K-One

K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 30 JUNE 2012

Condensed Consolidated Income Statement
For The Second Quarter Ended 30 June 2012

Figures in RM'000	3 months ended 30.06.2012 Unaudited	3 months ended 30.06.2011 Unaudited	6 months ended 30.06.2012 Unaudited	6 months ended 30.06.2011 Unaudited
Operating revenue	38,169	34,057	74,073	65,269
Other income	1,590	7	2,301	37
	39,759	34,064	76,374	65,306
Cost of sales	(33,144)	(27,642)	(63,805)	(53,238)
Operating expenses	(5,459)	(3,901)	(10,266)	(7,118)
Profit from operations	1,156	2,521	2,303	4,950
Inventory write-down (due to fire)	(8,877)	-	(8,877)	-
Finance costs	(469)	(327)	(988)	(679)
(Loss)/Profit before tax	(8,190)	2,194	(7,562)	4,271
Income tax expense	-	(15)	-	(35)
(Loss)/Profit for the period	(8,190)	2,179	(7,562)	4,236
Non-controlling interest	-	-	-	-
(Loss)/Profit after tax after Non-controlling interest	**(8,190)**	**2,179**	**(7,562)**	**4,236**
(Loss)/Profit attributable to:				
Owners of the Parent	(8,190)	2,179	(7,562)	4,236
Non-controlling interest	-	-	-	-
	(8,190)	2,179	(7,562)	4,236
(Loss)/Earning per share (LPS)/EPS Attributable to owners of the Parent (sen):				
Basic (LPS)/EPS	(2.25)	0.64	(2.14)	1.53
Diluted (LPS)/EPS	(1.98)	0.53	(1.84)	1.28

The above condensed consolidated income statement should be read in conjunction with the audited financial statements for the year ended 31 December 2011 and the accompanying explanatory notes attached to the interim financial statements.

Condensed Consolidated Statement of Comprehensive Income
For The Second Quarter Ended 30 June 2012

Figures in RM'000	3 months ended 30.06.2012 Unaudited	3 months ended 30.06.2011 Unaudited	6 months ended 30.06.2012 Unaudited	6 months ended 30.06.2011 Unaudited
(Loss)/profit for the period	(8,190)	2,179	(7,562)	4,236
Currency translation differences arising from consolidation	11	(171)	8	(77)
Total comprehensive (expense)/income	(8,179)	2,008	(7,554)	4,159

Total comprehensive (expense)/income attributable to:

Owners of the Parent	(8,179)	2,008	(7,554)	4,159
Non-controlling interest	-	-	-	-
	(8,179)	2,008	(7,554)	4,159

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 30 June 2012

Figures in RM'000	Unaudited 30.06.2012	Audited 31.12.2011
ASSETS		
Non-Current Assets		
Property, plant and equipment	11,705	12,470
Prepaid land leases	793	805
Intangible assets	781	821
Goodwill	5,546	5,546
Non-Current Assets	18,825	19,642
Current Assets		
Inventories	43,251	50,935
Trade receivables	31,866	24,147
Other receivables	2,087	2,523
Tax recoverable	395	311
Fixed deposits - pledged	-	504
Cash and bank balances	5,870	12,776
Current Assets	83,469	91,196
TOTAL ASSETS	**102,294**	**110,838**

EQUITY AND LIABILITIES		
Equity		
Share capital	37,455	34,186
Share Premium	3,596	-
Other reserves	(28)	(36)
Retained earnings	2,139	9,701
Equity Attributable to Owners of the Parent	43,162	43,851
Non-controlling interests	-	-
Total Equity	**43,162**	**43,851**

Condensed Consolidated Statement of Financial Position (Cont'd)
As At 30 June 2012

Figures in RM'000	Unaudited 30.06.2012	Audited 31.12.2011
EQUITY AND LIABILITIES		
Non-Current Liabilities		
Bank borrowings	1,805	2,169
Hire purchase payables	112	325
Non-Current Liabilities	1,917	2,494
Current Liabilities		
Trade payables	30,052	29,347
Other payables and accruals	1,125	1,370
Amount due to Directors	2	2,210
Bank overdraft	3,878	6,855
Bank borrowings	21,799	24,459
Hire purchase payables	332	252
Tax payables	27	-
Current Liabilities	57,215	64,493
Total Liabilities	59,132	66,987
TOTAL EQUITY AND LIABILITIES	**102,294**	**110,838**
Net assets per share attributable to Owners of the Parent (sen)	**11.52**	**12.83**

The above condensed consolidated statement of financial position should be read in conjunction with the audited financial statements for the year ended 31 December 2011 and the accompanying explanatory notes attached to the interim financial statements.

