



K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 30 JUNE 2018**

**Condensed Consolidated Statements of Comprehensive Income
For The Second Quarter Ended 30 June 2018**

Figures in RM'000	3 months ended		6 months ended	
	30.6.2018 Unaudited	30.6.2017 Unaudited	30.6.2018 Unaudited	30.6.2017 Unaudited
Operating revenue	16,147	19,493	34,933	39,460
Cost of sales	(12,135)	(15,610)	(27,069)	(31,976)
Gross profit	4,012	3,883	7,864	7,484
Other income	339	212	479	352
Interest income	410	399	825	836
Operating expenses	(3,170)	(2,996)	(7,409)	(15,612)
Profit/(Loss) from operations	1,591	1,498	1,759	(6,940)
Share of profit after tax of equity-accounted associate	163	-	300	-
Profit/(Loss) before tax	1,754	1,498	2,059	(6,940)
Income tax expense	(251)	(458)	(528)	(818)
Profit/(Loss) for the period	1,503	1,040	1,531	(7,758)
Non-controlling interests	-	-	-	-
Profit/(Loss) after tax after Non-controlling interests	1,503	1,040	1,531	(7,758)

Profit/(Loss) attributable to:

Owners of the Parent	1,503	1,040	1,531	(7,758)
Non-controlling interests	-	-	-	-
	1,503	1,040	1,531	(7,758)

Earnings/(Loss) per share
EPS/(LPS)
attributable to owners
of the Parent (sen):

Basic EPS/(LPS)	0.29	0.20	0.29	(1.55)
Diluted EPS/(LPS)	0.29	0.19	0.29	(1.55)

**Condensed Consolidated Statements of Comprehensive Income
For The Second Quarter Ended 30 June 2018 (Cont'd)**

Figures in RM'000	3 months ended		6 months ended	
	30.6.2018 Unaudited	30.6.2017 Unaudited	30.6.2018 Unaudited	30.6.2017 Unaudited
Profit/(Loss) for the period	1,503	1,040	1,531	(7,758)
Items that may be subsequently reclassified to profit or loss :				
Foreign currency translation	(7)	(6)	(14)	(22)
Total comprehensive income	1,496	1,034	1,517	(7,780)
Profit/(Loss) attributable to:				
Owners of the Parent	1,496	1,034	1,517	(7,780)
Non-controlling interests	-	-	-	-
	1,496	1,034	1,517	(7,780)

The above condensed consolidated statements of comprehensive income should be read in conjunction with the audited financial statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.

Condensed Consolidated Statements of Financial Position
As At 30 June 2018

Figures in RM'000	Unaudited 30.6.2018	Audited 31.12.2017
ASSETS		
<i>Non-Current Assets</i>		
Property, plant and equipment	9,832	9,751
Intangible assets	118	171
Deferred tax assets	271	277
Investment in associate company	9,000	-
Non-Current Assets	19,221	10,199
<i>Current Assets</i>		
Inventories	17,211	15,675
Trade receivables	13,794	15,503
Other receivables	1,134	10,217
Tax recoverable	1,872	1,356
Short term cash investments	29,556	32,374
Cash and bank balances	21,786	18,615
Total Current Assets	85,353	93,740
TOTAL ASSETS	104,574	103,939

EQUITY AND LIABILITIES		
<i>Equity</i>		
Share capital	69,659	69,659
Reserves	14,033	12,825
Retained earnings	4,737	3,209
Total Equity	88,429	85,693

**Condensed Consolidated Statements of Financial Position
As At 30 June 2018 (Cont'd)**

Figures in RM'000	Unaudited 30.6.2018	Audited 31.12.2017
EQUITY AND LIABILITIES		
<i>Current Liabilities</i>		
Trade payables	14,634	15,290
Other payables and accruals	906	2,859
Amount due to Directors	2	2
Tax payable	603	95
Current Liabilities	16,145	18,246
Total Liabilities	16,145	18,246
TOTAL EQUITY AND LIABILITIES	104,574	103,939
Net assets per share attributable to Owners of the Parent (sen)	17.03	16.51

The above condensed consolidated statements of financial position should be read in conjunction with the audited financial statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.

