K-One

K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 30 JUNE 2020

Condensed Consolidated Statements of Comprehensive Income
For The Second Quarter Ended 30 June 2020

Figures in RM'000	3 months ended		6 months ended	
	30.6.2020 Unaudited	30.6.2019 Unaudited	30.6.2020 Unaudited	30.6.2019 Unaudited
Operating revenue	19,047	25,481	36,005	43,433
Cost of sales	(16,400)	(19,327)	(29,548)	(31,999)
Gross profit	2,647	6,154	6,457	11,434
Other income	55	177	491	424
Interest income	261	339	540	820
Operating expenses	(4,485)	(4,135)	(8,596)	(8,366)
Fair value movement on put option liability	(927)	-	(927)	-
(Loss)/ Profit from operations	(2,449)	2,535	(2,035)	4,312
Share of profit after tax of equity-accounted associate	-	-	-	13
(Loss)/ Profit before tax	(2,449)	2,535	(2,035)	4,325
Income tax expense	(290)	(270)	(302)	(260)
(Loss)/ Profit for the period	(2,739)	2,265	(2,337)	4,065
(Loss)/ Profit attributable to:				
Owners of the Parent	(2,856)	1,750	(2,748)	3,465
Non-controlling interests	117	515	411	600
	(2,739)	2,265	(2,337)	4,065
(Loss)/ Earnings per share (LPS)/ EPS attributable to owners of the Parent (sen):				
Basic (LPS)/ EPS	(0.38)	0.24	(0.37)	0.48
Diluted (LPS)/ EPS	(0.38)	0.24	(0.37)	0.47

Condensed Consolidated Statements of Comprehensive Income
For The Second Quarter Ended 30 June 2020 (Cont'd)

Figures in RM'000	3 months ended		6 months ended	
	30.6.2020 Unaudited	30.6.2019 Unaudited	30.6.2020 Unaudited	30.6.2019 Unaudited
(Loss)/ Profit for the period	(2,739)	2,265	(2,337)	4,065
Items that may be subsequently reclassified to profit or loss:				
Foreign currency translation	-	(3)	-	13
Total comprehensive (loss)/ income	**(2,739)**	**2,262**	**(2,337)**	**4,078**

Total comprehensive (loss)/ income attributable to:				
Owners of the Parent	(2,856)	1,747	(2,748)	3,478
Non-controlling interests	117	515	411	600
	(2,739)	**2,262**	**(2,337)**	**4,078**

The above condensed consolidated statements of comprehensive income should be read in conjunction with the audited financial statements for the year ended 31 December 2019 and the accompanying explanatory notes attached to the interim financial statements.

Condensed Consolidated Statements of Financial Position
As At 30 June 2020

Figures in RM'000	Unaudited 30.6.2020	Audited 31.12.2019
ASSETS		
Non-Current Assets		
Property, plant and equipment	15,005	15,264
Prepaid land lease	903	918
Intangible assets	23	26
Goodwill on consolidation	18,561	18,561
Deferred tax assets	1,127	1,401
Other investment	115	115
Total Non-Current Assets	35,734	36,285
Current Assets		
Inventories	19,409	20,310
Trade receivables	15,014	18,254
Other receivables	12,884	13,337
Tax recoverable	2,772	2,014
Short term cash investments	18,580	8,067
Cash and bank balances	32,740	42,617
Total Current Assets	101,399	104,599
TOTAL ASSETS	**137,133**	**140,884**

EQUITY AND LIABILITIES		
Equity		
Share capital	111,939	94,679
Reserves	4,500	4,343
Retained earnings	(793)	15,146
Put option over shares held by non-controlling interests	-	(16,212)
	115,646	97,956
Non-controlling Interests	-	2,903
Total Equity	**115,646**	**100,859**

Condensed Consolidated Statements of Financial Position
As At 30 June 2020 (Cont'd)

Figures in RM'000	Unaudited 30.6.2020	Audited 31.12.2019
EQUITY AND LIABILITIES		
Non-Current Liabilities		
Deferred tax liabilities	241	241
Total Non-Current Liabilities	241	241
Current Liabilities		
Trade payables	11,285	15,131
Other payables and accruals	2,081	2,363
Contract liabilities	7,085	5,215
Gross obligation under put option	-	16,332
Amount due to Directors	-	2
Tax payable	795	741
Total Current Liabilities	21,246	39,784
Total Liabilities	21,487	40,025
TOTAL EQUITY AND LIABILITIES	**137,133**	**140,884**
Net assets per share attributable to Owners of the Parent (sen)	**14.78**	**13.84**

The above condensed consolidated statements of financial position should be read in conjunction with the audited financial statements for the year ended 31 December 2019 and the accompanying explanatory notes attached to the interim financial statements.

Condensed Consolidated Statements of Changes in Equity
For The Second Quarter Ended 30 June 2020

	←-------------------------	**Attributable to Owners of the Parent**		------------------->			Non-controlling Interests	Total Equity
	←	*Non-distributable*		→	*Distributable*			
Figures in RM'000	Share Capital	Share Option Reserve	Foreign Currency Translation Reserve	Other Reserve	Retained Earnings	Sub-total		
At 1 January 2020	94,679	4,422	(79)	(16,212)	15,146	97,956	2,903	100,859
Comprehensive loss								
Loss for the period	-	-	-	-	(2,748)	(2,748)	411	(2,337)
Total comprehensive loss	-	-	-	-	(2,748)	(2,748)	411	(2,337)
Transaction with owners								
Issuance of Ordinary Shares	17,260	-	-	-	-	17,260	-	17,260
Elimination of put option over shares held by non-controlling interest	-	-	-	16,212	-	16,212	-	16,212
Changes in ownership interest of a subsidiary	-	-	-	-	(13,191)	(13,191)	(3,314)	(16,505)
Share based payment under Employees' Share Options Scheme ("ESOS")	-	157	-	-	-	157	-	157
	17,260	157	-	16,212	(13,191)	20,438	(3,314)	17,124
At 30 June 2020	111,939	4,579	(79)	-	(793)	115,646	-	115,646