Condensed Consolidated Statement of Changes in Equity
For The Year Ended 30 June 2012

	<-----Attributable to Owners of the Parent ----->						
	Non-distributable		*Distributable*				
Figures in RM'000	Share Capital	Share Premium	Reserve	Retained Profits	Total	Non-controlling Interest	Total Equity
At 1 Jan 2012	34,186	-	(36)	9,701	43,851	-	43,851
Exchange difference arising from foreign subsidiary companies	-	-	8	-	8	-	8
Private Placement	3,269	3,596	-	-	6,865	-	6,865
Net loss for the period	-	-	-	(7,562)	(7,562)	-	(7,562)
At 30 June 2012	37,455	3,596	(28)	2,139	43,162	-	43,162

	<-----Attributable to Owners of the Parent ----->						
	Non-distributable		*Distributable*				
Figures in RM'000	Share Capital	Share Premium	Reserve	Retained Profits	Total	Non-controlling Interest	Total Equity
At 1 Jan 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	-	-	(77)	-	(77)	-	(77)
Net profit for the period	-	-	-	4,236	4,236	-	4,236
At 30 June 2011	34,186	-	(152)	26,162	60,196	-	60,196

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 2011 and the accompanying explanatory notes attached to the interim financial statements.

Condensed Consolidated Statement of Cash Flows
For The 6 Months Period Ended 30 June 2012

Figures in RM'000	6 months ended 30.06.2012	30.06.2011
CASH FLOW FROM OPERATING ACTIVITIES		
(Loss)/Profit before taxation	(7,562)	4,236
Adjustments for:		
Depreciation of property, plant and equipment	1,141	961
Amortization of intangible assets	40	41
Amortization of prepaid land leases	12	12
Inventory write-down (due to fire)	8,877	-
Interest income	(9)	-
Interest expenses	988	679
Loss on disposal of property, plant and equipment	1	(8)
Foreign exchange loss – unrealized	22	84
Operating profit before working capital changes	3,510	6,005
Changes in working capital		
Increase in inventory	(1,193)	(9,070)
Increase in receivables	(7,101)	(584)
Decrease in amount due to a Director	(2,207)	-
Increase in payables	258	711
Cash absorbed by operations	(6,733)	(2,938)
Interest paid	(988)	(679)
Taxation paid	(57)	(26)
Net cash used in operating activities	**(7,778)**	**(3,643)**

Condensed Consolidated Statement of Cash Flows (Cont'd)
For The 6 Months Period Ended 30 June 2012

Figures in RM'000	6 months ended 30.06.2012	6 months ended 30.06.2011
CASH FLOW FROM INVESTING ACTIVITIES		
Interest income	9	-
Withdrawal of fixed deposits	504	-
Purchase of property, plant and equipment	(378)	(1,466)
Proceeds from disposal of property, plant and equipment	-	9
Net cash from/(used in) investing activities	**135**	**(1,457)**
CASH FLOW FROM FINANCING ACTIVITIES		
Net repayment of hire purchase	(133)	(159)
Net (repayment of)/proceeds from short-term borrowings	(2,746)	3,435
Proceeds from issuance of share at premium	6,865	-
Net repayment of term loan	(277)	-
Net cash from financing activities	**3,709**	**3,276**
Net decrease in cash and cash equivalents	(3,934)	(1,824)
Effect of exchange rate changes	5	(189)
Cash and cash equivalents at beginning of the period	5,921	5,510
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	**1,992**	**3,497**

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figures in RM'000	As at 30.06.2012	As at 30.06.2011
Cash and Bank Balances	5,870	(1,647)
Overdraft	(3,878)	5,144
	1,992	**3,497**

The above condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the year ended 31 December 2011 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

This interim financial report is based on the unaudited financial statements for the quarter ended 30 June 2012 and has been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad and MFRS134, Interim Financial Reporting in Malaysia. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2011.

These are the Group's interim financial statements for part of the period covered by the Group's first MFRS framework annual financial statements and MFRS 1, First-time adoption of the Malaysian Financial Reporting Standards has been applied.

The adoption of the MFRSs and Amendments do not have any material impact on the financial statements of the Group.

2. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENT

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

However, following the approval by Bursa Securities on 10 January 2012 in relation to its private placement exercise, the Group issued an additional 32,689,200 shares of RM 0.10 each at a premium of RM 0.11 per share on 2 May 2012, thus increasing the total issued shares to 374,548,200. This private placement to third party investors which is deemed completed, raised approximately RM6.9 million for purposes of working capital requirement, outstanding trade facility reduction and upgrading/expansion of Design and Development and production facilities respectively.