**Condensed Consolidated Statements of Changes in Equity
For The Second Quarter Ended 30 June 2018**

Figures in RM'000	<-----Attributable to Owners of the Parent ----->						Total	Non-controlling Interest	Total Equity
	<----- Non-distributable ----->			Distributable					
	Share Capital	Share Premium	Share Option Reserve	Foreign Currency Translation Reserve	Retained Earnings				
At 1 January 2018	69,659	-	12,840	(12)	3,206	85,693	-	85,693	
Comprehensive profit									
Profit for the period	-	-	-	-	1,531	1,531	-	1,531	
Other comprehensive income									
Foreign currency translation difference	-	-	-	(14)	-	(14)	-	(14)	
Total comprehensive profit	-	-	-	(14)	1,531	1,517	-	1,517	
Transactions with owners									
Share based payment under Employees' Share Options Scheme ("ESOS")	-	-	1,219	-	-	1,219	-	1,219	
Total transactions with owners	-	-	1,219	-	-	1,219	-	1,219	
At 30 June 2018	69,659	-	14,059	(26)	4,737	88,429	-	88,429	

**Condensed Consolidated Statements of Changes in Equity
For The Second Quarter Ended 30 June 2018 (Cont'd)**

Figures in RM'000	<-----Attributable to Owners of the Parent ----->						Total	Non-controlling Interest	Total Equity
	<-----Non-distributable----->			Distributable					
	Share Capital	Share Premium	Share Option Reserve	Foreign Currency Translation Reserve	Retained Earnings				
At 1 January 2017	47,266	15,885	-	2	12,812	75,965	-	75,965	
Comprehensive loss									
Loss for the period	-	-	-	-	(7,758)	(7,758)	-	(7,758)	
Other comprehensive income									
Foreign currency translation difference	-	-	-	(22)	-	(22)	-	(22)	
Total comprehensive loss	-	-	-	(22)	(7,758)	(7,780)	-	(7,780)	
Transactions with owners									
Transition to no-par value regime*	15,885	(15,885)	-	-	-	-	-	-	
Issuance of ordinary shares	6,508	-	-	-	-	6,508	-	6,508	
Share based payment under ESOS	-	-	9,687	-	-	9,687	-	9,687	
Total transactions with owners	22,393	(15,885)	9,687	-	-	16,195	-	16,195	
At 30 June 2017	69,659	-	9,687	(20)	5,054	84,380	-	84,380	

***Note 1:**

With the Companies Act 2016 ("New Act") coming into effect on 31 January 2017, the credit standing in the Share Premium account of RM15,885,356 has been transferred to the Share Capital account. Pursuant to Section 618(3) of the New Act, the Group may exercise its right to use the credit amount being transferred from the Share Premium account within 24 months upon the commencement of the New Act i.e. by 31 January 2019.

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 2017 and the accompanying explanatory notes attached to the interim financial statements.

**Condensed Consolidated Statements of Cash Flows
For The Second Quarter Ended 30 June 2018**

Figures in RM'000	6 months ended	
	30.6.2018	30.6.2017
CASH FLOW FROM OPERATING ACTIVITIES		
<i>Profit/ Loss before taxation</i>	2,059	(6,940)
Adjustments for:		
Depreciation of property, plant and equipment	317	298
Amortization of intangible assets	52	63
ESOS expense	1,219	9,687
Interest income	(825)	(670)
Foreign exchange (gain)/loss – unrealized	114	140
Share of profit from associate	(300)	-
Operating profit before working capital changes	2,636	2,578
Changes in working capital:		
Increase in inventory	(1,536)	(24)
Decrease in receivables	1,948	4,042
Increase/(Decrease) in payables	(2,430)	926
Cash generated from operations	618	7,522
Taxation paid	(504)	(824)
<i>Net cash from operating activities</i>	114	6,698
CASH FLOW FROM INVESTING ACTIVITIES		
Interest income	825	670
Withdrawal/(Placement) in short term cash fund	2,818	(12,148)
Purchase of property, plant and equipment	(398)	(163)
Purchase of intangible assets	-	(8)
<i>Net cash from/(used in) investing activities</i>	3,245	(11,649)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	-	6,508
<i>Net cash from financing activities</i>	-	6,508

