

K-One

K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2016**

**Condensed Consolidated Statements of Comprehensive Income
For The Fourth Quarter Ended 31 December 2016**

Figures in RM'000	3 months ended		12 months ended	
	31.12.2016 Unaudited	31.12.2015 Unaudited	31.12.2016 Unaudited	31.12.2015 Audited
Operating revenue	21,238	33,910	81,864	146,062
Cost of sales	(19,342)	(28,356)	(72,313)	(127,856)
Gross profit	1,896	5,554	9,551	18,206
Other income	(968)	2,454	406	4,637
Interest income	309	187	1,274	552
Operating expenses	(8,317)	(5,269)	(20,450)	(12,685)
(Loss)/ Profit from operations	(7,080)	2,926	(9,219)	10,710
Income tax credit/expense	35	832	(174)	429
(Loss)/ Profit for the period	(7,045)	3,758	(9,393)	11,139
Non-controlling interests	-	-	-	-
(Loss)/ Profit after tax after Non-controlling interests	(7,045)	3,758	(9,393)	11,139

(Loss)/ Profit attributable to:

Owners of the Parent	(7,045)	3,758	(9,393)	11,139
Non-controlling interests	-	-	-	-
	(7,045)	3,758	(9,393)	11,139

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

Basic (LPS)/ EPS	(1.49)	0.87	(1.98)	2.58
Diluted (LPS)/ EPS	(1.49)	0.81	(1.98)	2.48

**Condensed Consolidated Statements of Comprehensive Income
For The Fourth Quarter Ended 31 December 2016 (Cont'd)**

Figures in RM'000	3 months ended		12 months ended	
	31.12.2016 Unaudited	31.12.2015 Unaudited	31.12.2016 Unaudited	31.12.2015 Audited
(Loss)/ Profit for the period	(7,045)	3,758	(9,393)	11,139
Items that may be subsequently reclassified to profit or loss	-	-	-	-
Foreign currency translation	(2)	78	171	95
Total comprehensive income	(7,047)	3,836	(9,222)	11,234
(Loss)/ Profit attributable to:				
Owners of the Parent	(7,047)	3,836	(9,222)	11,234
Non-controlling interests	-	-	-	-
	(7,047)	3,836	(9,222)	11,234

The above condensed consolidated statements of comprehensive income should be read in conjunction with the audited financial statements for the year ended 31 December 2015 and the accompanying explanatory notes attached to the interim financial statements.

Condensed Consolidated Statements of Financial Position
As At 31 December 2016

Figures in RM'000	Unaudited 31.12.2016	Audited 31.12.2015
ASSETS		
<i>Non-Current Assets</i>		
Property, plant and equipment	8,629	13,913
Intangible assets	289	413
Deferred tax assets	330	684
Goodwill	-	5,546
Non-Current Assets	9,248	20,556
<i>Current Assets</i>		
Inventories	9,502	9,183
Trade receivables	18,148	26,436
Other receivables	1,398	1,128
Tax recoverable	863	128
Short term cash funds	37,500	-
Time deposits	838	-
Cash and bank balances	14,313	52,145
Total Current Assets	82,562	89,020
TOTAL ASSETS	91,810	109,576

EQUITY AND LIABILITIES		
<i>Equity</i>		
Share capital	47,266	47,266
Share premium	15,885	15,885
Warrant reserves	-	-
Other reserves	171	(5)
Retained earnings	12,646	22,039
Total Equity	75,968	85,185

Condensed Consolidated Statements of Financial Position
As At 31 December 2016 (Cont'd)

Figures in RM'000	Unaudited 31.12.2016	Audited 31.12.2015
EQUITY AND LIABILITIES		
<i>Non-Current Liabilities</i>		
Deferred tax liability	-	270
Non-Current Liabilities	-	270
<i>Current Liabilities</i>		
Trade payables	15,243	22,741
Other payables and accruals	536	668
Amount due to Directors	2	2
Tax payable	61	710
Current Liabilities	15,842	24,121
Total Liabilities	15,842	24,391
TOTAL EQUITY AND LIABILITIES	91,810	109,576
Net assets per share attributable to Owners of the Parent (sen)	16.07	18.02

The above condensed consolidated statements of financial position should be read in conjunction with the audited financial statements for the year ended 31 December 2015 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 2016**