7. DIVIDENDS PAID

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

8. 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	27	73,921	125	-	-	74,073
Internal sales	831	-	-	-	(831)	-
Total operating sales	858	73,921	125	-	(831)	74,073
Other income	76	2,216	-	-	-	2,292
Interest income	-	9				
	934	76,146	125	-	(831)	76,374
Results						
Segment results	(3,155)	(3,296)	(69)	(54)	-	(6,574)
Finance costs	-	(988)	-	-	-	(988)
Income tax	-	-	-	-	-	-
Loss after tax before non-controlling interest						(7,562)
Non-controlling interest						-
Loss after tax after non-controlling interest						**(7,562)**

	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	8,311	92,783	497	308	-	101,899
Unallocated assets						395
						102,294
Segment liabilities	383	30,750	19	25	-	31,177
Unallocated liabilities						27,955
						59,132

8. SEGMENT INFORMATION (Cont'd)

(b) Sales Contribution by Geography

The geographical sales breakdowns are as follows:

	6 months ended	
	30.06.2012	30.06.2011
	RM'000	RM'000
Malaysia	3,286	6,262
Europe	40,060	37,855
USA	909	1,184
Oceania	11	22
North Asia*	29,807	19,946
	74,073	65,269

* It should be noted that the majority of this sales is attributed to an European customer with manufacturing and distribution facilities based in China. This European customer has been acquired by its Japanese counterpart with effect from 4Q'2011.

(c) Sales from Major Customers

For the 6 months ended 30 June 2012, 3 major customers contributed RM56 million, representing approximately 76% of total sales revenue (2011: RM46 million, representing 70% of total sales revenue).

9. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

There was no revaluation of property, plant and equipment during the financial quarter under review or in the preceding financial year ended 31 December 2011.

10. CHANGES IN COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the financial year ended 30 June 2012.

11. CONTINGENT ASSETS & LIABILITIES

As at end of the quarter under review, the corporate guarantee for credit facilities granted to subsidiary companies are:-

	RM'000
K-One Industry Sdn Bhd	33,392
K-One Electronics Sdn Bhd	11,660
K-One Manufacturing Sdn Bhd	7,000
	52,052

12. CAPITAL COMMITMENTS

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

13. SUBSEQUENT EVENT

Following the fire incident on 10 April 2012 the Group has internally investigated and reviewed the mishap. This was followed by the submission of insurance claim of about RM 10 million. While awaiting the insurance claim to be finalized and the Group reimbursed, it has decided to write-off all burnt or damaged inventories, in accordance to appropriate accounting principles. The insurance claim is expected to be finalized in the second half of this year, upon which a claim-revenue will then be recognized as an off-set to the write-off made earlier. As such, the Group does not expect material financial impact for the full financial year resulting from the unforeseen fire incident.

There are no further subsequent events which have a material impact on the financial statements under review.

14. PERFORMANCE REVIEW

(a) Current quarter compared to the corresponding quarter of last year (2Q12vs2Q11)

For the second quarter ended 30 June 2012, the Group achieved sales revenue of RM 38.2 million as compared to sales revenue of RM 34.1 million for the corresponding quarter last year. The increase of 12% was mainly attributed to the increase in demand for network cameras, mobile phone accessories and household appliances sub-systems.

14. **PERFORMANCE REVIEW (Cont'd)**

The Group registered a loss attributable to equity holders of the parent company of RM 8.2 million as compared to a profit attributable to equity holders of the parent company of RM2.2 million for the corresponding quarter last year. The decline was almost entirely due to the writing-off of RM 8.9 million inventory burnt in the fire incident in April 2012. The write-off is an accounting treatment for the current period while awaiting for the insurance claim to be finalized, which is expected to be within the second half of this year. Notwithstanding the write-off, the Group would have otherwise registered a profit attributable to the parent company of RM 0.69 million, which was still, nonetheless 68% lower when compared to last year's second quarter. The decline was due to the slower than expected recovery in the increase in selling prices to customers and cost down measures implemented, though gaining traction but will only begin to bear fruits in the coming quarters.

(b) Current quarter versus the preceding quarter
(2Q12 vs 1Q12)

Sales revenue for the second quarter of 2012 at RM 38.2 million was 6% higher than the preceding quarter of RM 35.9 million. The increase was mainly due to the higher demand for network cameras, mobile phone accessories and household appliances sub-systems. Furthermore, replacement production to meet deliveries for inventories burnt in the fire incident contributed to the increase to some extent.

