K-One

K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FIRST QUARTER ENDED 31 MARCH 2017

Condensed Consolidated Statements of Comprehensive Income
For The First Quarter Ended 31 March 2017

Figures in RM'000	3 months ended		3 months ended	
	31.3.2017 Unaudited	31.3.2016 Unaudited	31.3.2017 Unaudited	31.3.2016 Unaudited
Operating revenue	19,967	22,261	19,967	22,261
Cost of sales	(16,366)	(19,095)	(16,366)	(19,095)
Gross profit	3,601	3,166	3,601	3,166
Other income	306	51	306	51
Interest income	271	188	271	188
Operating expenses	(12,616)	(4,598)	(12,616)	(4,598)
Loss from operations	(8,438)	(1,193)	(8,438)	(1,193)
Income tax expense	(360)	(166)	(360)	(166)
Loss for the period	(8,798)	(1,359)	(8,798)	(1,359)
Non-controlling interests	-	-	-	-
Loss after tax after Non-controlling interests	**(8,798)**	**(1,359)**	**(8,798)**	**(1,359)**
Loss attributable to:				
Owners of the Parent	(8,798)	(1,359)	(8,798)	(1,359)
Non-controlling interests	-	-	-	-
	(8,798)	(1,359)	(8,798)	(1,359)
(Loss)/Earnings per share (LPS/EPS) attributable to owners of the Parent (sen):				
Basic (LPS)/EPS	(1.83)	(0.29)	(1.83)	(0.29)
Diluted (LPS)/EPS	(1.83)	(0.29)	(1.83)	(0.29)

Condensed Consolidated Statements of Comprehensive Income
For The First Quarter Ended 31 March 2017 (Cont'd)

Figures in RM'000	3 months ended		3 months ended	
	31.3.2017 Unaudited	31.3.2016 Unaudited	31.3.2017 Unaudited	31.3.2016 Unaudited
Loss for the period	(8,798)	(1,359)	(8,798)	(1,359)
Items that may be subsequently reclassified to profit or loss	-	-	-	-
Foreign currency translation	(16)	54	(16)	54
Total comprehensive income	**(8,814)**	**(1,305)**	**(8,814)**	**(1,305)**

Loss attributable to:				
Owners of the Parent	(8,814)	(1,305)	(8,814)	(1,305)
Non-controlling interests	-	-	-	-
	(8,814)	**(1,305)**	**(8,814)**	**(1,305)**

The above condensed consolidated statements of comprehensive income should be read in conjunction with the audited financial statements for the year ended 31 December 2016 and the accompanying explanatory notes attached to the interim financial statements.

Condensed Consolidated Statements of Financial Position
As At 31 March 2017

Figures in RM'000	Unaudited 31.3.2017	Audited 31.12.2016
ASSETS		
Non-Current Assets		
Property, plant and equipment	8,693	8,730
Intangible assets	266	289
Deferred tax assets	330	330
Non-Current Assets	9,289	9,349
Current Assets		
Inventories	9,651	9,502
Trade receivables	14,149	18,676
Other receivables	985	1,304
Tax recoverable	1,410	863
Short term cash investments	26,040	23,000
Cash and bank balances	40,830	29,651
Total Current Assets	93,065	82,996
TOTAL ASSETS	**102,354**	**92,345**

EQUITY AND LIABILITIES		
Equity		
Share capital	69,648	47,266
Reserves	9,673	15,887
Retained earnings	4,015	12,813
Total Equity	**83,336**	**75,966**

Condensed Consolidated Statements of Financial Position
As At 31 March 2017 (Cont'd)

Figures in RM'000	Unaudited 31.3.2017	Audited 31.12.2016
EQUITY AND LIABILITIES		
Current Liabilities		
Trade payables	17,725	15,778
Other payables and accruals	870	538
Amount due to Directors	2	2
Tax payable	421	61
Current Liabilities	19,018	16,379
Total Liabilities	19,018	16,379
TOTAL EQUITY AND LIABILITIES	**102,354**	**92,345**
Net assets per share attributable to Owners of the Parent (sen)	**16.03**	**16.07**

