K-One

K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2017

Condensed Consolidated Statements of Comprehensive Income
For The Fourth Quarter Ended 31 December 2017

Figures in RM'000	3 months ended		12 months ended	
	31.12.2017 Unaudited	31.12.2016 Unaudited	31.12.2017 Unaudited	31.12.2016 Audited
Operating revenue	18,547	21,238	78,268	81,864
Cost of sales	(14,922)	(19,342)	(62,671)	(72,313)
Gross profit	3,625	1,896	15,597	9,551
Other income	59	(772)	600	602
Interest income	565	309	1,581	1,274
Operating expenses	(7,328)	(8,345)	(26,360)	(20,478)
Loss from operations	(3,079)	(6,912)	(8,582)	(9,051)
Finance costs	-	-	-	-
Loss before tax	(3,079)	(6,912)	(8,582)	(9,051)
Income tax expense	123	35	(1,025)	(174)
Loss for the period	(2,956)	(6,877)	(9,607)	(9,225)
Non-controlling interests	-	-	-	-
Loss after tax after Non-controlling interests	**(2,956)**	**(6,877)**	**(9,607)**	**(9,225)**
Loss attributable to:				
Owners of the Parent	(2,956)	(6,877)	(9,607)	(9,225)
Non-controlling interests	-	-	-	-
	(2,956)	(6,877)	(9,607)	(9,225)
Earnings/(Loss) per share EPS/(LPS) attributable to owners of the Parent (sen):				
Basic LPS	(0.57)	(1.45)	(1.88)	(1.95)
Diluted LPS	(0.57)	(1.45)	(1.88)	(1.95)

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

Figures in RM'000	3 months ended		12 months ended	
	31.12.2017 Unaudited	31.12.2016 Unaudited	31.12.2017 Unaudited	31.12.2016 Unaudited
Loss for the period	(2,956)	(6,877)	(9,607)	(9,225)
Items that may be subsequently reclassified to profit or loss	-	-	-	-
Foreign currency translation	(6)	(166)	(15)	7
Total comprehensive income	**(2,962)**	**(7,043)**	**(9,622)**	**(9,218)**
Loss attributable to:				
Owners of the Parent	(2,962)	(7,043)	(9,622)	(9,218)
Non-controlling interests	-	-	-	-
	(2,962)	**(7,043)**	**(9,622)**	**(9,218)**

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 December 2017

Figures in RM'000	Unaudited 31.12.2017	Audited 31.12.2016
ASSETS		
Non-Current Assets		
Property, plant and equipment	9,752	8,730
Intangible assets	170	289
Deferred tax assets	277	330
Non-Current Assets	10,199	9,349
Current Assets		
Inventories	15,675	9,502
Trade receivables	15,210	18,676
Other receivables	9,442	1,304
Tax recoverable	1,356	863
Short term cash investments	32,374	23,000
Cash and bank balances	18,615	29,651
Total Current Assets	92,672	82,996
TOTAL ASSETS	**102,871**	**92,345**

EQUITY AND LIABILITIES		
Equity		
Share capital	69,659	47,266
Reserves	12,827	15,887
Retained earnings	3,206	12,813
Total Equity	**85,692**	**75,966**

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

Figures in RM'000	Unaudited 31.12.2017	Audited 31.12.2016
EQUITY AND LIABILITIES		
Current Liabilities		
Trade payables	14,999	15,778
Other payables and accruals	2,083	538
Amount due to Directors	2	2
Tax payable	95	61
Current Liabilities	17,179	16,379
Total Liabilities	17,179	16,379
TOTAL EQUITY AND LIABILITIES	**102,871**	**92,345**
Net assets per share attributable to Owners of the Parent (sen)	**16.81**	**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 Fourth Quarter Ended 31 December 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	-	-	-	(15)	-	(15)	-	(15)
Issuance of ordinary shares	6,508	-	-	-	-	6,508	-	6,508
New Options granted	-	-	12,840	-	-	12,840	-	12,840
Net loss for the period	-	-	-	-	(9,607)	(9,607)	-	(9,607)
	22,393	(15,885)	12,840	(15)	(9,607)	9,726	-	9,726
At 31 December 2017	69,659	-	12,840	(13)	3,206	85,692	-	85,692

