

K-One

K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018**

**Condensed Consolidated Statements of Comprehensive Income
For The Third Quarter Ended 30 September 2018**

Figures in RM'000	3 months ended		9 months ended	
	30.9.2018 Unaudited	30.9.2017 Unaudited	30.9.2018 Unaudited	30.9.2017 Unaudited
Operating revenue	20,091	20,261	55,024	59,721
Cost of sales	(14,664)	(15,773)	(41,733)	(47,749)
Gross profit	5,427	4,488	13,291	11,972
Other income	217	23	696	375
Interest income	411	345	1,236	1,181
Operating expenses	(3,943)	(3,418)	(11,352)	(19,030)
Profit/(Loss) from operations	2,112	1,438	3,871	(5,502)
Share of profit after tax of equity-accounted associate	201	-	501	-
Profit/(Loss) before tax	2,313	1,438	4,372	(5,502)
Income tax expense	(306)	(330)	(834)	(1,148)
Profit/(Loss) for the period	2,007	1,108	3,538	(6,650)
Non-controlling interests	-	-	-	-
Profit/(Loss) after tax after Non-controlling interests	2,007	1,108	3,538	(6,650)

Profit/(Loss) attributable to:

Owners of the Parent	2,007	1,108	3,538	(6,650)
Non-controlling interests	-	-	-	-
	2,007	1,108	3,538	(6,650)

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

Basic EPS/(LPS)	0.39	0.22	0.68	(1.31)
Diluted EPS/(LPS)	0.36	0.21	0.64	(1.31)

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

Figures in RM'000	3 months ended		9 months ended	
	30.9.2018 Unaudited	30.9.2017 Unaudited	30.9.2018 Unaudited	30.9.2017 Unaudited
Profit/(Loss) for the period	2,007	1,108	3,538	(6,650)
Items that may be subsequently reclassified to profit or loss:				
Foreign currency translation	10	(3)	(4)	(9)
Total comprehensive income	2,017	1,105	3,534	(6,659)

Profit/(Loss) attributable to:

Owners of the Parent	2,017	1,105	3,534	(6,659)
Non-controlling interests	-	-	-	-
	2,017	1,105	3,534	(6,659)

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 September 2018

Figures in RM'000	Unaudited 30.9.2018	Audited 31.12.2017
ASSETS		
<i>Non-Current Assets</i>		
Property, plant and equipment	10,635	9,751
Intangible assets	102	171
Deferred tax assets	471	277
Investment in associate company	9,201	-
Non-Current Assets	20,409	10,199
<i>Current Assets</i>		
Inventories	16,527	15,675
Trade receivables	16,691	15,503
Other receivables	2,943	10,217
Tax recoverable	2,163	1,356
Short term cash investments	28,158	32,374
Cash and bank balances	21,033	18,615
Total Current Assets	87,515	93,740
TOTAL ASSETS	107,924	103,939

EQUITY AND LIABILITIES		
<i>Equity</i>		
Share capital	69,659	69,659
Reserves	14,508	12,825
Retained earnings	6,740	3,209
Total Equity	90,907	85,693

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

Figures in RM'000	Unaudited 30.9.2018	Audited 31.12.2017
EQUITY AND LIABILITIES		
<i>Current Liabilities</i>		
Trade payables	14,467	15,290
Other payables and accruals	1,439	2,859
Amount due to Directors	2	2
Tax payable	1,109	95
Current Liabilities	17,017	18,246
Total Liabilities	17,017	18,246
TOTAL EQUITY AND LIABILITIES	107,924	103,939
Net assets per share attributable to Owners of the Parent (sen)	17.51	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 Third Quarter Ended 30 September 2018**

Figures in RM'000	<----Attributable to Owners of the Parent ---->						Total	Non-controlling Interest	Total Equity
	Share Capital	Share Premium	Share Option Reserve	Foreign Currency Translation Reserve	Retained Earnings	Distributable			
At 1 January 2018	69,659	-	12,840	(12)	3,206	85,693	-	85,693	
Comprehensive profit									
Profit for the period	-	-	-	(4)	3,538	3,534	-	3,534	
Total comprehensive profit	-	-	-	(4)	3,538	3,534	-	3,534	
Transactions with owners									
Share based payment under Employees' Share Options Scheme ("ESOS")	-	-	1,680	-	-	1,680	-	1,680	
Total transactions with owners	-	-	1,680	-	-	1,680	-	1,680	
At 30 September 2018	69,659	-	14,520	(16)	6,744	90,907	-	90,907	

