K-One

# K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE FIRST QUARTER ENDED 31 MARCH 2011**

**Condensed Consolidated Income Statement**
**For The First Quarter Ended 31 March 2011**

| Figures in RM'000 | 3 months ended 31.03.2011 | 31.03.2010 | 3 months ended 31.03.2011 | 31.03.2010 |
|---|---|---|---|---|
| | Unaudited | Unaudited | Unaudited | Unaudited |
| Operating revenue | 31,212 | 24,373 | 31,212 | 24,373 |
| Other income | 30 | 8 | 30 | 8 |
| | 31,242 | 24,381 | 31,242 | 24,381 |
| Cost of sales | (25,596) | (18,697) | (25,596) | (18,697) |
| Other operating expenses | (3,217) | (3,802) | (3,217) | (3,802) |
| Profits from operations | 2,429 | 1,882 | 2,429 | 1,882 |
| Finance costs | (352) | (295) | (352) | (295) |
| Profits before tax | 2,077 | 1,587 | 2,077 | 1,587 |
| Income tax expense | (20) | (6) | (20) | (6) |
| Profits for the period | 2,057 | 1,581 | 2,057 | 1,581 |
| Non-controlling interests | - | 51 | - | 51 |
| **Profits after tax after non-controlling interest** | **2,057** | **1,632** | **2,057** | **1,632** |

Profit attributable to:

| | | | | |
|---|---|---|---|---|
| Owners of the Parent | 2,057 | 1,632 | 2,057 | 1,632 |
| Non-controlling interests | - | (51) | - | (51) |
| | 2,057 | 1,581 | 2,057 | 1,581 |

Earnings per share (EPS)
Attributable to owners
of the Parent (sen):

| | | | | |
|---|---|---|---|---|
| Basic EPS | 0.98 | 1.45 | 0.98 | 1.45 |
| Diluted EPS | 0.82 | 1.20 | 0.82 | 1.20 |

The above condensed consolidated income statement should be read in conjunction with the audited financial statements for the year ended 31 December 2010 and the accompanying explanatory notes attached to the interim financial statements.

**Condensed Consolidated Statement of Comprehensive Income**
**For The First Quarter Ended 31 March 2011**

| Figures in RM'000 | 3 months ended 31.03.2011 | 31.03.2010 | 3 months ended 31.03.2011 | 31.03.2010 |
|---|---|---|---|---|
| | Unaudited | Unaudited | Unaudited | Unaudited |
| Profit for the period | 2,057 | 1,581 | 2,057 | 1,581 |
| Currency translation differences arising from consolidation | 94 | 595 | 94 | 595 |
| **Total comprehensive income** | **2,151** | **2,176** | **2,151** | **2,176** |
| Profit attributable to: | | | | |
| Owners of the Parent | 2,151 | 1,632 | 2,151 | 1,632 |
| Non-controlling interests | - | 544 | - | 544 |
| | **2,151** | **2,176** | **2,151** | **2,176** |

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements.

**Condensed Consolidated Statement of Financial Position**
**As At 31 March 2011**

| Figures in RM'000 | As at 31.03.2011 | As at 31.12.2010 |
|---|---|---|
| | Unaudited | Audited |
| **ASSETS** | | |
| *Non-Current Assets* | | |
| Property, plant and equipment | 10,708 | 10,954 |
| Prepaid land leases | 805 | 829 |
| Intangible assets | 863 | 821 |
| Goodwill | 5,546 | 5,546 |
| **Non-Current Assets** | 17,922 | 18,150 |
| *Current Assets* | | |
| Inventories | 59,387 | 56,304 |
| Trade receivables | 29,368 | 31,285 |
| Other receivables | 2,233 | 1,905 |
| Tax recoverable | 106 | 125 |
| Cash and bank balances | 6,428 | 7,474 |
| **Current Assets** | 97,522 | 97,093 |
| **TOTAL ASSETS** | **115,444** | **115,243** |

| | | |
|---|---|---|
| **EQUITY AND LIABILITIES** | | |
| *Equity* | | |
| Share capital | 34,186 | 11,395 |
| Share premium | - | 15,117 |
| Other reserves | 19 | (75) |
| Retained earnings | 23,983 | 29,600 |
| Equity Attributable to Owners of the Parent | 58,188 | 56,037 |
| Non-controlling interests | - | - |
| **Total Equity** | **58,188** | **56,037** |

