

K-One

K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2012**

**Condensed Consolidated Income Statement
For The Third Quarter Ended 30 September 2012**

Figures in RM'000	3 months ended		9 months ended	
	30.09.2012 Unaudited	30.09.2011 Unaudited	30.09.2012 Unaudited	30.09.2011 Unaudited
Operating revenue	47,628	36,452	121,701	101,721
Other income	911	458	3,212	495
Cost of sales	48,539	36,910	124,913	102,216
Operating expenses	(42,387)	(31,883)	(106,192)	(85,121)
Inventory write-down (due to fire)	(4,998)	(2,619)	(15,264)	(9,737)
Property, plant and machinery write-down (due to fire)	(87)	-	(8,964)	-
Profit/(loss) from operations	(118)	-	(118)	-
Finance costs	949	2,408	(5,625)	7,358
Profit / (loss) before tax	(435)	(424)	(1,423)	(1,103)
Income tax expense	514	1,984	(7,048)	6,255
Profit / (loss) for the period	-	-	-	(35)
Non-controlling interests	514	1,984	(7,048)	6,220
Profit / (loss) after tax after Non-controlling interest	514	1,984	(7,048)	6,220

Profit / (loss) attributable to:

Owners of the Parent	514	1,984	(7,048)	6,220
Non-controlling interests	-	-	-	-
	514	1,984	(7,048)	6,220

Earnings/(loss) per share (EPS)

Attributable to owners
of the Parent (sen):

Basic EPS	0.14	0.58	(1.96)	2.08
Diluted EPS	0.13	0.48	(1.75)	1.76

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 Third Quarter Ended 30 September 2012**

Figures in RM'000	3 months ended		9 months ended	
	30.09.2012 Unaudited	30.09.2011 Unaudited	30.09.2012 Unaudited	30.09.2011 Unaudited
Profit /(loss) for the period	514	1,984	(7,048)	6,220
Currency translation differences arising from consolidation	(94)	311	(86)	234
Total comprehensive income /(loss)	420	2,295	(7,134)	6,454

Profit / (loss) attributable to:

Owners of the Parent	420	2,295	(7,134)	6,454
Non-controlling interests	-	-	-	-
	420	2,295	(7,134)	6,454

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 September 2012**

Figures in RM'000	Unaudited 30.09.2012	Audited 31.12.2011
ASSETS		
<i>Non-Current Assets</i>		
Property, plant and equipment	13,348	12,470
Prepaid land leases	788	805
Intangible assets	766	821
Goodwill	5,546	5,546
Non-Current Assets	20,448	19,642
<i>Current Assets</i>		
Inventories	43,307	50,935
Trade receivables	37,238	24,147
Other receivables	4,182	2,523
Tax recoverable	441	311
Fixed deposits - pledged	-	504
Cash and bank balances	7,837	12,776
Current Assets	93,005	91,196
TOTAL ASSETS	113,453	110,838

EQUITY AND LIABILITIES		
<i>Equity</i>		
Share capital	37,455	34,186
Share premium	3,596	-
Other reserves	(122)	(36)
Retained earnings	2,653	9,701
Equity Attributable to Owners of the Parent	43,582	43,851
Non-controlling interests	-	-
Total Equity	43,582	43,851

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

Figures in RM'000	Unaudited 30.09.2012	Audited 31.12.2011
EQUITY AND LIABILITIES		
<i>Non-Current Liabilities</i>		
Deferred tax liability	55	-
Bank borrowings	1,696	2,169
Hire purchase payables	149	325
Non-Current Liabilities	1,900	2,494
<i>Current Liabilities</i>		
Trade payables	40,273	29,347
Other payables and accruals	1,053	1,370
Amount due to Directors	2	2,210
Bank overdraft	5,281	6,855
Bank borrowings	21,125	24,459
Hire purchase payables	237	252
Tax payables	-	-
Current Liabilities	67,971	64,493
Total Liabilities	69,871	66,987
TOTAL EQUITY AND LIABILITIES	113,453	110,838
Net assets per share attributable to Owners of the Parent (sen)	11.64	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 Third Quarter Ended 30 September 2012**

Figures in RM'000	<-----Attributable to Owners of the Parent ----->						Non-controlling Interest	Total Equity
	Non-distributable Share Capital	Share Premium	Distributable Reserve	Retained Profits	Total			
At 1 January 2012	34,186	-	(36)	9,701	43,851	-	43,851	
Exchange difference arising from foreign subsidiary companies	-	-	(86)	-	(86)	-	(86)	
Private Placement	3,269	3,596	-	-	6,865	-	6,865	
Net (loss) for the period	-	-	-	(7,048)	(7,048)	-	(7,048)	
At 30 September 2012	37,455	3,596	(122)	2,653	43,582	-	43,582	

