

K-One

K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2015**

**Condensed Consolidated Statements of Comprehensive Income
For The Fourth Quarter Ended 31 December 2015**

Figures in RM'000	3 months ended		12 months ended	
	31.12.2015 Unaudited	31.12.2014 Unaudited	31.12.2015 Unaudited	31.12.2014 Audited
Operating revenue	33,910	54,208	146,062	186,097
Cost of sales	(28,356)	(46,263)	(127,856)	(160,415)
Other income	5,554	7,945	18,206	25,682
Interest income	1,648	1,252	3,831	1,420
Operating expenses	187	32	552	33
Profit from operations	(4,259)	(5,184)	(11,674)	(14,097)
Finance costs	3,130	4,045	10,915	13,038
Profit before tax	-	(30)	-	(475)
Income tax expense	3,130	4,015	10,915	12,563
Profit for the period	338	(685)	(65)	(685)
Non-controlling interests	3,468	3,330	10,850	11,878
Profit after tax after Non-controlling interests	3,468	3,330	10,850	11,878

Profit attributable to:

Owners of the Parent	3,468	3,330	10,850	11,878
Non-controlling interests	-	-	-	-
	3,468	3,330	10,850	11,878

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

Basic EPS	0.80	0.87	2.52	3.13
Diluted EPS	0.75	0.71	2.28	2.83

**Condensed Consolidated Statements of Comprehensive Income
For The Fourth Quarter Ended 31 December 2015 (Cont'd)**

Figures in RM'000	3 months ended		12 months ended	
	31.12.2015 Unaudited	31.12.2014 Unaudited	31.12.2015 Unaudited	31.12.2014 Audited
Profit for the period	3,468	3,330	10,850	11,878
Items that may be subsequently reclassified to profit or loss	-	-	-	-
Foreign currency translation	33	21	50	21
Total comprehensive income	3,501	3,351	10,900	11,899
Profit attributable to:				
Owners of the Parent	3,501	3,351	10,900	11,899
Non-controlling interests	-	-	-	-
	3,501	3,351	10,900	11,899

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 2014 and the accompanying explanatory notes attached to the interim financial statements.

Condensed Consolidated Statements of Financial Position
As At 31 December 2015

Figures in RM'000	Unaudited 31.12.2015	Audited 31.12.2014
ASSETS		
<i>Non-Current Assets</i>		
Property, plant and equipment	13,913	16,240
Intangible assets	413	513
Goodwill	5,546	5,546
Non-Current Assets	19,872	22,299
<i>Current Assets</i>		
Inventories	9,183	13,531
Trade receivables	26,437	42,685
Other receivables	1,113	614
Tax recoverable	128	223
Cash and bank balances	52,145	33,131
Total Current Assets	89,005	90,184
TOTAL ASSETS	108,878	112,483

EQUITY AND LIABILITIES		
<i>Equity</i>		
Share capital	47,266	41,779
Share premium	15,885	9,433
Warrant reserves	-	756
Other reserves	(50)	(100)
Retained earnings	21,749	13,000
Total Equity	84,850	64,868

Condensed Consolidated Statements of Financial Position
As At 31 December 2015 (Cont'd)

Figures in RM'000	Unaudited 31.12.2015	Audited 31.12.2014
EQUITY AND LIABILITIES		
<i>Non-Current Liabilities</i>		
Deferred tax liability	81	760
Non-Current Liabilities	81	760
<i>Current Liabilities</i>		
Trade payables	22,740	46,025
Other payables and accruals	495	828
Amount due to Directors	2	2
Tax payable	710	-
Current Liabilities	23,947	46,855
Total Liabilities	24,028	47,615
TOTAL EQUITY AND LIABILITIES	108,878	112,483
Net assets per share attributable to Owners of the Parent (sen)	23.04	15.53

The above condensed consolidated statements of financial position should be read in conjunction with the audited financial statements for the year ended 31 December 2014 and the accompanying explanatory notes attached to the interim financial statements.

**Condensed Consolidated Statements of Changes in Equity
For The Fourth Quarter Ended 31 December 2015**

<-----Attributable to Owners of the Parent ----->								
Figures in RM'000	<i>Non-distributable</i>			<i>Distributable</i>		Total	Non-controlling Interest	Total Equity
	Share Capital	Share Premium	Warrant Reserve	Foreign Currency Translation Reserve	Retained Profits			
At 1 January 2015	41,779	9,433	756	(100)	13,000	64,868	-	64,868
Exchange difference arising from foreign subsidiary companies	-	-	-	50	-	25	-	25
Issue of shares – exercise of ESOS	708	-	-	-	-	708	-	708
Issue of shares – exercise of warrants	4,779	6,452	(717)	-	-	10,514	-	10,514
Net profit for the period	-	-	(39)	-	10,889	10,850	-	10,850
Dividend declared	-	-	-	-	(2,140)	(2,140)	-	(2,140)
	5,487	6,452	(756)	50	8,749	19,957	-	19,957
At 31 December 2015	47,266	15,885	-	(50)	21,749	84,825	-	84,825