The above condensed consolidated statements of financial position should be read in conjunction with the audited financial statements for the year ended 31 December 2016 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 2017

	<-----Attributable to Owners of the Parent ----->							
		Non-distributable			*Distributable*			
Figures in RM'000	Share Capital	Share Premium	ESOS Reserve	Foreign Currency Translation Reserve	Retained Profits	Total	Non-controlling Interest	Total Equity
At 1 January 2017	47,266	15,885	-	2	12,813	75,966	-	75,966
Transfer of Share Premium *Note 1	15,885	(15,885)						
Exchange difference arising from foreign subsidiary companies	-	-	-	(16)	-	(16)	-	(16)
Issuance of ordinary shares	6,497	-	-	-	-	6,497	-	6,497
New Options granted	-	-	9,687	-	-	9,687	-	9,687
Net loss for the period	-	-	-	-	(8,798)	(8,798)	-	(8,798)
	22,382	(15,885)	9,687	(16)	(8,798)	7,370	-	7,370
At 31 March 2017	69,648	-	9,687	(14)	4,015	83,336	-	83,336

	<-----Attributable to Owners of the Parent ----->							
		Non-distributable			Distributable			
Figures in RM'000	Share Capital	Share Premium	ESOS Reserve	Foreign Currency Translation Reserve	Retained Profits	Total	Non-controlling Interest	Total Equity
At 1 January 2016	47,266	15,885	-	(5)	22,038	85,184	-	85,184
Exchange difference arising from foreign subsidiary companies	-	-	-	54	-	54	-	54
Net loss for the period	-	-	-	-	(1,359)	(1,359)	-	(1,359)
	-	-	-	54	(1,359)	(1,305)		(1,305)
At 31 March 2016	47,266	15,885	-	49	20,679	83,879	-	83,879

*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 2016 and the accompanying explanatory notes attached to the interim financial statements.

Condensed Consolidated Statements of Cash Flows
For The First Quarter Ended 31 March 2017

Figures in RM'000	3 months ended	
	31.3.2017	31.3.2016
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(8,438)	(1,193)
Adjustments for:		
Depreciation of property, plant and equipment	147	660
Amortization of intangible assets	31	34
ESOS expense	9,687	-
Interest income	(271)	(188)
Foreign exchange loss – unrealized	185	2,342
Operating profit before working capital changes	1,341	1,655
Changes in working capital:		
Increase in inventory	(149)	(1,081)
Decrease in receivables	4,772	9,140
Increase/ (Decrease) in payables	2,254	(4,917)
Cash generated from operations	8,218	4,797
Taxation paid	(547)	(15)
Net cash from operating activities	**7,671**	**4,782**
CASH FLOW FROM INVESTING ACTIVITIES		
Interest income	271	188
Placement in short term cash fund	(3,040)	-
Purchase of property, plant and equipment	(110)	(448)
Purchase of intangible assets	(8)	-
Net cash (used in) investing activities	**(2,887)**	**(260)**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	6,497	-
Net cash from financing activities	**6,497**	**-**

Condensed Consolidated Statements of Cash Flows
For The First Quarter Ended 31 March 2017 (Cont'd)

Figures in RM'000	3 months ended	
	31.3.2017	31.3.2016
Net increase in cash and cash equivalents	11,281	4,522
Effect of exchange rate changes	(102)	(2,064)
Cash and cash equivalents at beginning of the period	23,651	52,145
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	**34,830**	**54,603**

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figures in RM'000	3 months ended	
	31.3.2017	31.3.2016
Cash and bank balances	26,330	36,765
Deposit placed with licensed banks	14,500	17,838
	40,830	54,603
Less: Non-short term fixed deposits	(6,000)	-
	34,830	**54,603**

The above condensed consolidated statements of cash flows should be read in conjunction with the audited financial statements for the year ended 31 December 2016 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 2016.