**Condensed Consolidated Statement of Financial Position (Cont'd)**
**As At 31 March 2011**

| Figures in RM'000 | As at 31.03.2011 | As at 31.12.2010 |
|---|---|---|
| | Unaudited | Audited |
| **EQUITY AND LIABILITIES** | | |
| *Non-Current Liabilities* | | |
| Bank borrowings | 2,594 | 2,726 |
| Hire purchase payables | 510 | 581 |
| Deferred tax liabilities | 76 | 76 |
| **Non-Current Liabilities** | 3,180 | 3,383 |
| *Current Liabilities* | | |
| Trade payables | 25,786 | 28,142 |
| Other payables and accruals | 1,149 | 1,565 |
| Amount due to Directors | 2,210 | 2,210 |
| Bank overdraft | 3,114 | 1,963 |
| Bank borrowings | 21,530 | 21,643 |
| Hire purchase payables | 287 | 300 |
| Tax payables | - | - |
| **Current Liabilities** | 54,076 | 55,823 |
| **Total Liabilities** | 57,256 | 59,206 |
| **TOTAL EQUITY AND LIABILITIES** | **115,444** | **115,243** |
| **Net assets per share attributable to Owners of the Parent (sen)** | **17.02** | **49.18** |

The above condensed consolidated statement of financial position should be read in conjunction with the audited financial statements for the year ended 31 December 2010 and the accompanying explanatory notes attached to the interim financial statements.

**Condensed Consolidated Statement of Changes in Equity**
**For The 3 Months Period Ended 31 March 2011**

| | **<-----Attributable to Owners of the Parent ----->** | | | | | Non-controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|
| | *Non-distributable* | | *Distributable* | | | | |
| Figures in RM'000 | Share Capital | Share Premium | Reserve | Retained Profits | Total | | |
| **At 1 January 2011** | **11,395** | **15,117** | **(75)** | **29,600** | **56,037** | **-** | **56,037** |
| Bonus Issue | 22,791 | (15,117) | - | (7,674) | - | - | - |
| Exchange difference arising from foreign subsidiary companies | - | - | 94 | - | 94 | - | 94 |
| Net profits for the period | - | - | - | 2,057 | 2,057 | - | 2,057 |
| **At 31 March 2011** | **34,186** | **-** | **19** | **23,983** | **58,188** | **-** | **58,188** |

| | **<-----Attributable to Owners of the Parent ----->** | | | | | Non-controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|
| | *Non-distributable* | | *Distributable* | | | | |
| Figures in RM'000 | Share Capital | Share Premium | Reserve | Retained Profits | Total | | |
| **At 1 January 2010** | 11,271 | 14,893 | 58 | 21,557 | 47,779 | 517 | 48,296 |
| Exchange difference arising from foreign subsidiary companies | - | - | 595 | - | 595 | (194) | 401 |
| Net profits for the period | - | - | - | 1,632 | 1,632 | (51) | 1,581 |
| **At 31 March 2010** | **11,271** | **14,893** | **653** | **23,189** | **50,006** | **272** | **50,278** |

The above condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the year ended 31 December 2010 and the accompanying explanatory notes attached to the interim financial statements.

**Condensed Consolidated Statement of Cash Flows**
**For The 3 Months Period Ended 31 March 2011**

| Figures in RM'000 | 3 months ended | |
|---|---|---|
| | 31.03.2011 | 31.03.2010 |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| ***Profit before taxation*** | 2,057 | 1,632 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 397 | 406 |
| Amortization of intangible assets | 16 | 18 |
| Amortization of leasehold land | 4 | 4 |
| Interest income | - | - |
| Interest expenses | 352 | 295 |
| (Gain)/Loss on disposal of property, plant and equipment | (8) | 1 |
| Foreign exchange gain – unrealized | (49) | - |
| Operating profit before working capital changes | 2,769 | 2,356 |
| Changes in working capital | | |
| Increase in inventory | (3,084) | (1,703) |
| Decrease in receivables | 1,589 | 4,051 |
| Decrease in payables | (2,892) | (8,269) |
| Cash used in operations | (1,618) | (3,565) |
| Interest paid | (352) | (295) |
| Taxation paid | (130) | (6) |
| ***Net cash used in operating activities*** | **(2,100)** | **(3,866)** |