<-----Attributable to Owners of the Parent ----->								
Figures in RM'000	<i>Non-distributable</i>			<i>Distributable</i>		Total	Non-controlling Interest	Total Equity
	Share Capital	Share Premium	Warrant Reserve	Foreign Currency Translation Reserve	Retained Profits			
At 1 January 2014	37,455	3,596	1,405	(121)	1,122	43,457	-	43,457
Exchange difference arising from foreign subsidiary companies	-	-	-	-	-	-	-	-
Issue of shares – exercise of warrants	4,324	5,837	(649)	-	-	9,512	-	9,512
Net profit for the period	-	-	-	21	11,878	11,899	-	11,899
	4,324	5,837	(649)	21	11,878	21,411	-	21,411
At 31 December 2014	41,779	9,433	756	(100)	13,000	64,868	-	64,868

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 2014 and the accompanying explanatory notes attached to the interim financial statements.

**Condensed Consolidated Statements of Cash Flows
For The Fourth Quarter Ended 31 December 2015**

Figures in RM'000	12 months ended	
	31.12.2015	31.12.2014
CASH FLOW FROM OPERATING ACTIVITIES		
<i>Profit / (loss) before taxation</i>	10,915	12,563
Adjustments for:		
Impairment losses on trade receivables	-	716
Depreciation of property, plant and equipment	3,107	2,446
Amortization of intangible assets	108	96
Interest expenses	-	475
Interest income	(515)	(33)
Inventory written off	1,627	-
(Gain) on disposal of property, plant and equipment	-	(57)
Foreign exchange loss / (gain) – unrealized	459	(880)
Operating profit before working capital changes	15,701	15,326
Changes in working capital		
Decrease in inventory	2,721	7,275
Decrease in receivables	15,677	4,592
(Decrease) in payables	(23,649)	3,647
Cash generated from operations	10,450	30,840
Interest paid	-	(475)
Tax paid	-	(83)
Taxation refund	60	101
<i>Net cash from operating activities</i>	10,510	30,383

**Condensed Consolidated Statements of Cash Flows
For The Fourth Quarter Ended 31 December 2015
(Cont'd)**

Figures in RM'000	12 months ended	
	31.12.2015	31.12.2014
CASH FLOW FROM INVESTING ACTIVITIES		
Interest income	515	33
Purchase of property, plant and equipment	(790)	(1,502)
Purchase of intangible assets	-	(219)
Proceeds from disposal of intangible assets	-	528
Proceeds from disposal of property, plant and equipment	-	83
Net cash (used in) investing activities	(275)	(1,077)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	11,222	9,512
Repayment of short term borrowings	-	(14,183)
Repayment of term loan	-	(1,512)
Repayment of hire purchase	-	(111)
Dividend paid	(2,140)	-
Net cash (used in) financing activities	9,082	(6,294)
Net increase in cash and cash equivalents	19,317	23,011
Effect of exchange rate changes	(303)	1,058
Cash and cash equivalents at beginning of the period	33,131	9,062
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	52,145	33,131

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figures in RM'000	12 months ended	
	31.12.2015	31.12.2014
Cash and bank balances	52,145	33,131
Overdraft	-	-
	52,145	33,131

The above condensed consolidated statements of cash flows should be read in conjunction with the audited financial statements for the year ended 31 December 2014 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 2014.

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 2014.

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; 99.3% export in 2014) 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.

For this year (2015), the upsurge in the second half was subdued as the Group had chosen to filter out portions of business in specific industry segments which have become increasingly competitive and did not meet its internal rate of return. It will revisit such business when it is able to generate the appropriate rate of return either by reducing production costs or securing improved selling price.

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

In the current quarter, a total of 39,826,790 shares have been issued pursuant to the exercise of warrants. Year-to-date, a total of 54,868,290 shares have been issued pursuant to the exercise of warrants and employee share options respectively.

Except for the above, there were no other issuances, repurchases and repayments of debt securities during the period under review and up to the date of this report.

7. DIVIDENDS PAID

Since the end of the previous financial year, an interim single tier dividend of 0.5 sen per ordinary share in respect of the financial year ending 31 December 2015 amounting to RM2,139,933 was declared. Such dividend was paid on 30 April 2015.

