

K-One

K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 30 JUNE 2019**

**Condensed Consolidated Statements of Comprehensive Income
For The Second Quarter Ended 30 June 2019**

Figures in RM'000	3 months ended		6 months ended	
	30.6.2019 Unaudited	30.6.2018 Unaudited	30.6.2019 Unaudited	30.6.2018 Unaudited
Operating revenue	25,481	16,147	43,433	34,933
Cost of sales	(19,327)	(12,135)	(31,999)	(27,069)
Gross profit	6,154	4,012	11,434	7,864
Other income	177	339	424	479
Interest income	339	410	820	825
Operating expenses	(4,135)	(3,170)	(8,366)	(7,409)
Profit from operations	2,535	1,591	4,312	1,759
Share of profit after tax of equity-accounted associate	0	163	13	300
Profit before tax	2,535	1,754	4,325	2,059
Income tax expense	(270)	(251)	(260)	(528)
Profit after tax for the period	2,265	1,503	4,065	1,531

Profit attributable to:

Owners of the Parent	1,750	1,503	3,465	1,531
Non-controlling interests	515	-	600	-
	2,265	1,503	4,065	1,531

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

Basic EPS	0.24	0.29	0.48	0.29
Diluted EPS	0.24	0.29	0.47	0.29

**Condensed Consolidated Statements of Comprehensive Income
For The Second Quarter Ended 30 June 2019 (Cont'd)**

Figures in RM'000	3 months ended		6 months ended	
	30.6.2019 Unaudited	30.6.2018 Unaudited	30.6.2019 Unaudited	30.6.2018 Unaudited
Profit for the period	2,265	1,503	4,065	1,531
Items that may be subsequently reclassified to profit or loss:				
Foreign currency translation	(3)	(7)	13	(14)
Total comprehensive income	2,262	1,496	4,078	1,517

Total comprehensive income attributable to:

Owners of the Parent	1,747	1,496	3,478	1,517
Non-controlling interests	515	-	600	-
	2,262	1,496	4,078	1,517

The above condensed consolidated statements of comprehensive income should be read in conjunction with the audited financial statements for the year ended 31 December 2018 and the accompanying explanatory notes attached to the interim financial statements.

**Condensed Consolidated Statements of Financial Position
As At 30 June 2019**

Figures in RM'000	Unaudited 30.6.2019	Audited 31.12.2018
ASSETS		
<i>Non-Current Assets</i>		
Property, plant and equipment	13,108	10,174
Prepaid land lease	925	939
Intangible assets	45	82
Goodwill on consolidation	18,609	-
Deferred tax assets	1,519	1,036
Investment in associate company	9,214	9,201
Total Non-Current Assets	43,420	21,432
<i>Current Assets</i>		
Inventories	18,844	15,487
Trade receivables	18,779	16,555
Other receivables	1,944	3,799
Tax recoverable	1,180	716
Short term cash investments	10,004	28,243
Cash and bank balances	44,017	36,355
Total Current Assets	94,768	101,155
TOTAL ASSETS	138,188	122,587

EQUITY AND LIABILITIES		
<i>Equity</i>		
Share capital	94,679	94,679
Reserves	4,081	3,668
Retained earnings	12,507	9,042
	111,267	107,389
Non-controlling Interest	1,794	-
Total Equity	113,061	107,389

**Condensed Consolidated Statements of Financial Position
As At 30 June 2019 (Cont'd)**

Figures in RM'000	Unaudited 30.6.2019	Audited 31.12.2018
EQUITY AND LIABILITIES		
<i>Non-Current Liabilities</i>		
Deferred tax liabilities	241	231
Term loan	781	-
Total Non-Current Liabilities	1,022	231
<i>Current Liabilities</i>		
Trade payables	17,969	13,708
Other payables and accruals	1,411	1,191
Contract liabilities	3,801	-
Amount due to Directors	2	2
Term loan	3	-
Tax payable	919	66
Total Current Liabilities	24,105	14,967
Total Liabilities	25,127	15,198
TOTAL EQUITY AND LIABILITIES	138,188	122,587
Net assets per share attributable to Owners of the Parent (sen)	15.51	16.67

The above condensed consolidated statements of financial position should be read in conjunction with the audited financial statements for the year ended 31 December 2018 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 2019**