<-----Attributable to Owners of the Parent ----->									
Figures in RM'000	Non-distributable			Foreign Currency Translation Reserve		Distributable		Non- controlling Interest	Total Equity
	Share Capital	Share Premium	Warrant Reserve	Retained Profits	Total				
At 1 January 2016	47,266	15,885	-	(5)	22,039	85,185	-	85,185	
Exchange difference arising from foreign subsidiary companies	-	-	-	176	-	176	-	176	
Net loss for the period	-	-	-	-	(9,393)	(9,393)	-	(9,393)	
Dividend declared	-	-	-	-	-	-	-	-	
	-	-	-	176	(9,393)	(9,217)	-	(9,217)	
At 31 December 2016	47,266	15,885	-	171	12,646	75,968	-	75,968	

<-----Attributable to Owners of the Parent ----->									
Figures in RM'000	Non-distributable			Foreign Currency Translation Reserve		Distributable		Non- controlling Interest	Total Equity
	Share Capital	Share Premium	Warrant Reserve	Retained Profits	Total				
At 1 January 2015	41,779	9,433	756	(100)	13,000	64,868	-	64,868	
Exchange difference arising from foreign subsidiary companies	-	-	-	95	-	95	-	95	
Issue of shares – exercise of ESOS	708	-	-	-	-	708	-	708	
Issue of shares – exercise of warrants	4,779	6,452	(717)	-	-	10,514	-	10,514	
Warrants lapsed	-	-	(39)	-	39	-	-	-	
Net profit for the period	-	-	-	-	11,139	11,139	-	11,139	
Dividend declared	-	-	-	-	(2,139)	(2,139)	-	(2,139)	
	5,487	6,452	(756)	95	9,039	20,317	-	20,317	
At 31 December 2015	47,266	15,885	0	(5)	22,039	85,185	-	85,185	

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 2015 and the accompanying explanatory notes attached to the interim financial statements.

**Condensed Consolidated Statements of Cash Flows
For The Fourth Quarter Ended 31 December 2016**

Figures in RM'000	12 months ended	
	31.12.2016	31.12.2015
CASH FLOW FROM OPERATING ACTIVITIES		
<i>(Loss)/ Profit before taxation</i>	(9,219)	10,711
Adjustments for:		
Depreciation of property, plant and equipment	2,057	3,088
Amortization of intangible assets	129	108
Bad debts written off	-	2
Impairment of goodwill	5,546	-
Property, plant and equipment written off	3,658	2
Gain on disposal of property, plant and equipment		(29)
Inventory write- off	-	1,627
Interest income	(1,274)	(552)
Foreign exchange (gain) / loss – unrealized	(689)	459
Operating profit before working capital changes	208	15,416
Changes in working capital:		
Decrease/(Increase) in inventory	(319)	2,721
Decrease in receivables	8,192	13,987
Decrease in payables	(7,708)	(25,873)
Cash generated from operations	373	6,251
Taxation (paid)/refund	(1,475)	60
<i>Net cash (used in) / from operating activities</i>	(1,102)	6,311

**Condensed Consolidated Statements of Cash Flows
For The Fourth Quarter Ended 31 December 2016
(Cont'd)**

Figures in RM'000	12 months ended	
	31.12.2016	31.12.2015
CASH FLOW FROM INVESTING ACTIVITIES		
Interest income	1,274	552
Placement in short term cash funds	(37,500)	-
Placement in time deposits	(838)	-
Proceeds from disposal of property, plant and equipment		29
Purchase of property, plant and equipment	(430)	(763)
Purchase of intangible assets	(5)	(8)
Net cash (used in) investing activities	(37,499)	(190)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	-	11,222
Dividend paid	-	(2,140)
Net cash from financing activities	-	9,082
Net decrease in cash and cash equivalents	(38,601)	15,203
Effect of exchange rate changes	765	3,811
Cash and cash equivalents at beginning of the period	52,149	33,131
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	14,313	52,145

The above condensed consolidated statements of cash flows should be read in conjunction with the audited financial statements for the year ended 31 December 2015 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 2015.

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 2015.