8. Notes to Consolidated Statement of Comprehensive Income

Figures in RM'000	3 months ended		12 months ended	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Depreciation of property, plant and equipment	(728)	(589)	(3,107)	(2,446)
Amortization of intangible assets	(27)	(26)	(108)	(96)
Impairment loss on trade receivables				(716)
Inventory written off	-	-	(1,627)	-
Interest expenses	-	(30)	-	(475)
Gain on disposal of property, plant and equipment	-	14	-	57
Gain on early settlement of hire purchase	-	-	-	45
Foreign exchange (loss) / gain - realized	(70)	(79)	63	301
Foreign exchange (loss) / gain – unrealized	(810)	(228)	(459)	879
Interest income	150	-	515	33

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	2,953	143,109	-	-	146,062
Internal sales	-	-	-	-	-
Total operating sales	2,953	143,109	-	-	146,062
Others and interest income	2,157	3,672	32	(1,478)	4,383
	5,110	146,781	32	(1,478)	150,445
Results					
Segment results	1,339	11,056	(2)	(1,478)	10,915
Finance costs	-	-	-	-	-
Income tax	-	(65)	-	-	(65)
Profit after tax before non-controlling interest					10,850
Non-controlling interest					-
Profit after tax after non-controlling interest					10,850

	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	24,466	83,377	907	-	108,750
Unallocated assets					128
					108,878
Segment liabilities	105	23,111	19	-	23,235
Unallocated liabilities					793
					24,028

9. SEGMENT INFORMATION (Cont'd)

(b) Sales Contribution by Geography

The geographical sales breakdown are as follows:

	12 months ended	
	31.12.2015	31.12.2014
	RM'000	RM'000
Malaysia	461	1,312
Asia (excluding M'sia)	67,484	79,528
Europe	75,511	102,275
USA	2,544	2,674
Australia	46	180
Africa	-	79
Middle East	16	49
	<u>146,062</u>	<u>186,097</u>

(c) Sales to Major Customers

For the 12 months ended 31 December 2015, five (5) major international customers (each with revenue of more than 10% of the Group revenue) contributed total revenue of approximately RM130 million (2014: RM136 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 December 2015.

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
(4Q'15 vs 4Q'14)**

For the fourth quarter ended 31 December 2015, the Group achieved sales revenue of RM 33.9 million as compared to sales revenue of RM 54.2 million for the corresponding quarter last year. The sales decline of approximately 37% were attributed to: a) the phasing out of specific mobile phone accessories and cost down accorded to running models, hence, resulting in sales contraction and b) the sluggish sales in the network camera business

However, on a positive note, floor-care products, healthcare devices, electronic headlamps and other consumer electronic lifestyle products registered strong growth. Despite the sales surge in the preceding market segments, they were not enough to make up for the above causes of sales shortfall. The continued rising trend of the floor-care products, healthcare devices and consumer electronic lifestyle products affirms the confidence for the Group to intensify its sales efforts in these market segments.

15. PERFORMANCE REVIEW(Cont'd)

**(a) Current quarter compared to the corresponding quarter of last year
(4Q'15 vs 4Q'14)**

The Group registered profit attributable to equity holders of the parent company of RM 3.5 million as compared to the same of RM 3.3 million for the corresponding quarter last year. The increase in profit of 6 % despite the significant sales decline was mainly attributed to the persistent emphasis on productivity improvement, cost reduction exercises implemented, product mix bearing higher margins and the sustained strength of the USD in the final quarter of 2015.

**(b) Current quarter versus the preceding quarter
(4Q'15 vs 3Q'15)**

Sales revenue for the fourth quarter ended 31 December 2015 at RM 33.9 million represented a 19% decline from the preceding quarter of RM 41.6 million. The sales decrease were mainly attributed to a combination of reduced demand and sales price reduction accorded to certain running models of mobile phone accessories and weak demand of network cameras.

On the contrary, consumer electronic lifestyle and floor-care products posted strong sales in the final quarter of 2015 as compared to the preceding quarter.

The Group registered profit attributable to equity holders of the parent company of RM 3.5 million as compared to the same of RM 4.3 million in the preceding quarter, representing a 19% decrease in profitability. The profit decline correlated proportionately with the percentage sales drop for the comparative quarters in question. As such, net profit margin after tax over sales was maintained at double digits of approximately 10%, being supported by product mix bearing healthy margins, costs and expenses control, productivity improvement and aided by the sustained strength of the USD .

15. COMMENTARY ON PROSPECTS AND TARGETS

Sales revenue for 2015 clocked in at RM146.1 million as compared to last year's (2014) sales of RM 186.1 million. The drop of 21% was caused by the reduced demand coming in from the mobile phone accessories and network camera businesses. As for the global mobile phone market, in particular the smart phone segment, we are seeing the emergence of up and coming brand names from China such as Oppo, Xiaomi and One Plus garnering market share at the expense of the "big boys", especially, Samsung and Apple and the others as well, including our customers. Furthermore, the established Chinese brands such as Lenovo and Huawei are also posing intense competition to all global players in the mobile phone (smart phone) market. The prices of most of these smart phone manufacturers in China, be it emerging or established ones, are extremely competitive. They have also caught up from the quality and technical specification angles. Therefore, it is increasingly challenging to compete in the mobile phone or mobile phone accessories arenas. Margins are compressed and competitors are aplenty who are more willing to cut compromised deals in view of the slowing global economy. Our strategy in this respect is to maintain our margins moving forward which may cause us to further lose business in this segment unless we are able to reduce our costs to secure our desired margins. Towards this end, we will leverage on our wealth of experience and expertise to manage our share of the business to the best of our abilities. We shall continue to pitch for new network camera business and make up for lost business due to specific models being transferred to North America for production on the customer's corporate reasons.

