

K-One

K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FIRST QUARTER ENDED 31 MARCH 2019**

**Condensed Consolidated Statements of Comprehensive Income
For The First Quarter Ended 31 March 2019**

Figures in RM'000	3 months ended		3 months ended	
	31.3.2019 Unaudited	31.3.2018 Unaudited	31.3.2019 Unaudited	31.3.2018 Unaudited
Operating revenue	17,952	18,786	17,952	18,786
Cost of sales	(12,672)	(14,934)	(12,672)	(14,934)
Gross profit	5,280	3,852	5,280	3,852
Other income	247	140	247	140
Interest income	481	415	481	415
Operating expenses	(4,231)	(4,239)	(4,231)	(4,239)
Profit from operations	1,777	168	1,777	168
Share of profit after tax of equity-accounted associate	13	137	13	137
Profit before tax	1,790	305	1,790	305
Income tax credit/(expense)	10	(277)	10	(277)
Profit for the period	1,800	28	1,800	28
Non-controlling interests	(85)	-	(85)	-
Profit after tax after Non-controlling interests	1,715	28	1,715	28

Profit attributable to:

Owners of the Parent	1,715	28	1,715	28
Non-controlling interests	85	-	85	-
	1,800	28	1,800	28

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

Basic EPS	0.24	0.01	0.24	0.01
Diluted EPS	0.23	0.01	0.23	0.01

**Condensed Consolidated Statements of Comprehensive Income
For The First Quarter Ended 31 March 2019 (Cont'd)**

Figures in RM'000	3 months ended		3 months ended	
	31.3.2019 Unaudited	31.3.2018 Unaudited	31.3.2019 Unaudited	31.3.2018 Unaudited
Profit for the period	1,800	28	1,800	28
Items that may be subsequently reclassified to profit or loss:				
Foreign currency translation	(3)	(7)	(3)	(7)
Total comprehensive income	1,797	21	1,797	21

Profit attributable to:

Owners of the Parent	1,712	21	1,712	21
Non-controlling interests	85	-	85	-
	1,797	21	1,797	21

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 31 March 2019

Figures in RM'000	Unaudited 31.3.2019	Audited 31.12.2018
ASSETS		
<i>Non-Current Assets</i>		
Property, plant and equipment	12,327	10,174
Prepaid land lease	932	939
Intangible assets	61	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	42,662	21,432
<i>Current Assets</i>		
Inventories	15,595	15,487
Trade receivables	17,589	16,555
Other receivables	2,049	3,799
Tax recoverable	943	716
Short term cash investments	10,004	28,243
Cash and bank balances	41,240	36,355
Total Current Assets	87,420	101,155
TOTAL ASSETS	130,082	122,587

EQUITY AND LIABILITIES		
<i>Equity</i>		
Share capital	94,679	94,679
Reserves	3,865	3,668
Non-controlling Interest	1,279	-
Retained earnings	10,757	9,042
Total Equity	110,580	107,389

**Condensed Consolidated Statements of Financial Position
As At 31 March 2019 (Cont'd)**

Figures in RM'000	Unaudited 31.3.2019	Audited 31.12.2018
EQUITY AND LIABILITIES		
<i>Non-Current Liabilities</i>		
Deferred tax liabilities	241	231
Term loan	783	-
Total Non-Current Liabilities	1,024	231
<i>Current Liabilities</i>		
Trade payables	12,961	13,708
Other payables and accruals	4,860	1,191
Amount due to Directors	2	2
Term loan	7	-
Tax payable	648	66
Total Current Liabilities	18,478	14,967
Total Liabilities	19,502	15,198
TOTAL EQUITY AND LIABILITIES	130,082	122,587
Net assets per share attributable to Owners of the Parent (sen)	15.17	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 First Quarter Ended 31 March 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			
At 1 January 2019	94,679	3,681	(13)	9,042	107,389	-	107,389	
Comprehensive profit								
Profit for the period	-	-	-	1,715	1,715	1,279	2,994	
Other comprehensive income								
Foreign currency translation difference	-	-	(3)	-	(3)	-	(3)	
Total comprehensive profit	-	-	(3)	1,715	1,712	1,279	2,991	
Transactions with owners								
Issuance of ordinary shares pursuant to exercise of ESOS Options	-	-	-	-	-	-	-	
Share based payment under Employees' Share Options Scheme ("ESOS")	-	200	-	-	200	-	200	
Reversal of ESOS Options	-	-	-	-	-	-	-	
	-	200	-	-	200	-	200	
Total transactions with owners								
At 31 March 2019	94,679	3,881	(16)	10,757	109,301	1,279	110,580	