**Condensed Consolidated Statements of Cash Flows
For The Second Quarter Ended 30 June 2018 (Cont'd)**

Figures in RM'000	6 months ended	
	30.6.2018	30.6.2017
Net increase in cash and cash equivalents	3,359	1,557
Effect of exchange rate changes	(188)	(277)
Cash and cash equivalents at beginning of the period	5,115	23,651
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	8,286	24,931

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figures in RM'000	6 months ended	
	30.6.2018	30.6.2017
Cash and bank balances	7,986	16,431
Deposit placed with licensed banks	13,800	14,500
	21,786	30,931
Less: Non-short term fixed deposits	(13,500)	(6,000)
	8,286	24,931

The above condensed consolidated statements of cash flows should be read in conjunction with the audited financial statements for the year ended 31 December 2017 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 2017.

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 2017, except for the following Malaysian Financial Reporting Standards (MFRSs) and IC Interpretations (IC Int):

New MFRSs

MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers

Amendments/Improvements to MFRSs

MFRS 1	First Time Adoption of MFRSs
MFRS 2	Share-based Payment
MFRS 4	Insurance Contracts
MFRS 128	Investments in Associates and Joint Ventures
MFRS 140	Investment Property

New IC Int

Foreign Currency Transactions and Advance Consideration

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 (98.5% export in 2Q'18: 95.6% export in 2Q'17) 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 and equity securities during the period under review and up to the date of this report.

7. DIVIDENDS PAID

No dividend was paid during the quarter under review.

8. Notes to Consolidated Statement of Comprehensive Income

Figures in RM'000	3 months ended		6 months ended	
	30.6.2018	30.6.2017	30.6.2018	30.6.2017
Depreciation of property, plant and equipment	(142)	(151)	(317)	(298)
Amortization of intangible assets	(20)	(32)	(52)	(63)
Foreign exchange gain/(loss)				
- realized	63	(195)	(351)	(99)
- unrealized	231	47	(114)	(140)
Interest income	410	399	825	836

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	686	15,461	-	-	16,147
Internal sales	-	-	-	-	-
Total operating sales	686	15,461	-	-	16,147
Others and interest income	419	330	-	-	749
	1,105	15,791	-	-	16,896
Results					
Segment results	289	1,302	163	-	1,754
Finance costs	-	-	-	-	-
Income tax	(31)	(220)	-	-	(251)
Profit after tax before non-controlling interest					1,503
Non-controlling interest					-
Profit after tax after non-controlling interest					1,503

9. SEGMENT INFORMATION (Cont'd)

(a) Contribution by Activities (Cont'd)

	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	48,380	44,389	9,651	-	102,420
Unallocated assets					2,154
					104,574
Segment liabilities	247	15,278	14	-	15,539
Unallocated liabilities					606
					16,145

(b) Sales Contribution by Geography

The geographical sales breakdown is as follows:

	6 months ended	
	30.6.2018 RM'000	30.6.2017 RM'000
Malaysia	509	1,738
Asia (excluding M'sia)	7,709	3,409
Europe	23,986	31,578
US	2,702	2,692
Oceania	5	-
Middle East	22	43
	34,933	39,460

(c) Sales to Major Customers

For the 6 months ended 30 June 2018, three (3) major international customers (each with revenue of more than 10% of the Group's revenue) contributed total revenue of approximately RM26.5 million (1H'17: RM31.2million).