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 2016.

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 (96.0% export in 1Q 2017; 99.4% export in FY 2016) 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

Save for the Private Placement as disclosed in Section 20 (a): Corporate Proposals below, 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

For the quarter under review, there were no dividends declared.

8. Notes to Consolidated Statement of Comprehensive Income

Figures in RM'000	3 months ended		3 months ended	
	31.3.2017	31.3.2016	31.3.2017	31.3.2016
Depreciation of property, plant and equipment	(147)	(660)	(147)	(660)
Amortization of intangible assets	(31)	(34)	(31)	(34)
Foreign exchange gain / (loss) - realized	96	(64)	96	(64)
Foreign exchange loss - unrealized	(185)	(2,342)	(185)	(2,342)
Interest income	271	188	271	188

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	320	19,647	-	-	19,967
Internal sales	-	-	-	-	-
Total operating sales	320	19,647	-	-	19,967
Others and interest income	437	140	-	-	577
	757	19,787	-	-	20,544
Results					
Segment results	(9,355)	927	(10)	-	(8,438)
Finance costs	-	-	-	-	-
Income tax	(37)	(323)	-	-	(360)
Loss after tax before non-controlling interest					(8,798)
Non-controlling interest					-
Loss after tax after non-controlling interest					**(8,798)**

	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	59,262	41,043	309	-	100,614
Unallocated assets					1,740
					102,354
Segment liabilities	352	18,217	26	-	18,595
Unallocated liabilities					423
					19,018

9. SEGMENT INFORMATION (Cont'd)

(b) Sales Contribution by Geography

The geographical sales breakdown is as follows:

	3 months ended	
	31.3.2017	31.3.2016
	RM'000	RM'000
Malaysia	789	46
Asia (excluding M'sia)	1,642	6,262
Europe	16,326	15,440
Oceania	-	30
USA	1,192	483
Middle East	18	-
	19,967	22,261

(c) Sales to Major Customers

For the 3 months ended 31 March 2017, three (3) major international customers (each with revenue of more than 10% of the Group revenue) contributed total revenue of approximately RM16.4million (2016: RM17.7million).

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 31 March 2017.

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	22,756
	22,756

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'17 vs 1Q'16)

For the first quarter ended 31 March 2017, the Group achieved sales revenue of RM 20.0 million as compared to RM 22.3 million for the corresponding quarter last year. The sales decline of approximately 10% was mainly attributed to two factors. Firstly, it was caused by the programmed phasing out of the mobile phone accessories' ODM business with the exit completed at the commencement of the second half of 2016. Therefore, sales revenue for the first quarter of 2017 was devoid of any contribution from the mobile phone accessories' ODM business while the first quarter of 2016 still had some from this segment of business. Secondly, sluggish sales of network cameras compounded the sales decline.

Nonetheless, floor-care products, electronic headlamps and industrial products recorded commendable growth as manufacturing of new product lines picked up to meet increasing demand. Despite the sales surge in the preceding market segments, they were not sufficient to make up for the above causes of sales shortfall.

15. PERFORMANCE REVIEW (Cont'd)

(a) Current quarter compared to the corresponding quarter of last year (1Q'17 vs 1Q'16)

The Group registered loss attributable to equity holders of the parent company of RM 8.8 million as compared to a loss of RM 1.4 million for the corresponding quarter last year. The current quarter's loss was due to the recognition of share-based payment expense (ESOS expense) of RM 9.7 million which is in line with the appropriate accounting treatment under MFRS 2. Discounting the recognition of ESOS expense, the Group would have made a profit attributable to equity holders of the parent company of approximately RM 0.9 million, despite reduced sales. Therefore, the re-balancing of the product portfolio, with emphasis on products such as the existing industrial products, niche consumer electronic lifestyle products and electronic wearables with higher margin and longer product life cycles is proving to be a step in the right direction.