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 (99.5% export in 2016; 99.7% export in 2015) 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 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	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Depreciation of property, plant and equipment	(673)	(709)	(2,057)	(3,088)
Amortization of intangible assets	(33)	(27)	(129)	(108)
Property, plant and equipment written off	(2,060)	-	(3,658)	-
Inventory written off	-	(49)	-	(1,628)
Foreign exchange (loss) / gain - realized	(1,076)	4,314	(2,320)	4,447
Foreign exchange (loss) / gain - unrealized	(731)	(2,587)	(1,059)	(459)
Interest income	309	187	1,274	552

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	1,352	80,512	-	-	81,864
Internal sales	-	-	-	-	-
Total operating sales	1,352	80,512	-	-	81,864
Others and interest income	1,042	232	-	-	1,274
	2,394	80,744	-	-	83,138
Results					
Segment results	220	(9,203)	(236)	-	(9,219)
Finance costs	-	-	-	-	-
Income tax	(720)	546	-	-	(174)
Loss after tax before non- controlling interest					(9,393)
Non-controlling interest					-
Loss after tax after non- controlling interest					(9,393)

	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	48,642	40,465	1,510	-	90,617
Unallocated assets					1,193
					91,810
Segment liabilities	184	15,565	29	-	15,778
Unallocated liabilities					64
					15,842

9. SEGMENT INFORMATION (Cont'd)

(b) Sales Contribution by Geography

The geographical sales breakdown are as follows:

	12 months ended	
	31.12.2016	31.12.2015
	RM'000	RM'000
Malaysia	506	461
Asia (excluding M'sia)	11,169	67,484
Europe	66,537	75,511
Oceania	173	46
USA	3,446	2,544
Middle East	33	16
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	81,864	146,062

(c) Sales to Major Customers

For the 12 months ended 31 December 2016, three (3) major international customers (each with revenue of more than 10% of the Group revenue) contributed total revenue of approximately RM63.7.million (2015: RM64.5million).

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 2016.

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>22,756</u>
	<u>22,756</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 (4Q'16 vs 4Q'15)

For the fourth quarter ended 31 December 2016, the Group achieved sales revenue of RM 21.2 million as compared to the same of RM 33.9 million for the corresponding quarter last year. The sales decline of approximately 37% was mainly due to the deliberate steering out of the mobile phone accessories' ODM business, which is experiencing intense competition with tremendous margin squeeze. The total exit from the said business segment is in line with the Group's corporate strategy and resource allocation to streamline and focus on higher margin and "sunrise" businesses in the likes of IoT gadgets and healthcare/medical devices. Besides, sluggish sales of network cameras compounded the sales decline.

Nonetheless, on a positive note, floor-care products, electronic headlamps and industrial products recorded commendable growth. Despite the sales surge in the preceding market segments, they were not sufficient to make up for the above causes of sales shortfall. The Group has intensified its efforts to diversify into more lucrative business segments such as IoT gadgets, healthcare/medical devices and automotive aggregates in an attempt to replenish premium sales for long term growth.

15. PERFORMANCE REVIEW (Cont'd)

**(a) Current quarter compared to the corresponding quarter of last year
(4Q'16 vs 4Q'15)**

The Group registered loss attributable to equity holders of the parent company of RM 7.0 million as compared to a profit of RM 3.8 million for the corresponding quarter last year. The current quarter's loss was largely due to the impairment on goodwill and tooling of RM 5.5 million and RM 2.1 million respectively in light of prudence following the Group's moving away from the mobile phone accessories' ODM business. To some extent, margin erosion as a result of higher labour and materials costs exacerbated the loss.

**(b) Current quarter compared to the preceding quarter
(4Q'16 vs 3Q'16)**

Sales revenue for the fourth quarter ended 31 December 2016 at RM 21.2 million was 9% higher than the preceding quarter of RM 19.4 million. The revenue increase was driven by stronger sales in electronic headlamps, healthcare/medical devices and industrial products after off-setting the softer demand in network cameras and floor-care products.

The Group has widened its loss attributable to equity holders of the parent company by 192% to RM 7.0 million from a loss of RM2.4 million in the preceding quarter, primarily on goodwill and tooling impairments following exit from the mobile phone accessories' ODM business.

16. COMMENTARY ON PROSPECTS AND TARGETS

Sales revenue for 2016 weakened to RM81.9 million as compared to the preceding year's sales of RM 146.1 million. The drop of 44% was chiefly contributed by the programmed phasing out of the mobile phone accessories' ODM business and, to a lesser degree, weaker sales performance from the network camera segment. Despite the final and complete exit from this extremely competitive mobile phone accessories' ODM market, the Group may contemplate to make a return to this business if a viable business model is identified or business conditions change for the better in the future.