Figures in RM'000	<-----Attributable to Owners of the Parent ----->						Non-controlling Interest	Total Equity
	Non-distributable Share Capital	Share Premium	Distributable Reserve	Retained Profits	Total			
At 1 January 2011	11,395	15,117	(75)	29,600	56,037	-	56,037	
Exercised ESOS	22,791	(15,117)	-	(7,674)	-	-	-	
Exchange difference arising from foreign subsidiary companies	-	-	234	-	234	-	234	
Net profit for the period	-	-	-	6,220	6,220	-	6,220	
At 30 September 2011	34,186	-	159	28,146	62,491	-	62,491	

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 9 Months Period Ended 30 September 2012**

Figures in RM'000	9 months ended	
	30.09.2012	30.09.2011
CASH FLOW FROM OPERATING ACTIVITIES		
<i>Profit / (loss) before taxation</i>	(7,048)	6,220
Adjustments for:		
Depreciation of property, plant and equipment	1,729	1,459
Amortization of intangible assets	39	128
Amortization of prepaid land leases	18	12
Interest income	(9)	-
Interest expenses	1,423	1,103
Inventory write-down (due to fire)	8,964	-
Property, plant and machinery write-down (due to fire)	118	-
Loss on disposal of property, plant and equipment	1	-
(Gain) from discontinued operations	-	(8)
Corporate exercise expenses	-	230
Foreign exchange loss/(gain) – unrealized	707	(1,488)
Operating profit before working capital changes	5,942	7,656
Changes in working capital		
(Increase) in inventory	(1,336)	(10,563)
(Increase)/ Decrease in receivables	(15,457)	351
Increase in payables	10,609	2,589
Decrease in amount due to Director	(2,208)	-
Cash (absorbed by) / generated from operations	(2,450)	33
Interest paid	(1,423)	(1,103)
Taxation paid	(73)	103
Net cash used in operating activities	(3,946)	(967)

Condensed Consolidated Statement of Cash Flows (Cont'd)
For The 9 Months Period Ended 30 September 2012

Figures in RM'000	9 months ended	
	30.09.2012	30.09.2011
CASH FLOW FROM INVESTING ACTIVITIES		
Interest income	9	-
Purchase of property, plant and equipment	(2,712)	(2,004)
Proceeds from disposal of property, plant and equipment	-	76
Net cash used in investing activities	(2,703)	(1,928)
CASH FLOW FROM FINANCING ACTIVITIES		
Net repayment of hire purchase	(191)	(245)
Net proceeds from borrowings	-	4,263
Withdrawal / (Placement) of fixed deposits	504	(500)
Proceeds from issuance of share at premium	6,865	-
Corporate exercise expenses paid	-	(230)
Net repayment of borrowings	(3,807)	-
Net cash used in financing activities	3,371	3,288
Net (decrease) / increase in cash and cash equivalents	(3,278)	393
Effect of exchange rate changes	(87)	(153)
Cash and cash equivalents at beginning of the period	5,921	5,510
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	2,556	5,750

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figures in RM'000	9 months ended	
	30.09.2012	30.09.2011
Cash and Bank Balances	7,837	(7,131)
Overdraft	(5,281)	12,881
	2,556	5,750

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 September 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 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.

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		9 months ended	
	30.09.2012	30.09.2011	30.09.2012	30.09.2011
Depreciation of property, plant and equipment	(588)	(498)	(1,729)	(1,459)
Amortization of intangible assets	(1)	(87)	(39)	(128)
Amortization of prepaid land leases	(6)	-	(18)	(12)
Interest expenses	(435)	(424)	(1,423)	(1,103)
Loss on disposal of property, plant and equipment	-	-	(1)	-
Inventory write-down (due to fire)	(87)	-	(8,964)	-
Property, plant and machinery write-down (due to fire)	(118)	-	(118)	-
Gain / (loss) from discontinued operations	-	-	-	8
Foreign exchange (loss) / gain – unrealized	(685)	1,572	(707)	(1,488)
Interest income	-	-	9	-

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.