(b) Current quarter versus the preceding quarter (1Q'17 vs 4Q'16)

Sales revenue for the first quarter ended 31 March 2017 at RM 20.0 million represented an approximately 6% decline from the preceding quarter of RM 21.2 million. The sales decrease was mainly attributed to subdued demand of network cameras. The lower sales recorded in the current quarter was consistent with the normal historical sales trend in which sales would peak towards year end and ease off at the beginning of the following year.

The Group posted loss attributable to equity holders of the parent company of RM 8.8 million as compared to a loss of RM 7.0 million in the preceding quarter. The current quarter's loss was mainly attributed to the recognition of ESOS expense of RM 9.7 million in accordance with the appropriate accounting treatment under MFRS 2. As indicated earlier, discounting the ESOS expense, the Group would have made a profit attributable to equity holders of the parent company of RM 0.9 million.

16. COMMENTARY ON PROSPECTS AND TARGETS

After a challenging 2016, the Group has emerged from being mobile phone accessories' business centric to one which catches on the next wave of technology in the likes of IoT gadgets, healthcare/medical devices, electronic wearables, consumer electronic lifestyle products and automotive aggregates. In the short term, the Group is poised to take advantage of its re-balanced product portfolio which has the right product mix, one which is weighted with industrial products, floor-care products, security/surveillance peripherals, consumer electronic lifestyle products and electronic wearables to deliver the necessary sales growth and profit sustainability.

Seeds have been planted in the "sunrise" industries of IoT gadgets, healthcare/medical devices and certain up and coming trendy consumer electronic lifestyle gadgets. They will take time to grow and bloom. Having laid a strong foundation, the Group is confident of successfully germinating these businesses which represent the future for long term sustainability. Nevertheless, the Group expects sales to gradually scale up as the year unfolds barring any unforeseen circumstances based on new product launches by both existing and new customers.

Apart from organic growth, the Group has been and is continuously scouting for complementary businesses to grow through M&A. Backed by a robust cash position, the Group had proposed to acquire a 30% stake in AHM Consultancy & Security Services Sdn. Bhd. for a cash consideration of RM 8.7 million in March 2017. The acquisition is part of the Group's business expansion strategy in the supply of security/surveillance hardware and software in the security service industry which presents huge potential in the current security conscious environment, both locally and internationally. Moving forward, the Group will intensify its efforts in M&A, targeting to work out one or two more acquisitions in 2017.

The Group is excited to share that it has recently entered into a tripartite Memorandum of Understanding with Cradle Fund Sdn Bhd (Cradle), an agency under the Ministry of Finance Incorporated and the Malaysian Business Angel Network (MBAN) with the objective of working together in a formal manner to support Cradle's funding program for start-ups. Under this program, the Group will have access to Cradle's start-ups and MBAN's network. Reciprocally, Cradle and MBAN will have access to the Group's KiasuLab digital hub initiatives - a co-working space dedicated to technology start-ups. This collaboration is expected to be mutually beneficial to all three parties.

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

For the Group, we would stand to have the opportunity to engage potential technology product start-ups in the making of prototypes and the eventual manufacturing activities. The Group would also have first mover advantage in taking up stakes in start-ups identified to have high potential to become a successful international entity, perhaps, the next "Grab Teksi" or "Facebook". Hence, this collaboration is a good resource to fuel the Group's diversification or transformation plan.

The rest of the year is anticipated to undergo continued volatility in the global economic and political climate. The Group will take the necessary steps to mitigate such volatility risks and continue to focus on the industries of the future such as IoT, drones and electronic wearables while concurrently nurturing the existing cash crops of industrial, floor-care, security/surveillance and consumer electronic lifestyle products.