**Condensed Consolidated Statements of Changes in Equity
For The First Quarter Ended 31 March 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	(15)	3,209	85,693	-	85,693
Comprehensive profit							
Profit for the period	-	-	-	28	28	-	28
Other comprehensive income							
Foreign currency translation difference	-	-	(7)	-	(7)	-	(7)
Total comprehensive loss	-	-	(7)	28	21	-	21
Transactions with owners							
Share based payment under Employees' Share Options Scheme (ESOS)	-	832	-	-	832	-	832
Total transactions with owners	-	832	-	-	832	-	832
At 31 March 2018	69,659	13,672	(22)	3,237	86,546	-	86,546

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 First Quarter Ended 31 March 2019**

Figures in RM'000	3 months ended	
	31.3.2019	31.3.2018
CASH FLOW FROM OPERATING ACTIVITIES		
<i>Profit before taxation</i>	1,790	305
Adjustments for:		
Depreciation of property, plant and equipment	272	175
Amortization of intangible assets	21	32
ESOS expense	200	832
Interest income	(481)	(415)
Foreign exchange (gain)/loss – unrealized	(96)	345
Share of profit of associate company	(13)	(137)
Operating profit before working capital changes	1,693	1,137
Changes in working capital:		
(Increase)/Decrease in inventory	(108)	832
Decrease in receivables	2,531	65
Decrease in payables	(2,987)	(2,083)
Cash generated from/(used in) operations	1,129	(49)
Taxation paid	(238)	(208)
Interest income	481	415
<i>Net cash from operating activities</i>	1,372	158
CASH FLOW FROM INVESTING ACTIVITIES		
Withdrawal from short term cash fund	18,239	2,907
Placement in non-short term fixed deposits	(6,555)	-
Payment for land lease	-	(869)
Acquisition of a subsidiary, net of cash acquired	(12,610)	-
Purchase of property, plant and equipment	(2,418)	(36)
<i>Net cash (used in)/from investing activities</i>	(3,344)	2,002
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of term loan	(2)	-
<i>Net cash used in financing activities</i>	(2)	-

**Condensed Consolidated Statements of Cash Flows
For The First Quarter Ended 31 March 2019 (Cont'd)**

Figures in RM'000	3 months ended	
	31.3.2019	31.3.2018
Net (decrease)/increase in cash and cash equivalents	(1,974)	2,160
Effect of exchange rate changes	303	(364)
Cash and cash equivalents at beginning of the period	12,356	5,115
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	10,685	6,911

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figures in RM'000	3 months ended	
	31.3.2019	31.3.2018
Cash and bank balances	10,685	6,611
Deposit placed with licensed banks	30,555	13,800
	41,240	20,411
Less: Non-short term fixed deposits	(30,555)	(13,500)
	10,685	6,911

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 business being predominantly export in nature (96.6% export in 1Q 2019; 99.2% export in 1Q 2018) 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.

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		3 months ended	
	31.3.2019	31.3.2018	31.3.2019	31.3.2018
Depreciation of property, plant and equipment	(272)	(175)	(272)	(175)
Amortization of intangible assets	(21)	(32)	(21)	(32)
Foreign exchange gain/(loss)				
- realized	(240)	(414)	(240)	(414)
- unrealized	96	(345)	96	(345)
Interest income	481	415	481	415

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 Computing RM'000	Invest- ment Holding RM'000	Total RM'000
Sales					
External sales	73	16,479	1,389	11	17,952
Internal sales	-	-	-	-	-
Total operating sales	73	16,479	1,389	11	17,952
Others and interest income	570	132	25	1	728
	643	16,611	1,414	12	18,680
Results					
Segment results	(383)	1,944	216	13	1,790
Finance costs	-	-	-	-	-
Income tax	196	(184)	(2)	-	10
Profit after tax before non-controlling interest					1,800
Non-controlling interest					(85)
Profit after tax after non-controlling interest					1,715