Figures in RM'000	<----Attributable to Owners of the Parent ---->						Non-controlling Interest	Total Equity
	Share Capital	Share Option Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total	Distributable		
At 1 January 2019	94,679	3,681	(13)	9,042	107,389		-	107,389
Comprehensive profit								
Profit for the period	-	-	-	3,465	3,465		1,794	5,259
Other comprehensive income								
Foreign currency translation difference	-	-	13	-	13		-	13
Total comprehensive profit	-	-	13	3,465	3,478		1,794	5,272
Transactions with owners								
Share based payment under Employees' Share Options Scheme ("ESOS")	-	400	-	-	400		-	400
Total transactions with owners	-	400	-	-	400		-	400
At 30 June 2019	94,679	4,081	0	12,507	111,267		1,794	113,061

**Condensed Consolidated Statements of Changes in Equity
For The Second Quarter Ended 30 June 2019 (Cont'd)**

Figures in RM'000	<----Attributable to Owners of the Parent ---->					Non-controlling Interest	Total Equity
	Non-distributable			Distributable			
	Share Capital	Share Option Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total		
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

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 2018 and the accompanying explanatory notes attached to the interim financial statements.

**Condensed Consolidated Statements of Cash Flows
For The Second Quarter Ended 30 June 2019**

Figures in RM'000	6 months ended	
	30.6.2019	30.6.2018
CASH FLOW FROM OPERATING ACTIVITIES		
<i>Profit before taxation</i>	4,325	2,059
Adjustments for:		
Depreciation of property, plant and equipment	590	317
Amortization of intangible assets	37	52
ESOS expense	400	1,219
Interest income	(820)	(825)
Foreign exchange (gain)/loss – unrealized	(42)	114
Share of profit of associate company	(13)	(300)
Operating profit before working capital changes	4,477	2,636
Changes in working capital:		
Increase in inventory	(3,357)	(1,536)
Decrease in receivables	1,585	1,948
Increase/(Decrease) in payables	2,373	(2,430)
Cash generated from/(used in) operations	5,078	618
Taxation paid	(476)	(504)
Interest income	820	825
Net cash from operating activities	5,422	939
CASH FLOW FROM INVESTING ACTIVITIES		
Redemption of short term cash fund	18,239	2,818
Placement in non-short term fixed deposits	(137)	-
Acquisition of a subsidiary	(18,360)	-
Purchase of property, plant and equipment	(3,473)	(398)
Net cash (used in)/from investing activities	(3,731)	2,420
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of term loan	(8)	-
Net cash used in financing activities	(8)	-

**Condensed Consolidated Statements of Cash Flows
For The Second Quarter Ended 30 June 2019 (Cont'd)**

Figures in RM'000	6 months ended	
	30.6.2019	30.6.2018
Net increase in cash and cash equivalents	1,683	3,359
Effect of exchange rate changes	(596)	(188)
Cash and cash equivalents at beginning of the period	12,356	5,115
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	13,443	8,286

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figures in RM'000	6 months ended	
	30.6.2019	30.6.2018
Cash and bank balances	13,443	7,986
Deposit placed with licensed banks	30,574	13,800
	44,017	21,786
Less: Non-short term fixed deposits	(30,574)	(13,500)
	13,443	8,286

The above condensed consolidated statements of cash flows should be read in conjunction with the audited financial statements for the year ended 31 December 2018 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 2018.

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 2018, except for the following Malaysian Financial Reporting Standards (MFRSs) and IC Interpretations (IC Int):

New MFRSs

MFRS 16 Leases

Amendments/Improvements to MFRSs

MFRS 3 Business Combinations

MFRS 9 Financial Instruments

MFRS 11 Joint Arrangements

MFRS 112 Income Taxes

MFRS 119 Employee Benefits

MFRS 123 Borrowing Costs

MFRS 128 Investments in Associates and Joint Ventures

New IC Int

IC Int 23 Uncertainty over Income Tax Treatments

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 Electronics Manufacturing Services (EMS) business, being predominantly export in nature (96.3% export in 1H'19; 98.5% export in 1H'18) 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.

Revenue contribution from the Cloud Computing business (through G-AsiaPacific Sdn. Bhd. which the acquisition of 60% equity interest in the said company was concluded in March 2019) is almost entirely derived from Malaysia and is not subject to any obvious seasonality.

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.