Notwithstanding the RM 8.9 million write-off of the burnt inventories during the April 2012 fire incident as appropriate accounting treatment pending the insurance claim reimbursement, the Group would have managed to further register a second consecutive quarterly profit of RM 0.69 million when compared to RM 0.63 million in the first quarter of this year. The positive turnaround was mainly due to improved margins, although slower improvements than expected and reduction in costs and overheads, although gaining traction but will only bear fruits in the coming quarters.

15. COMMENTARY ON PROSPECTS AND TARGETS

With the Group turning around for two consecutive quarters, barring the writing-off of approximately RM8.9 million of burnt inventories due to the fire mishap in April 2012 as part of appropriate accounting treatment, pending reimbursement through insurance claim subsequently, it is evident that the cost reduction and margin improvement measures taken are gradually taking traction, although slower than expected in view of the prevailing uncertain and volatile global economies.

The Eurozone crisis, weak US economy and other global uncertainties will continue to post challenges in the business front, particularly on sales and margin. The Group expects volatility in the foreign exchange rate and commodity prices will continue to persist and be unpredictable in the foreseeable future. Towards this end, the Group has undertaken and will continue to implement measures in reorganizing its Group's structure placing emphasis in business development front-liners while streamlining its back office structure to improve productivity. At the same time, the Group is streamlining its business to give focus and emphasis on profitable existing businesses while developing new frontiers in higher margin products for new customers in the healthcare and automotive markets.

With all the necessary measures taken, the Group is optimistic of growing its business in the second half of the year but with caution as the global economies which we are very much dependent upon, continue to pose uncertainties and volatility.

16. INCOME TAX EXPENSE

Figures in RM'000	3 months ended		6 months ended	
	30.06.2012	30.06.2011	30.06.2012	30.06.2011
Deferred tax	-	-	-	-
Current tax	-	15	-	35
Total Income Tax Expense	-	15	-	35

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

16. INCOME TAX EXPENSE (Cont'd)

There is provision of taxation in respect of a subsidiary company on its other income and there is no provision for subsidiaries that have available unabsorbed business losses or with tax exemption status.

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

There are no 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 30 June 2012 are as follows:

	RM'000
Short term borrowings	
Bankers' Acceptance	15,347
Revolving Credits	1,000
Bank Overdraft	3,878
Foreign currency trust receipts	4,838
Term Loan	614
Hire-purchase Payables	332
	26,009
Long term borrowings	
Term Loan	1,805
Hire-purchase Payables	112
	1,917
Total Borrowings	**27,926**

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 the current quarter under review ended 30 June 2012, the realized and unrealized profits are as follows:

	3 months ended 30.06.2012 RM'000	6 months ended 30.06.2012 RM'000
Realised loss	(8,248)	(7,540)
Unrealised prodit/(loss)	58	(22)
Total Retained Loss	**(8,190)**	**(7,562)**

As at the end of the previous financial period ended 30 June 2011, the realized and unrealized profits are as follows:

	3 months ended 30.06.2011 RM'000	6 months ended 30.06.2011 RM'000
Realised profits	2,008	4,320
Unrealised profits/(loss)	49	(84)
Total Retained Profits	**2,057**	**4,236**

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		6 months ended	
	30.06.2012	30.06.2011	30.06.2012	30.06.2011
(Loss)/Profit attributable to equity holders of the parent (RM'000)	(8,190)	2,179	(7,562)	4,236
Weighted average number of Ordinary Shares in issue ('000)	363,412	341,859	352,636	276,383
Basic (Loss)/Earning Per Ordinary Share (sen)	(2.25)	0.64	(2.14)	1.53

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.

	3 months ended		6 months ended	
	30.06.2012	30.06.2011	30.06.2012	30.06.2011
(Loss)/Profit-attributable to equity holders of the parent (RM'000)	(8,190)	2,197	(7,562)	4,236
Weighted average number of Ordinary Shares in issue ('000)	363,412	341,859	352,636	276,383
Effect of dilution of share options ('000)	50,156	66,936	59,241	55,166
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	413,568	408,796	411,877	331,550
Diluted (Loss)/Earning Per Ordinary Share (sen)	(1.98)	0.53	(1.84)	1.28

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 28 August 2012.

BY ORDER OF THE BOARD
NG YIM KONG (LS 0009297)
Company Secretary
Dated: 28 August 2012.