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

Figures in RM'000	←----Attributable to Owners of the Parent ----→							Non-controlling Interest	Total Equity
	←----- Non-distributable -----→				Distributable				
	Share Capital	Share Premium	Share Option Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total			
At 1 January 2017	47,266	15,885	-	2	12,613	75,766	-	75,766	
Comprehensive loss									
Loss for the period	-	-	-	-	(6,650)	(6,650)	-	(6,650)	
Other comprehensive income									
Foreign currency translation difference	-	-	-	(9)	-	(9)	-	(9)	
Total comprehensive loss	-	-	-	(9)	(6,650)	(6,659)	-	(6,659)	
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 September 2017	69,659	-	9,687	(7)	5,963	85,302	-	85,302	

***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 Third Quarter Ended 30 September 2018**

Figures in RM'000	9 months ended	
	30.9.2018	30.9.2017
CASH FLOW FROM OPERATING ACTIVITIES		
<i>Profit/ Loss before taxation</i>	4,372	(5,502)
Adjustments for:		
Depreciation of property, plant and equipment	519	446
Amortization of intangible assets	73	95
ESOS expense	1,680	9,687
Interest income	(1,236)	(1,015)
Foreign exchange (gain)/loss – unrealized	(18)	501
Share of profit of associate	(501)	-
Operating profit before working capital changes	4,889	4,212
Changes in working capital:		
Increase in inventory	(855)	(2,474)
(Increase)/Decrease in receivables	(2,414)	2,679
Increase/(Decrease) in payables	(709)	1,332
Cash generated from operations	911	5,749
Taxation paid	(795)	(1,127)
<i>Net cash from operating activities</i>	116	4,622
CASH FLOW FROM INVESTING ACTIVITIES		
Interest income	1,236	1,015
Withdrawal/(Placement) in short term cash fund	4,216	(12,298)
Withdrawal/(Placement) in time deposits	2,000	(13,500)
Down payment for acquisition of company	(2,040)	-
Purchase of property, plant and equipment	(1,403)	(199)
Purchase of intangible assets	(4)	(8)
<i>Net cash from/(used in) investing activities</i>	4,005	(24,990)
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 Third Quarter Ended 30 September 2018 (Cont'd)

Figures in RM'000	9 months ended	
	30.9.2018	30.9.2017
Net increase/(decrease) in cash and cash equivalents	4,121	(13,860)
Effect of exchange rate changes	297	(342)
Cash and cash equivalents at beginning of the period	5,115	29,651
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	9,533	15,449

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figures in RM'000	9 months ended	
	30.9.2018	30.9.2017
Cash and bank balances	7,533	15,449
Deposit placed with licensed banks	13,500	13,500
	21,033	28,949
Less: Non-short term fixed deposits	(11,500)	(13,500)
	9,533	15,449

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 (98.9% export in 3Q 2018; 98.7% export in 3Q 2017) 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		9 months ended	
	30.9.2018	30.9.2017	30.9.2018	30.9.2017
Depreciation of property, plant and equipment	(202)	(148)	(519)	(446)
Amortization of intangible assets	(21)	(32)	(73)	(95)
Foreign exchange gain/(loss)				
- realized	134	(93)	(217)	(192)
- unrealized	132	(361)	18	(501)
Interest income	411	345	1,236	1,015

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	535	19,556	-	-	20,091
Internal sales	-	-	-	-	-
Total operating sales	535	19,556	-	-	20,091
Others and interest income	409	219	-	-	628
	944	19,775	-	-	20,719
Results					
Segment results	(296)	2,408	201	-	2,313
Finance costs	-	-	-	-	-
Income tax	(33)	(273)	-	-	(306)
Profit after tax before non-controlling interest					2,007
Non-controlling interest					-
Profit after tax after non-controlling interest					2,007