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	
	30.6.2019	30.6.2018	30.6.2019	30.6.2018
Depreciation of property, plant and equipment	(318)	(142)	(590)	(317)
Amortization of intangible assets	(16)	(20)	(37)	(52)
Foreign exchange gain/(loss)				
- realized	123	63	(117)	(351)
- unrealized	54	231	42	(114)
Interest income	339	410	820	825

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	Cloud RM'000	Invest- ment Holding RM'000	Total RM'000
Sales					
External sales	294	18,504	6,627	56	25,481
Internal sales	-	-	-	-	-
Total operating sales	294	18,504	6,627	56	25,481
Others and interest income	308	172	20	16	516
	602	18,676	6,647	72	25,997
Results					
Segment results	(379)	1,591	1,287	36	2,535
Finance costs	-	-	-	-	-
Income tax	-	(268)	(2)	-	(270)
Profit after tax before non-controlling interest					2,265

Non-controlling interest	(515)
Profit after tax after non-controlling interest	1,750

9. SEGMENT INFORMATION (Cont'd)

(a) Contribution by Activities (Cont'd)

	Research, D&D and Sales RM'000	Manu- facturing RM'000	Cloud RM'000	Invest- ment Holding RM'000	Total RM'000
Other information					
Segment assets	60,873	49,728	11,765	10,786	133,152
Unallocated assets					5,036
					138,188
Segment liabilities	480	17,162	7,392	25	25,059
Unallocated liabilities					68
					25,127

(b) Sales Contribution by Geography

The geographical sales breakdown is as follows:

	6 months ended	
	30.6.2019 RM'000	30.6.2018 RM'000
Malaysia	**9,344	509
Asia (excluding M'sia)	7,449	7,709
Europe	23,981	23,986
US	2,605	2,702
Oceania	38	5
Middle East	16	22
	43,433	34,933

** Includes RM8,015,610 from Cloud business.

(c) Sales to Major Customers

For the 6 months ended 30 June 2019, two (2) major international customers (each with revenue of more than 10% of the Group's revenue) contributed total revenue of approximately RM26.3 million (1H'18: RM26.5 million).

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 2019.

12. CONTINGENT ASSETS & LIABILITIES

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

	RM'000
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'19 vs 2Q'18)

For the second quarter ended 30 June 2019, the Group saw its revenue increased by 58% to RM25.5 million from RM16.1 million in the corresponding quarter last year, underpinned by two key factors. Firstly, the Electronics Manufacturing Services (EMS) business grew by RM2.8 million from RM16.1 million in 2Q'18 to RM18.9 million in 2Q'19, driven by improved demand of industrial products, electronic headlamps and medical/healthcare devices which however, was partially offset by lower contributions from floor-care products and electronic security/surveillance peripherals due mainly to soft market demands encountered by customers in the latter's industry segments. Secondly, the Cloud business generated post-acquisition revenue of RM6.6 million in 2Q'19, following the completion of its acquisition in March 2019. The Group is now effectively powered by 2 core businesses, both of which under the auspices of Industry 4.0.

The Group registered profit attributable to equity holders of the parent company of RM1.8 million as compared to a profit of RM1.5 million for the corresponding quarter last year. This represented an increase of 20%. The EMS profit contribution was approximately RM1 million while the Cloud contributed about RM0.8 million.

On the EMS business, despite product mix changes favouring higher-margin products in the industrial and medical/healthcare segments, gross profit margin for the quarter had weakened (2Q'19:24% vs 2Q'18:25%) owing to the end-of-life of a high margin product for professional use and cost reduction for a long running model for consumer use as part of a phase-in program for a replacement model for a key customer. Additionally, the set-up of new production lines to cater for the recent new customer wins increased expenses such as depreciation. Lastly, prototype investments for the purpose of pitching for new business also dampened profit.

On the Cloud business, profit contribution based on 60% equity interest at about RM0.8 million was encouraging.

**(b) Current quarter versus the preceding quarter
(2Q'19 vs 1Q'19)**

The second quarter ended 30 June 2019 posted sales revenue of RM25.5 million, comprising of RM18.9 million and RM6.6 million from the EMS and Cloud businesses respectively. This represented a 42% increase from the preceding quarter of RM18.0 million. Sales for the EMS business increased by RM2.4 million; from RM16.5 million (1Q'19) to RM18.9 million (2Q'19), representing a 15% increase. The Cloud business increased by RM5.1 million (340% increase but not a like for like comparison as the cloud business was only equity accounted for about a month in the last quarter). The EMS business experienced an increase in demand of electronic headlamps, industrial products and electronic security/surveillance peripherals but was restrained by reduced contribution from the medical/healthcare segment.

The Group posted profit attributable to equity holders of the parent company of RM1.8 million as compared to a profit of RM1.7 million in the preceding quarter, an increase of 6%. The key driver for the increase was the strong contribution from the Cloud business, while the profit contribution from the EMS business was subdued due to reasons as explained in (a) above.