On the brighter side, there was a surge in sales for floor-care products, electronic headlamps and other consumer electronic lifestyle products in 2015. At the same time, we also witnessed strong sales growth in the industries which we made our foray in recent times ie healthcare which includes electronic wearables.

Moving forward in 2016, the Group will accelerate its emphasis in re-balancing its product mix by focusing on higher margin products with longer product life cycles, which are typically exhibited in the healthcare/medical devices, industrial products, automotive aggregates and certain consumer electronic lifestyle products.

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

The Group has made its maiden venture into the autonomous vehicle ie drone business at the end of 2015 by showcasing its accessories in CES 2016 (Consumer Electronics Show, Las Vegas, US) in conjunction with a major drone brand name. In 2016, it would continue with its focus to explore this business which is emerging and has vast potential in the US and Europe.

We expect the global economy in 2016 to be filled with volatility and uncertain growth. Amidst such challenges, we are cautiously optimistic to grow sales by stepping up our diversification into the more resilient and rewarding markets of healthcare/medical devices, automotive aggregates and the emerging drone space to complement our conventional market segments which includes mobile phone accessories, network cameras and electronic headlamps.

The Group's profitability was recorded at RM 10.9 million for 2015 as compared to the same of RM 11.9 million in 2014. The decrease in profit was only approximately 8 % as compared to the sales decline of 21%. In terms of net profit margin, the Group registered 7.5% over sales for 2015 against the same of 6.4% in 2014. The improvement was due to various key factors, namely; a) product mix such as electronic headlamps, consumer electronic lifestyle products, healthcare devices and industrial products with higher margins carrying increased weightage; b) improved productivity; c) cost/expenses control and d) USD strength sustenance.

In 2016, the Management will continue with its prudence in managing costs, improving productivity, re-balancing its product mix with higher margin products and closely monitor the USD exchange rates with a view to taking further mitigating measures, if necessary. By stepping up its diversification plans into the less competitive healthcare/medical, automotive and emerging drone markets, the Group expects to improve its profit margin moving forward.

16. INCOME TAX EXPENSE

	3 months ended		12 months ended	
	30.3.2015	30.3.2014	30.3.2015	30.3.2014
	RM'000	RM'000	RM'000	RM'000
Deferred tax	(710)	-	(679)	-
Current tax	372	-	745	-
Total Income Tax Expense	(338)	-	65	-

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

Reversal in provision of current tax for the quarter was made due to the availability of unabsorbed pioneer business losses carried forward.

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 December 2015.

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

An interim single tier dividend of 0.5 sen per ordinary share in respect of the financial year ending 31 December 2015 amounting to RM 2,139,933 was declared. Such dividend was paid on 30 April 2015.

24. REALISED AND UNREALISED PROFIT / (LOSS)

As at the end of the current quarter under review ended 31 December 2015, the realized and unrealized profits are as follows:

	12 months ended 31.12.2015 RM'000
Realised profit	18,977
Unrealised loss	(459)
Consolidation adjustments	3,231
Total Retained Profit	21,749

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

	12 months ended 31.12.2014 RM'000
Realised profit	6,699
Unrealised profit / (loss)	120
Consolidation adjustments	6,181
Total Retained Profit	13,000

25. 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		12 months ended	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Profit attributable to equity holders of the parent (RM'000)	3,468	3,330	10,850	11,878
Weighted average number of Ordinary Shares in issue '000)	431,464	384,550	431,370	379,201
Basic Earnings Per Ordinary Share (sen)	0.80	0.87	2.52	3.13

25. 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		12 months ended	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Profit attributable to equity holders of the parent (RM'000)	3,468	3,330	7,382	11,878
Weighted average number of Ordinary Shares in issue ('000)	431,464	384,550	431,370	379,201
Effect of dilution of share options and warrants ('000)	33,349	82,267	43,855	41,248
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	464,813	466,817	475,225	420,449
Diluted Earnings Per Ordinary Share (sen)	0.75	0.71	2.28	2.83

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 26 February 2016.

BY ORDER OF THE BOARD
NG YIM KONG (LS 0009297)
Company Secretary
Dated: 26 Feb 2016.