**Condensed Consolidated Statement of Cash Flows (Cont'd)**
**For The 3 Months Period Ended 31 March 2011**

| Figures in RM'000 | 3 months ended | |
|---|---|---|
| | 31.03.2011 | 31.03.2010 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | (155) | (32) |
| Proceeds from disposal of property, plant and equipment | 9 | 1 |
| ***Net cash used in investing activities*** | **(146)** | **(31)** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Net repayment of hire purchases | (83) | (52) |
| Net proceeds from borrowings | (245) | 828 |
| ***Net cash (used in) / generated from financing activities*** | **(328)** | **776** |
| Net decrease in cash and cash equivalents | (2,574) | (3,121) |
| Effect of exchange rate changes | 378 | - |
| Cash and cash equivalents at beginning of the year | 5,510 | 3,535 |
| **CASH AND CASH EQUIVALENT AT END OF THE YEAR** | **3,314** | **414** |

**COMPOSITION OF CASH AND CASH EQUIVALENTS**

| Figures in RM'000 | As at 31.03.2011 | As at 31.03.2010 |
|---|---|---|
| Cash and bank balances | 6,428 | 4,806 |
| Overdraft | (3,114) | (4,392) |
| | **3,314** | **414** |

The above condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the year ended 31 December 2010 and the accompanying explanatory notes attached to the interim financial statements.

**Part A: Explanatory Notes Pursuant to FRS 134**

1. **BASIS OF PREPARATION**

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2010. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2010.

2. **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2010, except for the adoption of the following new Financial Reporting Standards (FRSs), Amendment to FRSs, Interpretations and Technical Release for the financial period beginning on or after 1 January 2010.

**2.1 Adoption of FRSs, Amendments to FRSs, Interpretations and Technical Release**

The Group adopted the following FRSs:-

| | |
|---|---|
| FRS 4 | Insurance Contracts |
| FRS 7 | Financial Instruments: Disclosures |
| FRS 8 | Operating Segments |
| FRS 101 | Presentations of Financial Statements (Revised 2009) |
| FRS 123 | Borrowing Costs |
| FRS 139 | Financial Instruments: Recognition and Measurement |
| Amendment to FRS 1 | First-time Adoption of Financial Reporting Standards |
| Amendment to FRS 2 | Share-based Payment – Vesting Conditions and Cancellations |
| Amendment to FRS 7 | Financial Instruments: Disclosures |
| Amendment to FRS 8 | Operating Segments |
| Amendment to FRS 107 | Statement of Cash Flows |
| Amendment to FRS 108 | Accounting Policies, Changes in Accounting Estimates and Errors |
| Amendment to FRS 110 | Events after the Reporting Period |
| Amendment to FRS 116 | Property, Plant and Equipment |
| Amendment to FRS 117 | Leases |
| Amendment to FRS 118 | Revenue |

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

### 2.1 Adoption of FRSs, Amendments to FRSs, Interpretations and Technical Release (Cont'd.)

| | |
|---|---|
| Amendment to FRS 119 | Employee Benefits |
| Amendment to FRS 120 | Accounting for Government Grants and Disclosure of Government Assistance |
| Amendment to FRS 123 | Borrowing Costs |
| Amendment to FRS 128 | Investments in Associates |
| Amendment to FRS 129 | Financial Reporting in Hyperinflationary Economies |
| Amendment to FRS 131 | Interest in Joint Ventures |
| Amendment to FRS 132 | Financial Instruments: Presentation |
| Amendment to FRS 134 | Interim Financial Reporting |
| Amendment to FRS 136 | Impairment of Assets |
| Amendment to FRS 139 | Financial Instruments: Recognition and Measurement |
| Amendment to FRS 140 | Investment Property |
| IC Interpretation 9 | Reassessment of Embedded Derivatives |
| IC Interpretation 10 | Interim Financial Reporting and Impairment |
| IC Interpretation 11 | FRS 2 – Group and Treasury Share Transactions |
| IC Interpretation 13 | Customer Loyalty Programmes |
| IC Interpretation 14 | FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction. |

Other than for the application of FRS 101 and FRS 139, the application of the above FRSs, Amendments to FRSs, Interpretations and Technical Release did not result in any significant changes in the accounting policies and presentation of the financial results of the Group.

