

K-One

K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FIRST QUARTER ENDED 31 MARCH 2014**

**Condensed Consolidated Statements of Comprehensive Income
For The First Quarter Ended 31 March 2014**

Figures in RM'000	3 months ended		3 months ended	
	31.03.2014 Unaudited	31.03.2013 Unaudited	31.03.2014 Unaudited	31.03.2013 Unaudited
Operating revenue	45,886	36,086	45,886	36,086
Other income	79	464	79	464
Costs of sales	45,965	36,550	45,965	36,550
Operating expenses	(39,252)	(38,814)	(39,252)	(38,814)
Profit / (Loss) from operations	3,452	(5,218)	3,452	(5,218)
Finance costs	(211)	(379)	(211)	(379)
Profit / (Loss) before tax	3,241	(5,597)	3,241	(5,597)
Income tax expense	-	-	-	-
Profit / (Loss) for the period	3,241	(5,597)	3,241	(5,597)
Non-controlling interests	-	-	-	-
Profit / (Loss) after tax after Non-controlling interests	3,241	(5,597)	3,241	(5,597)

Profit / (Loss) attributable to:

Owners of the Parent	3,241	(5,597)	3,241	(5,597)
Non-controlling interests	-	-	-	-
	3,241	(5,597)	3,241	(5,597)

Profit / (Loss) per share (EPS)

Attributable to owners
of the Parent (sen):

Basic EPS	0.87	(1.49)	0.87	(1.49)
Diluted EPS	0.68	(1.18)	0.68	(1.18)

Condensed Consolidated Statements of Comprehensive Income(cont'd)
For The First Quarter Ended 31 March 2014

Figures in RM'000	3 months ended		3 months ended	
	31.03.2014 Unaudited	31.03.2013 Unaudited	31.03.2014 Unaudited	31.03.2013 Unaudited
Profit / (Loss) for the period	3,241	(5,597)	3,241	(5,597)
Items that may be subsequently reclassified to profit or loss				
Foreign currency translation	(3)	10	(3)	10
Total comprehensive income / (loss)	3,238	(5,587)	3,238	(5,587)

Profit / (loss) attributable to:

Owners of the Parent	3,238	(5,587)	3,238	(5,587)
Non-controlling interests	-	-	-	-
	3,238	(5,587)	3,238	(5,587)

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
As At 31 March 2014

Figures in RM'000	Unaudited 31.03.2014	Audited 31.12.2013
ASSETS		
<i>Non-Current Assets</i>		
Property, plant and equipment	16,786	17,210
Intangible assets	898	917
Goodwill	5,546	5,546
Non-Current Assets	23,230	23,673
<i>Current Assets</i>		
Inventories	19,446	20,806
Trade receivables	37,962	45,573
Other receivables	845	962
Tax recoverable	314	300
Cash and bank balances	13,451	13,103
Total Current Assets	72,018	80,744
TOTAL ASSETS	95,248	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	(124)	(121)
Retained earnings	4,363	1,122
Equity Attributable to Owners of the Parent	46,695	43,457
Non-controlling interests	-	-
Total Equity	46,695	43,457

Condensed Consolidated Statements of Financial Position (Cont'd)
As At 31 March 2014

Figures in RM'000	Unaudited 31.03.2014	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	34,903	40,527
Other payables and accruals	452	449
Amount due to Directors	2	2
Bank overdraft	1,880	4,041
Bank borrowings	10,222	14,732
Tax payables	-	4
Current Liabilities	47,459	59,755
Total Liabilities	48,553	60,960
TOTAL EQUITY AND LIABILITIES	95,248	104,417
Net assets per share attributable to Owners of the Parent (sen)	12.47	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 First Quarter Ended 31 March 2014**

Figures in RM'000	<-----Attributable to Owners of the Parent ----->							Non-controlling Interest	Total Equity
	Share Capital	Non-distributable Share Premium		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	-	-	-	(3)	-	(3)	-	(3)	
Net profit 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	

Figures in RM'000	<-----Attributable to Owners of the Parent ----->							Non-controlling Interest	Total Equity
	Share Capital	Non-distributable Share Premium		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	-	-	-	10	-	10	-	10	
Net (loss) for the period	-	-	-	-	(5,597)	(5,597)	-	(5,597)	
	-	-	-	10	(5,597)	(5,587)	-	(5,587)	
At 31 March 2013	37,455	3,596	1,405	(93)	(5,489)	36,874	-	36,874	