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	50,765	45,215	9,310	-	105,290
Unallocated assets					2,634
					107,924
Segment liabilities	726	15,260	14	-	16,000
Unallocated liabilities					1,017
					17,017

(b) Sales Contribution by Geography

The geographical sales breakdown is as follows:

	9 months ended	
	30.9.2018 RM'000	30.9.2017 RM'000
Malaysia	610	762
Asia (excluding M'sia)	11,510	5,844
Europe	38,603	47,540
US	4,274	5,532
Oceania	5	-
Middle East	22	43
	55,024	59,721

(c) Sales to Major Customers

For the 9 months ended 30 September 2018, three (3) major international customers (each with revenue of more than 10% of the Group's revenue) contributed total revenue of approximately RM41.7 million (3Q 2017: RM46.1million).

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 September 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 (3Q'18 vs 3Q'17)

For the third quarter ended 30 September 2018, the Group saw its revenue closed at RM20.1 million as compared with RM20.3 million in the corresponding quarter last year, amidst an increasingly volatile global business environment. Despite the global uncertainties, the Group experienced an increase in demand of industrial products and medical/healthcare devices which however, was offset by lower contributions from floor-care products and electronic security/surveillance peripherals due mainly to soft market demands.

The Group registered profit attributable to equity holders of the parent company of RM2.0 million as compared to the same of RM1.1 million for the corresponding quarter last year. The 82% surge in net profit was mainly attributed to gross profit margin improvement for the quarter-to-quarter comparison ie 3Q'18:27% vs 3Q'17:22%, resulting from the strengthening of the USD and product mix changes favouring higher-margin products in the industrial and medical/healthcare segments. 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 (3Q'18 vs 2Q'18)

Sales revenue for the third quarter ended 30 September 2018 at RM20.1 million represented a 25% increase from the preceding quarter of RM16.1 million. The jump in sales was mainly attributed to an increase in demand for electronic headlamps, industrial products, consumer electronic lifestyle gadgets and medical/healthcare devices, primarily due to pent-up demand after the soft market situation in 2Q'18 caused by the uncertainties created by the US-China trade war. Nevertheless, sales growth for the current quarter was partly curtailed by declining demand of floor-care products.

The Group posted profit attributable to equity holders of the parent company of RM2.0 million as compared to a profit of RM1.5 million in the preceding quarter, largely based on improved margin (3Q' 18:27% vs 2Q'18:25%) resulting from the rising USD and favourable product mix with stronger gross margins.

16. COMMENTARY ON PROSPECTS AND TARGETS

The initial 9 months of the year ended 30 September 2018 saw cumulative sales closed at RM55.0 million against RM59.7 million for the corresponding period last year. The sales revenue decline of 8% was mainly attributed to subdued sales of electronic headlamps, electronic security/surveillance peripherals and floor-care products in view of weaker than expected global market sentiments, partly caused by the US-China trade tension. However, the Group recorded improving sales in industrial products, although insufficient to cushion the preceding sales shortfall.

Nonetheless, the significant sales uplift of 25% in 3Q'18 over the last quarter (2Q'18) is a positive sign of the sales guidance for the final quarter of the year, as based on historical trend, the Group's sales normally peak towards year end to meet the festive season demands in Europe and US. Following President Trump's announcement in September 2018 on tariff imposition of an initial 10% and scaling up to 25% by January 2019 on another USD 200 billion worth of goods from China, the Group further stepped up its efforts to engage potential US clients who are affected by this second tranche of tariff imposition. In this regard, the Group quickly moved ahead to participate in an exhibition for manufacturers to be held in Minneapolis, US in October 2018, to be followed by more of such exhibitions in various locations in US as appropriate. Concurrently, the Group is also holding an exhibition in Shanghai, China in early November 2018 to woo manufacturers in China to shift their production to the Group's facilities in Malaysia or alternatively, explore any form of collaboration, including JV for the mutual benefit of both parties concerned. The Group expects to see positive results from the above targeted marketing activities in the short term, as it believes that its quick ("early bird") and focused action will "catch the worm", so to speak.