### 2.2 Application of FRSs

**(a) FRS 8: Operating Segments**

FRS 8 requires segment information to be presented on a similar basis to that used for internal reporting purposes. As a result, the Group's segmental reporting had been presented based on the internal reporting to the chief operation decision maker who makes decisions on the allocation of resources and assesses the performance of the reportable segments. This standard does not have any impact on the financial position and results of the Group.

**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**2.2 Application of FRSs (Cont'd.)**

**(b) FRS 101: Presentation of Financial Statements**

FRS 101 separates owner and non-owner changes in equity. Therefore, the current consolidated statement of changes in equity only includes detail of transactions with owners. All non-owner changes in equity are presented as a single line labelled as total comprehensive income. Comparative information, with exception of the requirements under FRS 139, had been re-presented so that it is also in conformity with the revised standard. This standard does not have any impact on the financial position and results of the Group.

**(c) FRS 139: Financial Instruments – Recognition and Measurement**

FRS 139 sets out the new requirements for the recognition and measurement of the Group's financial instruments. Financial instruments are recorded initially at fair value. Subsequent measurement of the financial instruments in the statement of financial position reflects the designation of the financial instruments. The Group determines the classification at initial recognition and for the purpose of the first adoption of the standard, as at transitional date on 1 January 2010.

Financial assets

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Loans and receivables

Prior to 1 January 2010, loans and receivables were stated at gross receivables less provision for doubtful debts. Under FRS 139, loans and receivables are initially measured at fair value and subsequently at amortised cost using the effective interest method. Gains and losses arising from the derecognition of the loans and receivables, amortisation under the effective interest method and impairment losses are recognised in the income statement.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

### 2.2 Application of FRSs (Cont'd.)

**(c) FRS 139: Financial Instruments – Recognition and Measurement**

In accordance with FRS 139, the accounting requirements are applied prospectively from 1 January 2010. The effects of the re-measurement on 1 January 2010 of the financial assets and financial liabilities brought forward from the previous year are adjusted to the opening retained profits and other opening reserves as disclosed in the statement of changes in equity.

The adoption of FRS139 does not have any significant impact on the profit for the financial year ended 31 December 2010.

### 2.3 FRSs, Amendments to FRSs, Interpretations and Technical Releases issued but not yet effective

The Group has not adopted the following new/revised FRSs, Amendments to FRSs, Interpretations and Technical Releases that were in issue but not yet effective:

| | | Effective date |
|---|---|---|
| FRS 1(Revised) | First-time Adoption of Financial Reporting Standards | 1 July 2010 |
| FRS 3(Revised) | Business Combinations | 1 July 2010 |
| FRS127(Revised) | Consolidated and Separate Financial Statements | 1 July 2010 |
| Amendments to FRS 2 | Scope of FRS 2 and Revised FRS 3 (2010) | 1 July 2010 |
| Amendments to FRS 5 | Plan to Sell the Controlling Interest in a Subsidiary | 1 July 2010 |
| Amendments to FRS 138 | Consequential Amendments Arising from Revised FRS 3 (2010) | 1 July 2010 |
| Amendments to IC Interpretation 9 | Scope of IC Interpretation 9 and FRS 3 (Revised) | 1 July 2010 |
| IC Interpretation 12 | Service Concession Arrangements | 1 July 2010 |
| In Interpretation 16 | Hedges of a Net Investment in a Foreign Operation | 1 July 2010 |
| IC Interpretation 17 | Distribution of Non-cash Assets To Owners | 1 July 2010 |
| Amendments to FRS 1 | First-time Adoption of Financial Reporting Standards – Limited Exemptions for Comparative FRS 7 Disclosures for First-time Adopters | 1 January 2011 |