	<-----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	-	-	-	7	-	7	-	7
Net loss for the period	-	-	-	-	(9,225)	(9,225)	-	(9,225)
	-	-	-	7	(9,225)	(9,218)		(9,218)
At 31 December 2016	47,266	15,885	-	2	12,813	75,966	-	75,966

*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 Fourth Quarter Ended 31 December 2017

Figures in RM'000	12 months ended	
	31.12.2017	31.12.2016
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(8,582)	(9,051)
Adjustments for:		
Depreciation of property, plant and equipment	575	2,466
Impairment on goodwill		5,546
Amortization of intangible assets	127	129
Impairment of property, plant and equipment	-	3,658
ESOS expense	12,840	-
Interest income	(1,581)	(1,274)
Foreign exchange loss – unrealized	712	1,063
Operating profit before working capital changes	4,091	2,537
Changes in working capital:		
Increase in inventory	(6,263)	(319)
Decrease in receivables	3,288	7,967
Increase/(Decrease) in payables	1,314	(7,398)
Cash generated from operations	2,430	2,787
Taxation paid	(1,429)	(1,475)
Net cash from operating activities	**1,001**	**1,312**
CASH FLOW FROM INVESTING ACTIVITIES		
Interest income	1,581	1,274
Placement in short term cash fund	(9,374)	(29,000)
Placement in time deposits	(13,500)	-
Deposit for acquisition of an associate company	(8,700)	-
Purchase of property, plant and equipment	(1,698)	(941)
Purchase of intangible assets	(8)	(5)
Net cash used in investing activities	**(31,699)**	**(28,672)**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	6,508	-
Net cash from financing activities	**6,508**	**-**

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

Figures in RM'000	12 months ended	
	31.12.2017	31.12.2016
Net decrease in cash and cash equivalents	(24,190)	(27,360)
Effect of exchange rate changes	(346)	(1,134)
Cash and cash equivalents at beginning of the period	29,651	52,145
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	**5,115**	**23,651**

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figures in RM'000	12 months ended	
	31.12.2017	31.12.2016
Cash and bank balances	5,115	15,151
Deposit placed with licensed banks	13,500	14,500
	18,615	29,651
Less: Non-short term fixed deposits	(13,500)	(6,000)
	5,115	**23,651**

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 (98.8% export in 4Q 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

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		12 months ended	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Depreciation of property, plant and equipment	(129)	(673)	(575)	(2,466)
Amortization of intangible assets	(32)	(33)	(127)	(129)
Impairment of property, plant and equipment	-	(2,060)	-	(3,658)
Impairment of goodwill	-	(5,546)	-	(5,546)
Foreign exchange loss - realized	(157)	(1,076)	(349)	(2,320)
Foreign exchange loss - unrealized	(211)	(717)	(712)	(1,063)
Interest income	565	309	1,581	1,274

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	1,751	76,517	-	-	78,268
Internal sales	-	-	-	-	-
Total operating sales	1,751	76,517	-	-	78,268
Others and interest income	1,785	396	-	-	2,181
	3,536	76,913	-	-	80,449
Results					
Segment results	(11,817)	3,235	-	-	(8,582)
Finance costs	-	-	-	-	-
Income tax	(225)	(800)	-	-	(1,025)
Loss after tax before non-controlling interest					(9,607)
Non-controlling interest					-
Loss after tax after non-controlling interest					**(9,607)**

	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	59,958	40,968	312	-	101,238
Unallocated assets					1,633
					102,871
Segment liabilities	265	16,789	27	-	17,081
Unallocated liabilities					98
					17,179

9. SEGMENT INFORMATION (Cont'd)

(b) Sales Contribution by Geography

The geographical sales breakdown is as follows:

	12 months ended	
	31.12.2017	31.12.2016
	RM'000	RM'000
Malaysia	910	506
Asia (excluding M'sia)	7,512	11,169
Europe	62,014	66,537
Oceania	25	173
USA	7,764	3,446
Middle East	43	33
	78,268	81,864

(c) Sales to Major Customers

For the 12 months ended 31 December 2017, three (3) major international customers (each with revenue of more than 10% of the Group's revenue) contributed total revenue of approximately RM60.8 million (2016: RM64.5 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 31 December 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 (4Q'17 vs 4Q'16)

The Group experienced a 13% decrease in sales revenue to RM 18.5 million for the fourth quarter ended 31 December 2017 as compared to RM 21.2 million for the corresponding quarter last year. The current quarter sales was mainly dragged by the declining demand of network cameras (electronic security/surveillance peripherals) in view of the phasing out of specific models. Besides, an unexpected drop in sales of electronic headlamps compounded the sales decline. Although materials shortages to complete the entire assembly process for certain models of industrial products experienced in the previous quarter had been alleviated, its sales contribution for the current quarter was subdued by the prolonged qualification process for these industrial products which were new models.

15. PERFORMANCE REVIEW (Cont'd)

(a) Current quarter compared to the corresponding quarter of last year (4Q'17 vs 4Q'16)

Fortunately, improved sales performance of floor-care products and healthcare/medical devices cushioned the aforesaid sales decrease.

The Group registered loss attributable to equity holders of the parent company of RM 3.0 million as compared to a loss of RM 7.0 million for the corresponding quarter last year. The current quarter's loss was largely due to further recognition of share-based payment expense (ESOS expense) of RM 3.2 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 0.2 million. Despite the Group's continuous efforts in cost control and LEAN manufacturing/management, foreign exchange loss due to weakening of the USD, especially towards the end of 2017 exerted undue pressure on the current quarter's earnings.

(b) Current quarter versus the preceding quarter (4Q'17 vs 3Q'17)

Sales revenue for the fourth quarter ended 31 December 2017 declined by 8% to RM 18.5 million as compared to the preceding quarter of RM 20.3 million. The lower top-line was mainly caused by a combination of declining demand of network cameras (electronic security/ surveillance peripherals) in view of the phasing out of specific models and the unexpected sales drop of electronic headlamps and healthcare/medical devices. Nonetheless, industrial products experienced moderate growth partly driven by the fulfilment of backlog caused by materials shortages in the previous quarter.

However, the prolonged qualification process of new models and eleventh-hour engineering change requests curtailed stronger sales growth, hence, weighted on the fourth quarter sales performance.

15. PERFORMANCE REVIEW (Cont'd)

(b) Current quarter versus the preceding quarter (Cont'd)
(4Q'17 vs 3Q'17)

The Group posted loss attributable to equity holders of the parent company of RM 3.0 million as compared to a profit of RM 1.1 million in the preceding quarter, primarily due to a combination of further recognition of ESOS expense of RM3.2 million, weaker sales turnover and margin contraction of 20% vs 22% in the previous quarter as a result of the weakening USD during the period.

16. COMMENTARY ON PROSPECTS AND TARGETS

Sales revenue for 2017 weakened to RM78.3 million as compared to the preceding year's sales of RM 81.9 million. The drop of 4% was chiefly due to the weaker sales performance of electronic security/surveillance peripherals in view of the phasing out of specific models and the adverse effect of no contribution from mobile phone accessories (ODM/OEM) following the complete exit from this business in the second half of 2016. On a positive note, improving performance was witnessed in the business segments of electronic headlamps, floor-care products, industrial products and healthcare/medical devices.