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 First Quarter Ended 31 March 2014

Figures in RM'000	3 months ended	
	31.03.2014	31.03.2013
CASH FLOW FROM OPERATING ACTIVITIES		
<i>Profit / (loss) before taxation</i>	3,241	(5,597)
Adjustments for:		
Depreciation of property, plant and equipment	617	602
Amortization of intangible assets	19	12
Interest expenses	211	379
Interest income	(1)	(1)
(Gain) on disposal of property, plant and equipment	(5)	(1)
Foreign exchange loss / (gain) – unrealized	16	(429)
Operating profit before working capital changes	4,098	(5,035)
Changes in working capital		
Decrease in inventory	1,360	7,347
Decrease in receivables	6,530	10,022
(Decrease) in payables	(4,437)	(7,663)
Cash generated from operations	7,551	4,671
Interest paid	(211)	(379)
Taxation paid	(18)	(33)
Net cash from operating activities	7,322	4,259

Condensed Consolidated Statements of Cash Flows (Cont'd)
For The First Quarter Ended 31 March 2014

Figures in RM'000	3 months ended	
	31.03.2014	31.03.2013
CASH FLOW FROM INVESTING ACTIVITIES		
Interest income	1	1
Purchase of property, plant and equipment	(193)	(437)
Proceeds from disposal of property, plant and equipment	4	1
Net cash (used in) investing activities	(188)	(435)
CASH FLOW FROM FINANCING ACTIVITIES		
Net repayment of borrowings	(4,622)	(1,615)
Net cash (used in) financing activities	(4,622)	(1,615)
Net increase in cash and cash equivalents	2,512	2,209
Effect of exchange rate changes	(3)	(13)
Cash and cash equivalents at beginning of the period	9,062	4,103
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	11,571	6,299

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figures in RM'000	3 months ended	
	31.03.2014	31.03.2013
Cash and Bank Balances	13,451	10,069
Overdraft	(1,880)	(3,770)
	11,571	6,299

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		3 months ended	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013
Depreciation of property, plant and equipment	(617)	(602)	(617)	(602)
Amortization of intangible assets	(19)	(12)	(19)	(12)
Interest expenses	(211)	(379)	(211)	(379)
Gain on disposal of property, plant and equipment	5	1	5	1
Foreign exchange (loss) / gain – unrealized	(16)	429	(16)	429
Interest income	1	1	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) Contribution by Activities

	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
Sales						
External sales	409	45,477	-	-	-	45,886
Internal sales	-	-	-	-	-	-
Total operating sales	409	45,477	-	-	-	45,886
Other income	10	69	-	-	-	79
	419	45,546	-	-	-	45,965
Results						
Segment results	(323)	3,783	(2)	(6)	-	3,452
Finance costs	-	(211)	-	-	-	(211)
Income tax	-	-	-	-	-	-
Profit after tax before non-controlling interest						3,241
Non-controlling interest						-
Profit after tax after non-controlling interest						3,241

	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
Other information						
Segment assets	6,927	87,546	173	288	-	93,934
Unallocated assets						314
						95,248
Segment liabilities	329	34,995	7	24	-	35,355
Unallocated liabilities						13,198
						48,553

9. SEGMENT INFORMATION (cont'd)

(b) Sales Contribution by Geography

The geographical sales breakdown are as follows:

	3 months ended	
	31.03.2014	31.03.2013
	RM'000	RM'000
Malaysia	69	285
Europe	29,157	18,144
USA	352	933
Oceania	-	5
Africa	-	16
Middle East	20	-
North Asia	16,288	16,703
	<u>45,886</u>	<u>36,086</u>

(c) Sales from Major Customers

For the 3 months ended 31 March 2014, 3 major customers contributed RM39.1 million, representing approximately 85% of total sales revenue (2013: RM29 million, representing 81% 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 year ended 31 March 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>24,256</u>
	<u>24,256</u>

The corporate guarantee had effectively been reduced from RM 49.96 million as at the end of the fourth quarter of 2013 to RM 24.26 million as at the end of the first quarter of 2014, representing a 51% reduction. Comparing the current (first) quarter with the corresponding quarter last year, the same corporate guarantee had been reduced by 70% (from RM81.77 million to RM24.26 million). The reduction is in line with the Group's objective to gradually decrease its bank borrowings, therefore, saving in interest payments as its cash flow is positive and healthy.