17. INCOME TAX EXPENSE/(CREDIT)

	3 months ended		3 months ended	
	31.3.2017	31.3.2016	31.3.2017	31.3.2016
	RM'000	RM'000	RM'000	RM'000
Deferred tax	-	147	-	147
Current tax	360	19	360	19
Total Income Tax Expense	360	166	360	166

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

(a) Private Placement and ESOS Scheme

On 22 November 2016, the Group announced the proposals to undertake the following:

(i) Proposed Private Placement of 47,265,534 new ordinary shares of RM 0.10 each with the proposed allocations of: a)21,269,490 Placement Shares, representing 4.5% of the issued and paid-up share capital of K-One Technology Bhd to its Chairman - Lim Beng Fook, b)21,269,490 Placement Shares, representing 4.5% of the issued and paid-up share capital of same to its CEO - Lim Soon Seng and c)the balance of 4,726,554 Placement Shares, representing 1% of the issued and paid-up share capital of same to be placed to third party investors; and

(ii) Proposed establishment of an ESOS scheme for eligible employees and directors of the Group. The maximum number of new Shares which may be issued and allotted pursuant to the exercise of the Options under the ESOS scheme shall not exceed thirty percent (30%) of the total issued and paid-up share capital of K-One Technology Bhd (excluding treasury shares) at any point of time throughout the duration of the ESOS scheme of up to ten (10) years.

Following Bursa Malaysia's approval, the shareholders of K-One Technology Bhd had also approved the Proposed Private Placement and Proposed ESOS respectively at the Extraordinary General Meeting convened on 20 January 2017.

On 13 March 2017, the Group offered a total of 130,000,000 options over new shares ("Options") to its Directors and eligible employees in accordance with the By-Laws under its ESOS. The Options were fully subscribed.

On 15 March 2017, the Private Placement has been completed following the listing of and quotation for the 46,488,980 Placement Shares on the ACE Market of Bursa Securities in which Lim Beng Fook and Lim Soon Seng had fully subscribed to the shares allocated to them totaling 42,538,980 Placement Shares while third party investors subscribed for 3,950,000 Placement Shares. The take-up rate of 46,488,980 Placement Shares represented 98.4% of the total Proposed Private Placement of 47,265,534 new ordinary shares.

(b) Proposed Acquisition of 30% stake in AHM Consultancy & Security Services Sdn Bhd

On 17 March 2017, the Group announced the acquisition of a 30% stake in AHM Consultancy & Security Services Sdn Bhd for a cash consideration of RM 8.7 million. The subject acquisition is principally involved in the provision of armed and unarmed guarding, cash-in-transit services, security escorting, private investigation, body guarding and supply of security surveillance systems in Malaysia. The acquiree has provided a profit guarantee of RM14 million over a 2 year period, from 1 January 2017 to 31 December 2018. The Group will complement the acquiree with its technology expertise in enhancing the provision of security services to customers.

As at the date of this report, the acquisition is yet to be completed. The Group is still in the process of conducting the necessary financial and legal due diligence which is expected to be finalised in the next couple of months.

21. BORROWINGS AND DEBTS SECURITIES

The Group does not have any secured nor unsecured borrowings as at 31 March 2017.

22. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

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

23. CHANGES IN MATERIAL LITIGATION

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

24. PROPOSED DIVIDEND

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

25. REALISED AND UNREALISED PROFIT / (LOSS)

As at the end of the financial period ended 31 March 2017, the realised and unrealised profits / (loss) are as follows:

	3 months ended 31.3.2017 RM'000
Realised loss	(2,019)
Unrealised profit	145
Consolidation adjustments	5,889
Total Retained Profit	**4,015**

26. 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.

	3 months ended		3 months ended	
	31.3.2017	31.3.2016	31.3.2017	31.3.2016
Loss attributable to equity holders of the parent (RM'000)	(8,798)	(1,359)	(8,798)	(1,359)
Weighted average number of Ordinary Shares in issue '000)	481,437	472,655	481,437	472,655
Basic Loss Per Ordinary Share (sen)	(1.83)	(0.29)	(1.83)	(0.29)

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 26 May 2017.

BY ORDER OF THE BOARD
NG YIM KONG (LS 0009297)
Company Secretary

26 May 2017