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 30 June 2018.

12. CONTINGENT ASSETS & LIABILITIES

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

	<u>RM'000</u>
K-One Industry Sdn Bhd	<u>22,576</u>
	<u>22,576</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 (2Q'18 vs 2Q'17)

For the second quarter ended 30 June 2018, the Group saw its revenue decreased by 17% to RM16.1 million from RM19.5 million in the corresponding quarter last year, on lower contributions from electronic security/surveillance peripherals, floor-care products and consumer electronic lifestyle gadgets due mainly to soft market demands. On the other hand, the Group experienced a marginal increase in demand for industrial products and medical/healthcare devices which however, were insufficient to prop up and maintain sales at the same level as the corresponding quarter of last year.

The Group registered profit attributable to equity holders of the parent company of RM1.5 million as compared to the same of RM1.0 million for the corresponding quarter last year despite a decline in sales. The 50% surge in net profit was mainly attributed to gross profit margin improvement for the quarter-to-quarter comparison ie 2Q'18:25% vs 2Q'17:20%, riding on the unexpected strengthening of the USD and to a certain extent, product mix changes favouring higher margin products in the medical/healthcare segment. Further, the share of profit contributed by its associate company following the completion of the acquisition of a 30% stake in AHM Consultancy & Security Services Sdn. Bhd. (AHM) in January 2018 also augmented the bottom line.

(b) Current quarter versus the preceding quarter (2Q'18 vs 1Q'18)

Sales revenue for the second quarter ended 30 June 2018 at RM16.1 million represented a 14% decline from the preceding quarter of RM18.8 million. The slowing sales was mainly attributed to a decline in demand for floor-care products, industrial products and consumer electronic lifestyle gadgets in view of an uncertain and volatile global market. Product deliveries have been deferred to the second half of the year during which the market is expected to pick up speed. Fortunately, improved sales performance of electronic security/surveillance peripherals and medical/healthcare devices cushioned the aforesaid sales decline.

15. PERFORMANCE REVIEW (Cont'd)

(b) Current quarter versus the preceding quarter (Cont'd)
(2Q'18 vs 1Q'18)

The Group posted profit attributable to equity holders of the parent company of RM1.5 million as compared to a profit of RM28.8 thousand in the preceding quarter based on improved margin (2Q'18:25% vs 1Q'18:21%) resulting from an unexpected rising USD and product mix changes with higher margin products gaining weightage.

16. COMMENTARY ON PROSPECTS AND TARGETS

Cumulative sales for the first half of the year ended 30 June 2018 finished at RM34.9 million against RM39.5 million for the corresponding period last year, representing a decrease of 12% which was chiefly due to subdued sales of electronic security/surveillance peripherals, electronic headlamps and floor-care products in view of weaker than expected global market sentiments, partly caused by the brewing global trade war ignited by the US. On a positive note, improving sales performance was witnessed in the Industrial products business segment.

The Group is intensifying efforts in revamping its product portfolio to focus on higher margin and higher growth markets in the likes of IoT gadgets, electronic security/surveillance peripherals, healthcare/medical devices and automotive aggregates in an attempt to replenish premium sales for long term growth. It is a challenging transformation process, although slow but gaining traction.

Besides driving organic growth, the Group has been and is continuing with its search for complementary businesses to grow through M&A. Backed by a robust cash position, the Group is seeking for target companies to connect the dots within the Industry 4.0 ecosystem, which includes smart manufacturing, IoT, cloud computing, Bigdata, cybersecurity, software applications and artificial intelligence. In this era, digital transformation is imminent and the Group is seriously embracing the various elements of Industry 4.0 in order that it will stay relevant and sustainable in the long term. Thus, for a start and in the immediate term, the aim to foray or “diversify” into the cloud computing space is a major and giant step into the digital age of innovation, smart manufacturing and ultimately Industry 4.0.