16. COMMENTARY ON PROSPECTS AND TARGETS

Cumulative sales for the first half of the year ended 30 June 2019 finished at RM43.4 million against RM34.9 million for the corresponding period last year, representing an increase of 24%. EMS's sales increased marginally by RM0.4 million to RM35.3 million compared with RM34.9 million in the corresponding period last year. It was held up by the sturdy sales of electronic headlamps, industrial products and medical/healthcare devices but growth was curtailed by subdued sales of electronic security/surveillance peripherals, floor-care products and consumer electronic lifestyle gadgets in view of weaker than expected global market sentiments, mainly caused by the prolonged US-China trade war and the Brexit uncertainty in Europe. Nonetheless, the new source of revenue derived from the Cloud business resulting from the post-acquisition of a 60% stake in G-AsiaPacific Sdn Bhd spurred revenue growth.

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

The re-balancing of the EMS business's product portfolio with emphasis on products such as medical/healthcare devices, IoT devices, automotive aggregates and industrial products with higher margins and longer product life cycles is gaining traction following the new customer wins in late 2018/early 2019. Tools making, setting up of production lines, testing and technical qualifications are progressing with intermittent challenges to prepare for mass production which are expected to commence in the next few months for these various new products. Business development activities in US by participating in additional exhibitions to pursue further customer wins are being intensified in light of 10% tariffs to be imposed on the balance of USD 300 billion worth of goods from China come 1 September 2019.

The diversification into the Cloud Computing business is beginning to see positive results in both top and bottom line contributions. As the opportunities in the Cloud business are aplenty, it is anticipated to generate good prospects provided the integration process and business plans are implemented successfully. Towards this end, the Group is focusing its resources to cement the integration process and strengthen the human assets to deliver business expansion both locally and in ASEAN.

The rest of the year is anticipated to undergo continued volatility with the global economy in a state of flux, exacerbated by global trade woes (US-China war), Brexit and potential currency war. Hence, growth for the existing customers in the EMS business may soften in the ensuing months as specific products unexpectedly/prematurely have and are going end-of-life as a result of restrained demand caused by the weak and uncertain global markets. Despite external headwinds, the Group remains cautiously optimistic on its outlook ahead, underpinned by its diversification into the Cloud Computing business which is expected to be a promising second engine of growth and continuous expansion into "sunrise" markets such as medical/healthcare and IoT devices with new customer wins aided by escalating global trade tensions, which has prompted the realignment of global supply chains. On investment in the security service business under associate company, it is facing headwinds with its outlook expected to be challenging as the local economy and the government sectors which it largely depends on lack stimulus. It is accelerating its diversification into the private sector for long term sustainability.

The Group has and will continue to improve business efficiency by inculcating a cost-conscious mindset across the board to enhance sales and profit margin amid the worsening global and local economic environment.

17. INCOME TAX EXPENSE/(CREDIT)

	3 months ended		6 months ended	
	30.6.2019	30.6.2018	30.6.2019	30.6.2018
	RM'000	RM'000	RM'000	RM'000
Deferred tax	-	(30)	(564)	-
Current tax	270	281	824	528
Total Income Tax Expense	270	251	260	528

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

The acquisition of 60% equity interest in GAP had been completed in March 2019. The Group will acquire the remaining 40% equity interest of GAP via call/put options, on condition that profit after tax for the year ended 2019 of the said company exceeds RM3.4 million.

21. BORROWINGS AND DEBTS SECURITIES

The term loan is in relation to the consolidation of GAP's accounts into the Group's financial results following the completion of the acquisition of 60% stake in GAP in March 2019. It was taken by GAP to purchase its office in 2016 and it is secured over the property purchased.

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 PER SHARE

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

Diluted earnings per share are based on the profit for the period attributable to equity holders of the Company and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

25. EARNINGS PER SHARE (Cont'd)

(a) Basic earnings per share

	3 months ended		6 months ended	
	30.6.2019	30.6.2018	30.6.2019	30.6.2018
Profit attributable to equity holders of the parent (RM'000)	1,750	1,503	3,465	1,531
Weighted average number of Ordinary Shares in issue ('000)	728,939	519,144	728,939	519,144
Earnings Per Ordinary Share (sen)	0.24	0.29	0.48	0.29

(b) Diluted earnings per share

	3 months ended		6 months ended	
	30.6.2019	30.6.2018	30.6.2019	30.6.2018
Profit attributable to equity holders of the parent (RM'000)	1,750	1,503	3,465	1,531
Weighted average number of Ordinary Shares in issue ('000)	728,939	519,144	728,939	519,144
Effect of Share Options ('000)	12,167	3,823	12,167	3,823
Adjusted weighted average number of Ordinary Shares in issue ('000)	741,106	522,967	741,106	522,967
Diluted Earnings Per Ordinary Share (sen)	0.24	0.29	0.47	0.29

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 15 August 2019.

BY ORDER OF THE BOARD
WONG YOUN KIM (MAICSA 7018778)
Company Secretary

15 August 2019