**2.3 FRSs, Amendments to FRSs, Interpretations and Technical Releases issued but not yet effective**

| | | |
|---|---|---|
| Amendments to FRS 1 | Additional Exemptions for First-time Adopters | 1 January 2011 |
| Amendments to FRS 2 | Group Cash-settled Share-based Payment Transactions | 1 January 2011 |
| Amendments to FRS 7 | Improving Disclosures about Financial Instruments | 1 January 2011 |
| IC Interpretation 4 | Determining Whether An Arrangement Contains a Lease | 1 January 2011 |
| IC Interpretation 18 | Transfers of Assets from Customers | 1 January 2011 |

For the purpose of presenting consolidated financial statements, the assets and liabilities for the Group's foreign operations (including comparative figures) are expressed in Ringgit Malaysia using exchange rate prevailing on the balance sheet date. Income and expenses items (including comparative figures) are translated at the average exchange rate for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of transactions are used.

The closing rates per unit of foreign currencies used in the retranslation of subsidiary companies' functional currencies are as follows:

| | 31.03.2011 |
|---|---|
| Australia Dollar | 3.13 |
| United States Dollar | 3.00 |
| Euro Dollar | 4.29 |
| Hong Kong Dollar | 0.38 |
| 1000 Korea Won | 2.80 |
| Singapore Dollar | 2.42 |

Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such exchange differences are recognised in the income statement during the period in which the foreign operation is disposed off.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

**3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENT**

The audited financial statements of the preceding financial year were not subject to any qualification.

**4. 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 first half of the year is normally weaker than the second half of the year due to surge in consumer demand during Christmas and New Year seasons overseas.

**5. 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.

**6. SIGNIFICANT ESTIMATES AND CHANGES IN ESTIMATES**

There were no changes in estimates that have had any material effect on the financial year-to-date results.

**7. DEBT AND EQUITY SECURITIES**

There were no issuances, repurchases and repayments of debt and equity securities during the period under review and up to the date of this report except as disclosed in Note 19.

**8. DIVIDENDS**

For the quarter under review, there were no dividends declared.

## 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 | 1,983 | 28,641 | 588 | - | - | 31,212 |
| Internal sales | 245 | 33 | - | - | (278) | - |
| Total operating sales | 2,228 | 28,674 | 588 | - | (278) | 31,212 |
| Other income | 22 | 8 | - | - | - | 30 |
| | 2,250 | 28,682 | 588 | - | (278) | 31,242 |
| Results | | | | | | |
| Segment results | 1,238 | 1,168 | 50 | (27) | - | 2,429 |
| Finance cost | - | (352) | - | - | - | (352) |
| Income tax | - | (20) | - | - | - | (20) |
| Profits after tax before non-controlling interest | | | | | | 2,057 |
| Non-controlling interest | | | | | | - |
| Profits after tax after non-controlling interest | | | | | | **2,057** |

| | 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 | 16,335 | 97,739 | 982 | 282 | - | 115,338 |
| Unallocated assets | | | | | | 106 |
| | | | | | | **115,444** |
| Segment liabilities | 512 | 28,488 | 202 | 19 | - | 29,221 |
| Unallocated liabilities | | | | | | 28,035 |
| | | | | | | **57,256** |

**9. SEGMENT INFORMATION (Cont'd)**

**(b) Sales Contribution by Geography**

The geographical sales breakdowns are as follows:

| | 3 months ended | |
|---|---|---|
| | 31.03.2011 | 31.03.2010 |
| | RM'000 | RM'000 |
| Malaysia | 3,285 | 3,005 |
| Europe | 17,276 | 11,992 |
| USA | 658 | 2,665 |
| Oceania | 10 | 1 |
| North Asia * | 9,983 | 6,710 |
| | 31,212 | 24,373 |

* It should be noted that the majority of this sales is attributed to an European customer with manufacturing and distribution facilities based in China.

**(c) Sales from Major Customers**

For the first quarter ended 31 March 2011, 3 major customers contributed RM22.1 million, representing approximately 71% of total sales revenue (2010: RM15.6 million, representing 64% of total sales revenue).

**10. CHANGES IN COMPOSITION OF THE GROUP**

There were no changes in the composition of the Group during the financial year ended 31 December 2010.

**11. CONTINGENT ASSETS & LIABILITIES**

There were no changes in contingent assets or liabilities since the last annual reporting date.