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

The medium-term macroeconomic outlook is anticipated to undergo continued volatility in the midst of heightened global business protectionism and political uncertainty. Regardless, the Group expects sales for the second half of 2018 to surpass that of the first half as various new customers, in particular, from the US are anticipated to be signed up in the course of the second half. In fact, the Group is expected to benefit from the on-going trade war between US and China as US multinationals accelerate their pace in switching their manufacturing footprints from China to South-East Asia, with Malaysia being a preferred destination to circumvent the imposition of tariffs on products produced in China. The Group is prepared and has the production capacity to take on additional business from these US multinationals. On the same token, the Group is exploring to partner or form joint ventures with manufacturing companies from China which are on the look out to establish production facilities in Malaysia or other parts of ASEAN to mitigate their risks in supplying to the US.

Profit is expected to be on an improving trend as the second half unfolds premised upon the continuation of a strong USD and rebalancing of product mix weighted with higher margins taking traction.

Concurrently, the Group will take the necessary steps to mitigate volatility risks, intensify its efforts to identify and sign up new businesses as well as continue to improve its efficiency, productivity and cost control to bring about the expected sales growth and profit sustainability.

17. INCOME TAX EXPENSE/(CREDIT)

	3 months ended		6 months ended	
	30.6.2018	30.6.2017	30.6.2018	30.6.2017
	RM'000	RM'000	RM'000	RM'000
Deferred tax	(30)	-	0	-
Current tax	281	458	528	818
Total Income Tax Expense	251	458	528	818

Income tax is calculated at the Malaysian statutory tax rate of 24% of the estimated assessable profit for the period.

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 property for the current quarter.

19. QUOTED SECURITIES

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

20. CORPORATE PROPOSALS

There are no corporate proposals announced but not completed as at the reporting date.

21. BORROWINGS AND DEBTS SECURITIES

The Group has neither any secured nor unsecured borrowings as at 30 June 2018.

22. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

As at the end of the current quarter and up to the date of this report, there are no off balance sheet financial instruments which have a material impact to the financial statements under review.

23. CHANGES IN MATERIAL LITIGATION

As at the date of this report, the Group is not engaged in any material litigation as plaintiff or defendant and the Directors do not have any knowledge of any proceedings pending or threatened against the Group.

24. PROPOSED DIVIDEND

There is no dividend proposed in the current quarter and the previous corresponding quarter.

25. EARNINGS / (LOSS) PER SHARE

The basic earnings/(loss) per share is calculated by dividing the profit/(loss) for the period attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

(a) Basic earnings / (loss) per share

	3 months ended		6 months ended	
	30.6.2018	30.6.2017	30.6.2018	30.6.2017
Profit/(Loss) attributable to equity holders of the parent (RM'000)	1,503	1,040	1,531	(7,758)
Weighted average number of Ordinary Shares in issue ('000)	519,144	519,144	519,144	500,395
Earnings/(Loss) Per Ordinary Share (sen)	0.29	0.20	0.29	(1.55)

(b) Diluted earnings / (loss) per share

	3 months ended		6 months ended	
	30.6.2018	30.6.2017	30.6.2018	30.6.2017
Profit/(Loss) attributable to equity holders of the parent (RM'000)	1,503	1,040	1,531	(7,758)
Weighted average number of Ordinary Shares in issue ('000)	519,144	519,144	519,144	500,395
Effect of Share Options ('000)	3,823	25,366	3,823	25,366
Adjusted weighted average number of Ordinary Shares in issue ('000)	522,967	544,510	522,967	525,761
Diluted Earnings/(Loss) Per Ordinary Share (sen)	0.29	0.19	0.29	(1.55)*

Note:

*The diluted loss per share equals the basic loss per share due to the anti-dilutive effect of the Options which has been ignored in calculating the diluted loss per share.

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 16 August 2018.

BY ORDER OF THE BOARD

WONG YOUN KIM (MAICSA 7018778)
Company Secretary

16 August 2018