9. SEGMENT INFORMATION (Cont'd)

(a) Contribution by Activities (Cont'd)

	Research, D&D and Sales RM'000	Manu- facturing RM'000	Cloud Computing RM'000	Invest- ment Holding RM'000	Total RM'000
Other information					
Segment assets	62,377	45,494	9,822	10,015	127,708
Unallocated assets					2,374
					130,082
Segment liabilities	222	11,749	2,986	25	14,982
Unallocated liabilities					4,520
					19,502

(b) Sales Contribution by Geography

The geographical sales breakdown is as follows:

	3 months ended	
	31.3.2019 RM'000	31.3.2018 RM'000
Malaysia	1,961	152
Asia (excluding M'sia)	3,707	5,048
Europe	11,134	12,402
US	1,117	1,171
Oceania	17	-
Middle East	16	13
	17,952	18,786

(c) Sales to Major Customers

For the 3 months ended 31 March 2019, two (2) major international customers (each with revenue of more than 10% of the Group's revenue) contributed total revenue of approximately RM12.5 million (1Q 2018: RM11.9million).

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

On 7 March 2019, G-AsiaPacific Sdn. Bhd. (GAP) became a subsidiary of the Company following the fulfilment of all conditions precedent of the Sales & Purchase Agreement on the said date.

Save for the above, there were no other changes in the composition of the Group during the financial quarter ended 31 March 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 (1Q'19 vs 1Q'18)

For the first quarter ended 31 March 2019, the Group saw its revenue decreased by 5% to RM18.0 million from RM18.9 million in the corresponding quarter last year, mainly due to the sluggish sales of one of the models of floor-care products and the end-of-life of a specific computer peripheral. On the other hand, medical/healthcare devices grew significantly, driven by new customer wins while electronic headlamps and industrial products made marginal headways based on existing customers and products. These increases, however, were insufficient to prop up sales as the revenue contributions from new customers were merely on tooling in preparation for mass production in the second half of 2019.

Revenue contribution from the acquisition of the 60% equity stake in the cloud computing business through G-AsiaPacific Sdn. Bhd. (GAP) was marginal as it was only completed in March 2019. However, it is expected to deliver escalating and meaningful revenue contributions in the coming quarters.

The Group registered profit attributable to equity holders of the parent company of RM1.7 million as compared to a profit of RM 28.8 thousand for the corresponding quarter last year. Gross profit margin for the quarter had improved (1Q'19:29% vs 1Q'18:21%) due to the Group's concerted efforts on materials cost down, product mix changes favouring higher-margin products in the industrial and medical/healthcare segments and diversification into higher margin business. The profit achieved also took into account the share of the post-acquisition profit of GAP, following the completion of the acquisition in March 2019.

(b) Current quarter versus the preceding quarter (1Q'19 vs 4Q'18)

The first quarter ended 31 March 2019 posted sales revenue of RM18.0 million which represented a 4% decrease from the preceding quarter of RM18.8 million. The decline in sales was mainly attributed to the softer than expected demand of certain models of floor-care and industrial products in US. Fortunately, this was cushioned by the uptake of medical/healthcare devices with new customer wins.

**(b) Current quarter versus the preceding quarter
(1Q'19 vs 4Q'18) (Cont'd)**

The Group posted profit attributable to equity holders of the parent company of RM1.7 million as compared to a profit of RM2.1 million in the preceding quarter. The comparatively lower profit was mainly due to lower revenue from the EMS business caused by weaker than expected demand in US for specific models of floor-care and industrial products.

16. COMMENTARY ON PROSPECTS AND TARGETS

The Group is in the process of transforming into an Industry 4.0 enabled corporation which will allow it to stay relevant, competitive and sustainable for long term growth. It continues to reinvent itself to embrace this disruptive era with rapidly evolving technologies, business models, demographics and workplace attitudes that are progressing concurrently.