9. SEGMENT INFORMATION (cont'd)

(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	2,737	118,839	125	-	-	121,701
Internal sales	831	214	-	-	(1,045)	-
Total operating sales	3,568	119,053	125	-	(1,045)	121,701
Other income	88	3,124	-	-	-	3,212
	3,656	122,177	125	-	(1,045)	124,913
Results						
Segment results	(3,326)	(1,964)	(259)	(76)	-	(5,625)
Finance costs	-	(1,423)	-	-	-	(1,423)
Income tax	-	-	-	-	-	-
(Loss) after tax before non-controlling interest						(7,048)
Non-controlling interest						-
(Loss) after tax after non-controlling interest						(7,048)

	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	9,194	103,137	367	314	-	113,012
Unallocated assets						441
						113,453
Segment liabilities	323	40,918	59	26	-	41,326
Unallocated liabilities						28,545
						69,871

9. SEGMENT INFORMATION (cont'd)

(b) Sales Contribution by Geography

The geographical sales breakdowns are as follows:

	9 months ended	
	30.09.2012	30.09.2011
	RM'000	RM'000
Malaysia	6,858	8,709
Europe	61,958	55,701
USA	1,185	1,616
Oceania	17	29
Africa	34	-
North Asia*	51,649	35,666
	<u>121,701</u>	<u>101,721</u>

* 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 9 months ended 30 September 2012, 3 major customers contributed RM91.5 million, representing approximately 75% of total sales revenue (2011: RM74.6 million, representing 73% 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 or in the preceding financial year ended 31 December 2011.

11. CHANGES IN COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the financial period ended 30 September 2012.

12. CONTINGENT ASSETS & LIABILITIES

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

	RM'000
K-One Industry Sdn Bhd	35,106
K-One Electronics Sdn Bhd	21,660
K-One Manufacturing Sdn Bhd	25,000
	81,766

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 (3Q12vs3Q11)

For the third quarter ended 30 September 2012, the Group achieved sales revenue of RM47.6 million as compared to sales revenue of RM36.5 million for the corresponding quarter last year. The increase of 30 % was mainly due to the increased market demand for mobile phone accessories, electronic headlamps, household appliances' sub-systems and floor-care products despite the continuing global economic slowdown and volatility. Our upward sales growth which was contrary to the weak global economic trend, particularly in Europe, US and China was attained by the Group's continuing efforts in sustaining its quality, innovation, competitiveness and delivery excellence which were acknowledged positively by key customers.

15. PERFORMANCE REVIEW (cont'd)

The Group achieved profit attributable to equity holders of the parent company of RM 0.5 million which was lower when compared to the same of RM 2 million for the corresponding quarter last year. The decline of 75% was attributable to the lower margins due to the challenge in increasing prices for existing products and the slower than expected roll-out of new products with higher margins in view of the current soft global economy.

(b) Current quarter versus the preceding quarter (3Q12 vs 2Q12)

Sales revenue for the third quarter ended 30 September 2012 at RM 47.6 million was 25% higher than the preceding (second) quarter of RM 38.2million. The increase was mainly due to the escalating orders for electronic headlamps, floor-care products and mobile phone accessories from our key customers who recognized our strong commitment in quality, service, delivery, competitiveness and innovation.

The Group achieved profit attributable to equity holders of the parent company of RM 0.5 million as compared to the loss attributable to equity holders of the parent company of RM 8.2 million in the preceding (second) quarter. Notwithstanding the fire mishap that resulted in a RM 8.9 million one time inventory write-off in the preceding second quarter which is currently pending insurance claim, the Group would had otherwise made a profit of RM0.69 million. The Group's third quarter profit of RM0.5 million was mainly attributable to the cost cutting measures taken this year. Selling price increase to boost margins was taking traction slower than expected in view of the challenging and soft global economy.

16. COMMENTARY ON PROSPECTS AND TARGETS

The Group made a loss attributable to equity holders of the parent company of approximately RM 7 million for the first 9 months of this year, after taking into account the RM8.9 million inventory write-off as a result of the fire mishap which happened in April this year. The write-off was an appropriate accounting treatment, pending insurance claim for the entire fire incident which is expected to be finalized in the next couple of months.

16. COMMENTARY ON PROSPECTS AND TARGETS (cont'd)

Notwithstanding the RM 8.9 million inventory write-off due to the accidental fire incident, the Group would have otherwise registered a cumulative profit attributable to equity holders of the parent company of RM 1.8 million for the first 9 months of 2012.