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 (1Q14 vs 1Q13)

For the first quarter ended 31 March 2014, the Group achieved sales revenue of RM 45.9 million as compared to sales revenue of RM 36.1 million for the corresponding quarter last year. The significant increase of 27 % in sales was mainly attributed to the strong demand of network cameras, electronic headlamps and contributions from new consumer electronic products' customers.

The Group registered profit attributable to equity holders of the parent company of RM 3.2 million as compared to a loss of RM 5.6 million for the corresponding quarter last year. The improved profit of 157% was mainly attributed to the measures taken in reducing materials cost, cutting expenses and divesting from the unprofitable household appliances' wire-harness system business. The launching of new product lines for specific customers also helped to improve profitability.

(b) Current quarter versus the preceding quarter (1Q14 vs 4Q13)

Sales revenue for the first quarter ended 31 March 2014 at RM 45.9 million was 11% lower than the preceding quarter of RM 51.8 million. Sales decrease was registered with the majority of key customers which was an expected trend as sales normally peaked in the fourth quarters of each year to cater to the year-end festive seasons overseas. Nonetheless, 2014's first quarter sales was considered strong and is the highest registered first quarter sales on record.

The Group registered profit attributable to equity holders of the parent company of RM 3.2 million as compared to the same of RM 1.9 million in the preceding quarter, representing a 68% increase in profitability. This positive trend is the result of our prudence in managing materials costs and overheads, controlling of expenses and the progressive launching of new product lines by our existing and new customers which enhanced the Group's overall gross margins.

16. COMMENTARY ON PROSPECTS AND TARGETS

The Group registered sales of RM 45.9 million for the first quarter of 2014. This is a good start as it is the highest recorded first quarter sales in the history of the Group. We expect sales for the coming months to remain vibrant as we deliver more new products to our existing customers and the contributions from new customers escalate. The global economy, in particular the US and European prospects look to be improving consistently while that of China seems a bit uncertain, although GDP growth is still targeted at about 7.5% for 2014. Against such as backdrop of overall optimism, we expect Group sales to remain strong for the rest of the year.

With respect to profitability, the Group's first quarter profit of RM 3.2 million is commendable. The Group expects its profitability to be sustainable 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.

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 31 March 2014 are as follows:

	RM'000
<i>Short term borrowings</i>	
Bankers' Acceptance	8,830
Revolving Credits	880
Bank Overdraft	1,880
Term Loan	430
Hire-Purchase Payables	82
	12,102
<i>Long term borrowings</i>	
Term Loan	963
Hire-Purchase Payables	-
	963
Total Borrowings	13,065

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 31 March 2014, the realized and unrealized profits are as follows:

	3 months ended 31.03.2014 RM'000
Realised profit / (loss)	4,379
Unrealised profit / (loss)	(16)
Total Retained Profit	4,363

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

	3 months ended 31.03.2013 RM'000
Realised profit / (loss)	(5,918)
Unrealised profit / (loss)	429
Total Retained Profit	(5,489)

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	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013
Profit / (loss) attributable to equity holders of the parent (RM'000)	3,241	(5,597)	3,241	(5,597)
Weighted average number of Ordinary Shares in issue '000)	374,548	374,548	374,548	363,652
Basic Earnings /(loss) Per Ordinary Share (sen)	0.87	(1.49)	0.87	(1.49)

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		3 months ended	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013
Profit /(loss) attributable to equity holders of the parent (RM'000)	3,241	(5,597)	3,241	(5,597)
Weighted average number of Ordinary Shares in issue ('000)	374,548	374,548	374,548	374,548
Effect of dilution of share options and warrants ('000)	100,726	100,726	100,726	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)	0.68	(1.18)	0.68	(1.18)

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 15 May 2014.

BY ORDER OF THE BOARD
NG YIM KONG (LS 0009297)
Company Secretary
Dated: 15 May 2014.