The re-balancing of its product portfolio with emphasis on products such as medical/healthcare devices, IoT devices, automotive aggregates, industrial products and electronic security/surveillance solutions with higher margins and longer product life cycles is gaining traction following the recent new customer wins. Tool making for these new customers is in progress with mass production expected to commence in the second half of the year.

The diversification into the cloud computing business through the acquisition of 60% equity interest in GAP, which has been completed in March 2019 is anticipated to generate impactful business and financial results to the Group in the longer term as the cloud computing business is envisaged to hold vast untapped potential. It is commendable to note that GAP has been awarded Country Partner of the Year (Malaysia) in the AWS Summit 2019 which was held in Singapore in April 2019. It is an endorsement by AWS (Amazon Web Services) that GAP is a market leader in terms of sales and technical know-how in the cloud space in Malaysia. It intends to replicate its success ASEAN-wide.

The rest of the year is anticipated to undergo continued volatility in the midst of an unpredictable world economy, global business protectionism and rising geopolitical tensions. Despite external headwinds, the Group remains broadly optimistic on its outlook ahead, underpinned by its diversification into the cloud computing business which will be the second engine of growth, continuous expansion into “sunrise” markets such as medical/healthcare and IoT devices with new customer wins aided by prolong/latest escalation in the US-China trade war as the Group is a trade war

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

beneficiary. President Trump's most recent tariff increases on Chinese goods went into effect on 10 May 2019, with the administration raising duties on USD200 billion of Chinese imports from 10% to 25%. He further warned that he would impose tariffs on the balance of the approximately USD300 billion worth of Chinese goods going into US moving forward. In light of this, the Group has decided to intensify its business development activities in US by participating in additional exhibitions to enhance its presence as an alternative manufacturing option for potential US customers. Under such circumstances (deadlock in the trade war), the Group expects to get good response in securing more new customers in the months ahead.

The Group's existing customers, predominantly in the consumer electronics and industrial market segments are humming along and is expected to show steady growth in the second half of 2019 when new products are being launched. As such and in conjunction with the commencement of mass production for new customers in the second half, the Group anticipates the EMS business growth to be weighted towards the second half of 2019.

On another front, the Group will continue to improve business efficiency by inculcating a cost-conscious mindset across all business units to enhance profit margin. Barring any unforeseen circumstances such as a reversal in the strength of USD vs RM, etc, the Group expects to see robust sales and profit growth for the balance of the year with the cloud business anticipated to augment the situation.

17. INCOME TAX EXPENSE/(CREDIT)

	3 months ended		3 months ended	
	31.3.2019	31.3.2018	31.3.2019	31.3.2018
	RM'000	RM'000	RM'000	RM'000
Deferred tax	(564)	30	(564)	30
Current tax	554	247	554	247
Total Income Tax Expense/(Credit)	(10)	277	(10)	277

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 had been completed in March 2019 subsequent to the payment of the balance purchase consideration of RM15,810,000 to the respective vendors and the remaining balance of RM2,550,000 to the vendors’ solicitor as stakeholders monies.

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.

(a) Basic earnings per share

	3 months ended		3 months ended	
	31.3.2019	31.3.2018	31.3.2019	31.3.2018
Profit attributable to equity holders of the parent (RM'000)	1,715	28	1,715	28
Weighted average number of Ordinary Shares in issue ('000)	728,939	519,144	728,939	519,144
Earnings Per Ordinary Share (sen)	0.24	0.01	0.24	0.01

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

	3 months ended		3 months ended	
	31.3.2019	31.3.2018	31.3.2019	31.3.2018
Profit attributable to equity holders of the parent (RM'000)	1,715	28	1,715	28
Weighted average number of Ordinary Shares in issue ('000)	728,939	519,144	728,939	519,144
Effect of Share Options ('000)	10,852	-	10,852	-
Adjusted weighted average number of Ordinary Shares in issue ('000)	739,791	519,144	739,791	519,144
Diluted Earnings Per Ordinary Share (sen)	0.23	0.01	0.23	0.01

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 30 May 2019.

BY ORDER OF THE BOARD

WONG YOUN KIM (MAICSA 7018778)
Company Secretary

30 May 2019