances	36,765	25,152
Placement in time deposits	17,838	-
Placement in cash funds	-	10,000
	54,603	35,152

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		3 months ended	
	31.3.2016	31.3.2015	31.3.2016	31.3.2015
Depreciation of property, plant and equipment	(660)	(795)	(660)	(795)
Amortization of intangible assets	(34)	(27)	(34)	(27)
Gain on disposal of property, plant and equipment	-	5	-	5
Foreign exchange (loss) / gain - realized	(64)	(192)	(64)	(192)
Foreign exchange (loss) / gain – unrealized	(2,342)	341	(2,342)	341
Interest income	188	75	188	75

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	134	22,127	-	-	22,261
Internal sales	-	-	-	-	-
Total operating sales	134	22,127	-	-	22,261
Others and interest income	114	124	1	-	239
	248	22,251	1	-	22,500
Results					
Segment results	(419)	(705)	(69)	-	(1,193)
Finance costs	-	-	-	-	-
Income tax	-	(166)	-	-	(166)
Loss after tax before non- controlling interest					(1,359)
Non-controlling interest					-
Loss after tax after non- controlling interest					(1,359)

	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	24,059	76,366	1,147	-	101,572
Unallocated assets					783
					102,355
Segment liabilities	120	17,222	29	-	17,371
Unallocated liabilities					1,105
					18,476

9. SEGMENT INFORMATION (Cont'd)

(b) Sales Contribution by Geography

The geographical sales breakdown are as follows:

	3 months ended	
	31.3.2016	31.3.2015
	RM'000	RM'000
Malaysia	46	61
Asia (excluding M'sia)	6,262	16,461
Europe	15,440	15,334
Oceania	30	-
USA	483	767
	<u>22,261</u>	<u>32,623</u>

(c) Sales to Major Customers

For the 3 months ended 31 March 2016, four (4) major international customers (each with revenue of more than 10% of the Group revenue) contributed total revenue of approximately RM17.7million (2015: RM21.6 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 31 March 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 (1Q'16 vs 1Q'15)

For the first quarter ended 31 March 2016, the Group achieved sales revenue of RM 22.3 million as compared to sales revenue of RM 32.6 million for the corresponding quarter last year. The sales decline of approximately 32% were mainly attributed to the programmed phasing out of the mobile phone accessories' business which has become extremely competitive, hence, causing margin compression. Additionally, the smart phone and related accessories market is saturated which makes matters worse. To a small extent, the floor-care products also saw some sales contraction due to delivery issues with specific parts which were required to complete the entire end product, therefore, holding back shipments to customers.

The electronic headlamps, electronic wearables, network cameras and other consumer electronic lifestyle products are holding well, however, insufficient to cover for the sales decline coming from the mobile phone accessories' business.

15. PERFORMANCE REVIEW(Cont'd)

**(a) Current quarter compared to the corresponding quarter of last year
(1Q'16 vs 1Q'15)**

The Group posted loss attributable to equity holders of the parent company of RM 1.4 million as compared to a profit of RM 0.5 million for the corresponding quarter last year. The loss was caused by the weakened USD in the period concerned, resulting in foreign exchange fluctuation loss of approximately RM2.3 million. Discounting the foreign exchange fluctuation loss, the Group would have made an operating profit of approximately RM 0.9 million, despite the sales decline.

**(b) Current quarter versus the preceding quarter
(1Q'16 vs 4Q'15)**

Sales revenue for the first quarter ended 31 March 2016 at RM 22.3 million represented a 34% decline from the preceding quarter of RM 33.9 million. The sales decrease were mainly attributed to the programmed phasing out of the mobile phone accessories' business which has become extremely competitive, hence, resulting in margin compression. Furthermore, the smart phone and related accessories market is saturated, making matters worse. On the other hand, sales of electronic headlamps, network cameras, floor-care products were sluggish as compared to the preceding quarter, thus, to some extent, compounded the sales decline.

The Group posted loss attributable to equity holders of the parent company of RM 1.4 million as compared to a profit RM 3.5 million in the preceding quarter. As explained earlier, segregating the foreign exchange fluctuation loss of approximately RM 2.3 million caused by the weakened USD over the period concerned, the Group would have made an operating profit of RM 0.9 million.