The proposed acquisition of a 60% stake in G-AsiaPacific Sdn. Bhd. (GAP) for a cash consideration of RM 20.4 million on 27 August 2018 followed by the balance 40% to be acquired approximately 2 years down the road upon achievement of profit milestones by the vendors is still on-going with the due diligence process taking shape. Barring unforeseen circumstances, the Group expects the 60% acquisition of GAP to be completed by 1Q'19. The Group believes that the foray or "diversification" into the integrated cloud advisory space is a major and right step into the digital age of innovation which complements smart manufacturing and all other elements supporting Industry 4.0 which the Group aims to attain over the next few years.

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

The medium-term macroeconomic outlook is anticipated to undergo continued volatility given the uncertainty over the Sino-US trade disputes, a possible slowdown in the Chinese economy and higher US borrowing costs. Regardless, the Group expects sales for the final quarter of 2018 which is seasonally and normally the strongest quarter of the year, to continue improving aided by the likelihood of key customers replenishing inventories to meet the year end festive demands.

On earnings, the Group expects the coming final quarter to be positive premised upon the assumed continuation of a strong USD and favourable product mix with higher margins.

The Group's current business strategy of expanding its core OEM/ODM into new frontiers encompassing the IoT, medical/healthcare, automotive, wearables and industrial segments and simultaneously building on its growth through acquisitions of synergistic technology businesses under the Industry 4.0 ecosystem are beginning to take traction and expected to crystalize into promising results in the ensuing year. Meanwhile, the Group will continue to exercise prudent credit policies as well as strong risk management practices to uphold the sustainability and growth momentum moving forward.

17. INCOME TAX EXPENSE/(CREDIT)

	3 months ended		9 months ended	
	30.9.2018	30.9.2017	30.9.2018	30.9.2017
	RM'000	RM'000	RM'000	RM'000
Deferred tax	(200)	-	(200)	-
Current tax	506	330	1,034	1,148
Total Income Tax Expense	306	330	834	1,148

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

Save as disclosed below, there are no other corporate proposals:

a) Proposed Bonus Issue of Shares and Proposed Free Warrants Issue

On 18 October 2018, Bursa Securities has approved the listing and quotation for up to 130,158,864 and 195,238,296 of Bonus Shares and Warrants respectively. The Group is in the process of preparing the Circular to shareholders and is expected to hold an Extraordinary General Meeting (EGM) in December 2018 to seek shareholders approval.

b) Proposed Acquisition of 60% Equity Interest in G-AsiaPacific Sdn. Bhd., Proposed Call/Put Options and Proposed Diversification (hereinafter referred to as "Proposed Acquisition")

Bursa Securities had, through its letter dated 12 October 2018, granted the Company an extension of time until 26 January 2019 to submit the draft Circular in relation to the Proposed Acquisition. The due diligence process is on-going and barring unforeseen circumstances, the Group expects that the Proposed Acquisition will be completed by 1Q'19.

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		9 months ended	
	30.9.2018	30.9.2017	30.9.2018	30.9.2017
Profit/(Loss) attributable to equity holders of the parent (RM'000)	2,007	1,108	3,538	(6,650)
Weighted average number of Ordinary Shares in issue ('000)	519,144	519,144	519,144	506,713
Earnings/(Loss) Per Ordinary Share (sen)	0.39	0.22	0.68	(1.31)

25. EARNINGS / (LOSS) PER SHARE (Cont'd)
(b) Diluted earnings/(loss) per share

	3 months ended		9 months ended	
	30.9.2018	30.9.2017	30.9.2018	30.9.2017
Profit/(Loss) attributable to equity holders of the parent (RM'000)	2,007	1,108	3,538	(6,650)
Weighted average number of Ordinary Shares in issue ('000)	519,144	519,144	519,144	506,713
Effect of Share Options ('000)	32,500	17,106	32,500	17,106
Adjusted weighted average number of Ordinary Shares in issue ('000)	551,644	536,250	551,644	523,819
Diluted Earnings/(Loss) Per Ordinary Share (sen)	0.36	0.21	0.64	(1.31)*

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 5 November 2018.

BY ORDER OF THE BOARD

WONG YOUN KIM (MAICSA 7018778)

Company Secretary

5 November 2018