Corporate guarantee for credit facilities granted to subsidiary companies are:-

| | RM'000 |
|---|---|
| K-One Industry Sdn Bhd | 38,392 |
| Syslink Sdn Bhd | 6,660 |
| | **45,052** |

**12. CAPITAL COMMITMENTS**

There were no material capital commitments for the period under review.

**13. SUBSEQUENT EVENT**

As at the end of the current quarter and up to the date of this report, there is no subsequent events which have a material impact to the financial statements under review.

**14. PERFORMANCE REVIEW**

**(a) Current quarter compared to the corresponding quarter of last year (1Q11 vs 1Q10)**

For the first quarter ended 31 March 2011, the Group achieved sales revenue of RM31.2 million and profit attributable to equity holders of the parent company of RM2.1 million as compared to sales revenue of RM24.4 million and profit attributable to equity holders of the parent company of RM1.6 million for the corresponding first quarter ended 31 March 2010.

Sales revenue increased by 28%, comparing the current quarter and the same quarter last year. The increase in sales is attributed to the continuing momentum generated from the mass production of new network cameras, new electronic sports headlamps and new USB cables to meet the increasing global market demand. Apart from the recurring sales contributions from the existing top 3 customers, the sales increase was also enhanced by newer customers in the household appliances and hygiene-care sectors which have commenced to make pronounced sales contributions.

Profit attributable to equity holders of the parent company stood at RM2.1 million for the current quarter against the same of RM1.6 million for the same quarter last year, representing an increase of 31%.

**(b) Current quarter versus the preceding quarter (1Q11 vs 4Q10)**

Sales turnover for the first quarter of 2011 of RM31.2 million as compared to sales of RM32.8 million in the fourth quarter of 2010 showed a decrease of about 5%. This is in line with the cyclical trend of the Group's business wherein the sales in the first half is usually weaker than the second half of the year. In this instance, the sales softening is marginal as newer customers in the household appliances and hygiene-care sectors have started to make commendable sales contributions, hence, boosting sales for the first quarter of 2011.

The Group recorded profit attributable to equity holders of the parent company of RM2.1 million for the current quarter as compared to RM1.2 million profit attributable to equity holders for the preceding quarter ended 31 December 2010. This represents an increase of 75%.

## 15. COMMENTARY ON PROSPECTS AND TARGETS

The first quarter sales performance of 2011 is considered as strong, notwithstanding, it registered a marginal decline as compared to the fourth quarter of 2010. This is expected to a certain extent, as historically, the first half sales is normally weaker than the second half of the year. The consolation is, the decline in sales when comparing the first quarter of this year against the last quarter of last year is not as steep as in previous years. Furthermore, it is important to note that there was a significant sales growth of 28% when we compare the sales of this quarter against the sales of the same quarter last year. Judging on this, the Group expects the uptrend business momentum to be intact as the next few quarters of 2011 unfold.

The Group's optimistic expectations in its business for the next few quarters of 2011 can be further substantiated by: a) the mobile phone accessories sector is expected to generate significant sales increase as it expects to launch a number of completely new categories of accessories to be bundled with the mobile phones, b) the computer peripherals sector will similarly trail with a few anticipated new product launches and c) the consumer technology product sector expects to roll out new models of electronic sports headlamps. In the same OEM/ODM front, the Group further expects its commercial hygiene-care products to make more significant sales contribution for the balance of this year. Newer customers in the household appliances industry are also expected to make escalating significant sales for the months to come in 2011. Therefore, the prospects for 2011 is expected to continue to be vibrant.

On the hand, the Group is aware of the on-going volatile foreign exchange market, the soaring crude oil price and other commodity prices moving forward. In this regard, the Management of the Group is poised to have taken and will continuously review measures to mitigate the preceding risks.

## 16. INCOME TAX EXPENSE

| | 3 months ended | | 3 months ended | |
|---|---|---|---|---|
| | 31.03.2011 | 31.03.2010 | 31.03.2011 | 31.03.2010 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Deferred tax | - | - | - | - |
| Current tax | 20 | 6 | 20 | 6 |
| **Total Income Tax Expense** | **20** | **6** | **20** | **6** |

**16. INCOME TAX EXPENSE (Cont'd)**

Income tax is calculated at the Malaysian statutory tax rate of 25% (2010: 25%) of the estimated assessable profit for the year.