Sales for the first 3 quarters has increased by 20% to RM 121.7 million from RM 101.7 million for the same period last year, with key contributions from mobile phone accessories, electronic headlamps, network cameras, household appliances' sub-systems and floor-care products. This is indeed very encouraging against the backdrop of global economic uncertainties. The positive result affirms various mechanisms implemented this year to step-up sales and improve profitability are in the right direction. These included, rebalancing the customer mix portfolio by advancing into the healthcare and automotive segments which present better margins and longer product life cycles. At the same time, the Group also stepped up the training and development of its business development staff to improve its customer service capabilities.

Concurrently, the Group is streamlining its back-office structure to raise productivity and improve process efficiency. The Group will continue to implement cost reduction programs such as materials cost reduction, hire freeze except for business development staff, improve utilization of manufacturing facilities and labor to drive cash flow and profitability.

The Group is ever mindful of the prevailing Eurozone crisis, unstable US economy and a weak China economy. Towards this end, it will be vigilant to find ways to defend any further price and margin erosion that may arise due to increased competition, coupled with a volatile foreign exchange rate and commodity prices. It will continue to seek innovative ways to increase selling prices so as to improve margins despite the challenges posed.

The Group is confident that the remaining quarter of this year will see the strong sales momentum continuing and expects to finish the year positively.

17. INCOME TAX EXPENSE

Figures in RM'000	3 months ended		9 months ended	
	30.09.2012	30.09.2011	30.09.2012	30.09.2011
Deferred tax	-	-	-	-
Current tax	-	-	-	35
Total Income Tax Expense	-	-	-	35

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

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.

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 and financial year-to-date.

19. QUOTED SECURITIES

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

20. CORPORATE PROPOSALS

On 29 August and 1 October, 2012, the Group announced the proposed bonus issue of up to 95,409,300 Warrants on the basis of one (1) warrant for every four (4) existing ordinary shares of RM0.10 each in K-One Tech shares held on the entitlement date. Bursa Securities approved the preceding on 19 October 2012 while Bank Negara Malaysia approved the issuance of Warrants to non-resident shareholders on 1 November 2012. The EGM will be held on 16 November 2012 to seek shareholders approval on the proposed exercise. The Warrants are expected to be listed for trading in mid-December 2012.

21. BORROWINGS AND DEBTS SECURITIES

Particulars of the Group's borrowings denominated in Ringgit Malaysia as at 30 September 2012 are as follows:

	RM'000
<i>Short term borrowings</i>	
Bankers' Acceptance	14,624
Revolving Credits	1,000
Bank Overdraft	5,281
Foreign currency trust receipts	4,924
Term Loan	577
Hire-purchase Payables	237
	26,643
<i>Long term borrowings</i>	
Term Loan	1,696
Hire-purchase Payables	149
	1,845
Total Borrowings	28,488

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 quarters.

25. REALISED AND UNREALISED PROFITS / LOSSES

As at the end of the current quarter under review ended 30 September 2012, the realized and unrealized profits are as follows:

	3months ended 30.09.2012 RM'000	9 months ended 30.09.2012 RM'000
Realised profit / (loss)	1,199	(6,341)
Unrealised (loss)	(685)	(707)
Total Retained Profit / (loss)	514	(7,048)

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

	3 months ended 30.09.2011 RM'000	9 months ended 30.09.2011 RM'000
Realised profit	527	4,847
Unrealised profit	1,457	1,373
Total Retained Profit	1,984	6,220

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.

26. EARNINGS PER SHARE (cont'd)

(a) Basic earnings per share

	3 months ended		9 months ended	
	30.09.2012	30.09.2011	30.09.2012	30.09.2011
Profit / (loss) attributable to equity holders of the parent (RM'000)	514	1,984	(7,048)	6,220
Weighted average number of Ordinary Shares in issue ('000)	374,548	341,859	359,993	298,448
Basic Earnings /(loss) Per Ordinary Share (sen)	0.14	0.58	(1.96)	2.08

(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		9 months ended	
	30.09.2012	30.09.2011	30.09.2012	30.09.2011
Profit /(loss)-attributable to equity holders of the parent (RM'000)	514	1,984	(7,048)	6,220
Weighted average number of Ordinary Shares in issue ('000)	374,548	341,859	359,993	298,448
Effect of dilution of share options ('000)	7,089	66,936	41,730	55,166
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	381,637	408,795	401,723	353,614
Diluted Earnings /(loss) Per Ordinary Share (sen)	0.13	0.48	(1.75)	1.76

27. 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 7 November 2012.

BY ORDER OF THE BOARD
NG YIM KONG (LS 0009297)
Company Secretary
Dated: 7 November 2012.