15. COMMENTARY ON PROSPECTS AND TARGETS

Sales for the first quarter of 2016 were subdued and on a declining trend as compared to both the same and preceding quarters last year. This was to be expected as the Group embarked in maneuvering away from highly competitive cum low margin markets such as the mobile phone accessories sector which have become intensely competitive and saturated in recent years. The Group has taken the bold move to side-step businesses which did not generate the required profit margins, a case in point being the mobile phone accessories' business. In this space, we recently witnessed that for the first time in Apple's record, its smart phone sales has taken a dip in its recent first quarter results. This is a clear indication of the competition intensity and market saturation in the smart phone business as nobody can be a better barometer than Apple in this market space.

The Group has been engineering with increased focus over the last one year to transform and diversify into other electronic product segments, in particular, the electronic wearables, medical/healthcare products, automotive aggregates and IoT devices which have better margins. On the same note, we wish to highlight that medical/healthcare products and automotive aggregates have longer product life cycles which will augur well for the Group's sustainability. We are seeing emerging results in our diversification or transformation process but, to be realistic, it may take some time to bloom.

In the meantime, the Group expects sales for the next quarter to remain subdued as we continue to side-step the mobile phone accessories' business while focusing our efforts on the emerging electronic wearables, IoT devices, drones and the stable automotive aggregates, medical/healthcare products and industrial gadgets' markets. Beyond the next quarter, it is expected that the Group's sales in the second half of 2016 to be stronger than the first half.

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

With respect to profitability, it is anticipated to climb back to positive territory moving forward, provided the USD maintains its current strength and the global economy sees improvement. In any event, the Group will continue to exercise prudence in managing its overheads/expenses, improve productivity, enhance operational efficiency and drive down materials costs. At the same time, which is important, it will work towards increasing sales through diversification as described above to improve or sustain profitability. However, we caution that the months ahead to be challenging as the major economies such as the US and Europe are facing uncertain or volatile growth while China and Japan seem to be faltering.

16. INCOME TAX EXPENSE

	3 months ended		3 months ended	
	30.3.2016	30.3.2015	30.3.2015	30.3.2016
	RM'000	RM'000	RM'000	RM'000
Deferred tax	147	(174)	147	(174)
Current tax	19	500	19	500
Total Income Tax Expense	166	326	166	326

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.

17. 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.

18. QUOTED SECURITIES

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

19. CORPORATE PROPOSALS

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

20. BORROWINGS AND DEBTS SECURITIES

The Group does not have any secured nor unsecured borrowings as at 31 March 2016.

21. 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.

22. 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.

23. PROPOSED DIVIDEND

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

24. REALISED AND UNREALISED PROFIT / (LOSS)

As at the end of the current quarter under review ended 31 March 2016, the realized and unrealized profits are as follows:

	3 months ended 31.3.2016 RM'000
Realised profit	16,829
Unrealised loss	(2,311)
Consolidation adjustments	6,161
Total Retained Profit	20,679

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

	3 months ended 31.3.2015 RM'000
Realised profit	4,858
Unrealised profit	341
Consolidation adjustments	6,181
Total Retained Profit	11,380

25. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/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	
	31.3.2016	31.3.2015	31.3.2016	31.3.2015
(Loss)/Profit attributable to equity holders of the parent (RM'000)	(1,359)	520	(1,359)	520
Weighted average number of Ordinary Shares in issue '000)	472,655	418,808	472,655	418,808
Basic (Loss)/Earnings Per Ordinary Share (sen)	(0.29)	0.12	(0.29)	0.12

25. EARNINGS PER SHARE(Cont'd)

(b) Diluted (loss)/earnings per share

For the purpose of calculating diluted (loss)/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		3 months ended	
	31.3.2016	31.3.2015	31.3.2016	31.3.2015
(Loss)/Profit attributable to equity holders of the parent (RM'000)	(1,359)	520	(1,359)	520
Weighted average number of Ordinary Shares in issue ('000)	472,655	418,808	472,655	379,201
Effect of dilution of share options and warrants ('000)	-	34,028	-	34,028
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	472,655	452,836	472,655	452,836
Diluted (Loss)/Earnings Per Ordinary Share (sen)	(0.29)	0.11	(0.29)	0.11

26. 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 20 May 2016.

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

20 May 2016