On the brighter side, there was a surge in sales for floor-care products, electronic headlamps, industrial products and other consumer electronic lifestyle products in 2016. Moving forward in 2017, the Group will continue to boost sales through its diversification into the healthcare/medical, IoT, electronic wearables, consumer electronic lifestyle and automotive markets, which yield higher margins with longer product life cycles and uptrend industry dynamics. The Group is continuously seeking for collaboration with strategic partners who can share expertise, technology and market space.

The Group recorded loss attributable to equity holders of RM 9.4 million for 2016 as compared to a profit of RM 11.1 million in 2015. The current year's poor financial performance was mainly attributed to the impairment of goodwill and tooling totaling RM9.2 million following the final and complete exit from the mobile phone accessories' ODM market, reflecting the Group's prudent management practices. To a lesser extent, the sharp sales decline resulting in reduced absolute margin contribution also aggravated the loss.

We envisage the level of global uncertainty and instability to remain high in 2017. From the impending new US trade policies under the Trump administration, the start of negotiations on Brexit, to the upcoming elections in France and Germany, indications are that the principal markets of the Group will continue to feel pressured. Hence, as it currently stands, implementation of the Group's diversification plans is likely to face unforeseen challenges and strong headwinds.

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

Although growth for 2017 is expected to be elusive, nevertheless, the Group, on the contrary is doubling its efforts to improve upon its talent and people management/pool so that it has a much stronger team to embrace competition in the new age of disruption. An Employees' Share Option Scheme (ESOS) has recently been established with the objective to build a high performance people team and workplace to fire up the Group's product and business diversification agendas. The Management will formulate mitigating measures on foreign currency exposure for the loss of natural hedging subsequent to Bank Negara's latest ruling on the immediate conversion of the bulk of export earnings to RM and settlement for all goods and services between residents to be exclusively made in RM. Equally important, the Group will continue to improve business efficiency and inculcate a cost-conscious mindset across all business units to preserve/improve profit margin.

17. INCOME TAX EXPENSE/(CREDIT)

	3 months ended		12 months ended	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	RM'000	RM'000	RM'000	RM'000
Deferred tax	119	(1,206)	83	(1,174)
Current tax	(154)	374	91	745
Total Income Tax Expense/(Credit)	(35)	(832)	174	(429)

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

The income tax expenses for the year arose from tax on non-statutory business income.

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

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. The Group is planning for the implementation of the above at this stage.

21. BORROWINGS AND DEBTS SECURITIES

The Group does not have any secured nor unsecured borrowings as at 31 December 2016.

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 December 2016, the realized and unrealized profits are as follows:

	12 months ended 31.12.2016 RM'000
Realised profit	6,068
Unrealised loss	689
Consolidation adjustments	5,889
Total Retained Profit	12,646

As at the end of the previous financial period ended 31 December 2015, the realized and unrealized profits are as follows:

	12 months ended 31.12.2015 RM'000
Realised profit	16,337
Unrealised profit	(459)
Consolidation adjustments	6,161
Total Retained Profit	22,039

26. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profits 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		12 months ended	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
(Loss)/ Profit attributable to equity holders of the parent (RM'000)	(7,045)	3,758	(9,393)	11,139
Weighted average number of Ordinary Shares in issue '000)	472,655	431,464	472,655	431,370
Basic (Loss)/ Earnings Per Ordinary Share (sen)	(1.49)	0.87	(1.98)	2.58

26. EARNINGS PER SHARE (Cont'd)

(a) Diluted earnings per share

For the purpose of calculating diluted earnings per share, the weighted average number of shares has been adjusted for the dilutive effects of the shares options granted to the employees and warrants.

	3 months ended		12 months ended	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
(Loss)/ Profit attributable to equity holders of the parent (RM'000)	(7,045)	3,758	(9,393)	11,140
Weighted average number of Ordinary Shares in issue ('000)	472,655	431,464	472,655	431,370
Effect of dilution of share options and warrants ('000)	-	33,349	-	17,573
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	472,655	464,813	472,655	448,943
Diluted (Loss)/ Earnings Per Ordinary Share (sen)	(1.49)	0.81	(1.98)	2.48

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 21 February 2017.

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

21 February 2017