There is provision of taxation in respect of a subsidiary company which has no tax exemption and has utilized fully its tax losses brought forward. Except for this subsidiary, there is no provision of taxation in respect of subsidiary companies which has no tax exemption because of available unabsorbed losses.

The holding company, K-One Technology Bhd. is awarded with MSC-Status, which carries with it tax exemption until 2012. Noting that the Company's business income is exempted from tax in accordance to its MSC-Status, however, non-business income is chargeable to tax and income tax is calculated at the rate of 25% on the estimated taxable profit.

**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 properties for the current quarter and financial year-to-date.

**18. QUOTED SECURITIES**

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

**19. CORPORATE PROPOSALS**

Bursa Malaysia approved the bonus issue proposal on 5 January 2011 while the shareholders approved it during the EGM on 1 February 2011. The proposal was completed on 17 February 2011 when the ex-date took effect while the crediting of the bonus shares and additional warrants to the entitled shareholders were completed on 22 February 2011.

Other than the above, there are no other corporate proposals announced but not completed as at the reporting date.

## 20. BORROWINGS AND DEBTS SECURITIES

Particulars of the Group's borrowings denominated in Ringgit Malaysia as at 31 March 2011 are as follows:

| | RM'000 |
|---|---|
| ***Short term borrowings*** | |
| Bankers' Acceptance | 19,977 |
| Revolving Credits | 56 |
| Export Credit Refinancing | 1,000 |
| Bank Overdraft | 3,114 |
| Term Loan | 497 |
| Hire-purchase payables | 287 |
| | 24,931 |
| ***Long term borrowings*** | |
| Term Loan | 2,594 |
| Hire-purchase payables | 510 |
| | 3,104 |
| **Total Borrowings** | **28,035** |

## 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 quarters.

## 24. REALISED AND UNREALISED PROFITS / LOSSES

As at the end of current quarter under review ended 31 March 2011, the realized and unrealized profits are as follows:

| | 3 months ended 31.03.2011 RM'000 |
|---|---|
| Realised profits | 2,008 |
| Unrealised profits | 49 |
| **Total Retained Profits** | **2,057** |

**24. REALISED AND UNREALISED PROFITS / LOSSES – (Cont'd)**

As at the end of last financial year ended 31 December 2010, the realized and unrealized profits are as follows:

| | 12 months ended 31.12.2010 RM'000 |
|---|---|
| Realised profits | 29,316 |
| Unrealised profits/(loss) | 284 |
| **Total Retained Profits** | **29,600** |

**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 | | 3 months ended | |
|---|---|---|---|---|
| | 31.03.2011 | 31.03.2010 | 31.03.2011 | 31.03.2010 |
| Profits attributable to equity holders of the parent (RM'000) | 2,057 | 1,632 | 2,057 | 1,632 |
| Weighted average number of Ordinary Shares in issue ('000) | 210,180 | 112,711 | 210,180 | 112,711 |
| Basic Earnings Per Ordinary Share (sen) | 0.98 | 1.45 | 0.98 | 1.45 |

(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.

| | 3 months ended | | 3 months ended | |
|---|---|---|---|---|
| | 31.03.2011 | 31.03.2010 | 31.03.2011 | 31.03.2010 |
| Profits attributable to equity holders of the parent (RM'000) | 2,057 | 1,632 | 2,057 | 1,632 |
| Weighted average number of Ordinary Shares in issue ('000) | 210,180 | 112,711 | 210,180 | 112,711 |
| Effect of dilution of share options ('000) | 41,745 | 23,261 | 41,745 | 23,261 |
| Adjusted weighted average number of ordinary shares in issue and issuable ('000) | 251,925 | 135,972 | 251,925 | 135,972 |
| Diluted Earnings Per Ordinary Share (sen) | 0.82 | 1.20 | 0.82 | 1.20 |

**26. AUTHORIZED FOR ISSUE**

The interim financial statements were authorized for issue by the Board of Directors in accordance with a resolution of the Directors on 13 May 2011.

**BY ORDER OF THE BOARD**
NG YIM KONG (LS 0009297)
Company Secretary
Dated: 13 May 2011