The Group's encouraging sales momentum for the first 9 months of 2017 was dampened in the final quarter of the year as production and/or deliveries were put on hold for certain products due to eleventh-hour engineering change requests and prolonged qualification process of new models, causing sales in the fourth quarter to be soft, which was abnormal based on historical trends. The lackluster sales in the fourth quarter weighted on the full year sales performance of 2017, which manifested in year-on-year sales contraction. As most of the issues were resolved in early 2018, production of these new models of industrial products in particular, is expected to be ramped up gradually to clear the backlog of orders.

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

The Group is continuing with its process of business transformation. It's strategic roadmap to diversify into "sunrise" markets in the likes of IoT gadgets, healthcare/medical devices, electronic wearables, electronic security/surveillance solutions and automotive aggregates is beginning to take shape. It has laid out action plans and strategies to penetrate the IoT market in collaboration with selected prominent business partner(s). In line with the business transformation and growth strategy, the Group had acquired a piece of industrial land, which is located in a Free Trade Zone in the vicinity of the existing plants with a purchase consideration of approximately RM 0.9 million as announced on 18 December 2017 to accommodate the Group's future operational and manufacturing expansions.

On another front, the Group had completed the acquisition of a 30% stake in AHM Consultancy & Security Services Sdn Bhd (AHM) as announced on 17 January 2018. This formally paves the way for the electronic security/surveillance peripherals business segment to work in synergy with AHM for new business opportunities. The Group is continuously seeking out growth opportunities through M&A as it has the financial flexibility to undertake additional synergistic M&As as an expansion strategy to further enhance its long term sustainability.

The Group recorded loss attributable to equity holders of RM 9.6 million for 2017 as compared to a loss of RM 9.2 million in 2016. Discounting the ESOS provision of RM12.8 million, the Group registered an operating profit of RM3.2 million which was spurred by improved profit margin (2017:20% vs 2016:12%) following the deepening push into higher margin businesses, concerted efforts on supply chain materials cost down and LEAN manufacturing/management. Nonetheless, the earnings recovery was curtailed by the strengthening Ringgit Malaysia against the USD, especially towards year end 2017, considering that it is export oriented and most sales are denominated in the USD.

We envisage that global uncertainty and instability to remain high in 2018, owing to the heightened global business protectionism in US and the impending Brexit. Therefore, the Group expects to face strong headwinds in 2018, despite it having made progress in its transformation and diversification processes. The weakened USD is seen as a dampener and it is starting to exert pressure on the bottom line of the Group. In view of the challenging global business environment, the Group will continue to improve business efficiency by inculcating a cost-conscious mindset across all business units to preserve/improve profit margin.

17. INCOME TAX EXPENSE/(CREDIT)

	3 months ended		12 months ended	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	RM'000	RM'000	RM'000	RM'000
Deferred tax	(147)	119	53	83
Current tax	24	(154)	972	91
Total Income Tax (Credit)/ Expense	(123)	(35)	1,025	174

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

The income tax expense arose due to non-deductible expenses despite the Group having loss before tax.

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 proposal:

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

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

21. BORROWINGS AND DEBTS SECURITIES

The Group has neither any secured nor unsecured borrowings as at 30 September 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. 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 per share

	3 months ended		12 months ended	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Loss attributable to equity holders of the parent (RM'000)	(2,956)	(6,877)	(9,607)	(9,225)
Weighted average number of Ordinary Shares in issue ('000)	519, 144	472,655	509,847	472,655
Loss Per Ordinary Share (sen)	(0.57)	(1.45)	(1.88)	(1.95)

(b) Diluted earnings per share

	3 months ended		12 months ended	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Loss attributable to equity holders of the parent (RM'000)	(2,956)	(6,877)	(9,607)	(9,225)
Weighted average number of Ordinary Shares in issue ('000)	519,144	472,655	509,847	472,655
Effect of Share Options ('000)	17,106	-	17,106	-
Adjusted weighted average number of Ordinary Shares in issue ('000)	536,250	472,655	526,953	472,655
Diluted Loss Per Ordinary Share (sen)	(0.57)*	(1.45)	(1.88)*	(1.95)

* 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 February 2018.

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

26 February 2018