Condensed Consolidated Statements of Changes in Equity
For The Second Quarter Ended 30 June 2020(Cont'd)

	<-----Attributable to Owners of the Parent ----->						
		Non-distributable		*Distributable*			
Figures in RM'000	Share Capital	Share Option Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total	Non-controlling Interests	Total Equity
At 1 January 2019	94,679	3,681	(13)	9,042	107,389	-	107,389
Comprehensive loss							
Profit for the period	-	-	-	3,465	3,465	1,794	5,259
Other comprehensive income							
Foreign currency translation difference	-	-	13	-	13	-	13
Total comprehensive loss	-	-	13	3,465	3,478	1,794	5,272
Transactions with owners	-	-					
Share based payment under Employees' Share Options Scheme (ESOS)	-	400	-	-	400	-	400
Total transactions with owners	-	400	-	-	400	-	400
At 31 March 2019	94,679	4,081	-	12,507	111,267	1,794	113,061

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 2019 and the accompanying explanatory notes attached to the interim financial statements

Condensed Consolidated Statements of Cash Flows
For The Second Quarter Ended 30 June 2020

Figures in RM'000	6 months ended	
	30.6.2020	30.6.2019
CASH FLOW FROM OPERATING ACTIVITIES		
(Loss)/ Profit before taxation	(2,035)	4,325
Adjustments for:		
Depreciation of property, plant and equipment	1,038	590
Amortization of intangible assets	16	37
ESOS expense	157	400
Interest income	(540)	(820)
Foreign exchange gain – unrealized	(113)	(42)
Fair value movement on put option liability	927	-
Share of profit of associate company	-	(13)
Operating (loss)/ profit before working capital changes	(550)	4,477
Changes in working capital:		
Decrease in inventory	901	(3,357)
Decrease in receivables	2,935	1,585
Decrease in payables	(2,206)	2,373
Cash generated from operations	1,080	5,078
Taxation paid	(504)	(476)
Interest income	540	820
Net cash from operating activities	**1,116**	**5,422**
CASH FLOW FROM INVESTING ACTIVITIES		
Placement of short term cash fund	(10,513)	18,239
Redemption of time deposits	5,500	(137)
Acquisition of a subsidiary	-	(18,360)
Purchase of property, plant and equipment	(773)	(3,473)
Net cash used in investing activities	**(5,786)**	**(3,731)**
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of term loan	-	(8)
Net cash used in financing activities	**-**	**(8)**

Condensed Consolidated Statements of Cash Flows
For The Second Quarter Ended 30 June 2020 (Cont'd)

Figures in RM'000	6 months ended	
	30.6.2020	30.6.2019
Net (decrease)/ increase in cash and cash equivalents	(4,670)	1,683
Effect of exchange rate changes	293	(596)
Cash and cash equivalents at beginning of the period	14,617	12,356
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	**10,240**	**13,443**

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figures in RM'000	6 months ended	
	30.6.2020	30.6.2019
Cash and bank balances	10,240	13,443
Deposit placed with licensed banks	22,500	30,574
	32,740	44,017
Less: Non-short term fixed deposits	(22,500)	(30,574)
	10,240	**13,443**

The above condensed consolidated statements of cash flows should be read in conjunction with the audited financial statements for the year ended 31 December 2019 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 2019.

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 2019, except for the following Malaysian Financial Reporting Standards (MFRSs) and IC Interpretations (IC Int):

<u>Amendments/Improvements to MFRSs</u>

MFRS 3	Business Combinations
MFRS 7	Financial Instruments: Disclosures
MFRS 9	Financial Instruments
MFRS 101	Presentation of Financial Statements
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Error
MFRS 139	Financial Instruments: Recognition and Measurement

2. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENT

The audited financial statements of the preceding financial year were not subjected to any qualification.

3. COMMENTS ABOUT SEASONAL OR CYCLICAL FACTORS

The Group's Electronics Manufacturing Services (EMS) business, predominantly export in nature (89.5% export in 1H'20; 96.3% export in 1H'19) 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 demand mainly attributed to the consumer electronics market segment in conjunction with Christmas and New Year seasons overseas.

Revenue contribution from the Cloud Computing business (through G-AsiaPacific Sdn. Bhd.) is mainly derived from Malaysia and is not subject to any obvious seasonality.

4. UNUSUAL ITEM DUE TO THEIR NATURE, SIZE OR INCIDENCE

During the quarter under review, there were no unusual items affecting assets, liabilities, equity, net income or cash flows to the effect that is unusual in nature, size or incidence.

5. MATERIAL ESTIMATES AND CHANGES IN ESTIMATES

There were no changes in estimates that have had any material effect on the financial year-to-date results.

6. ISSUANCE OR REPAYMENT OF DEBT AND EQUITY SECURITIES

There were no issuances, repurchases and repayments of debt and equity securities during the period.

7. DIVIDENDS PAID

No dividend was paid during the quarter under review.

8. Notes to Consolidated Statement of Comprehensive Income

Figures in RM'000	3 months ended		6 months ended	
	30.6.2020	30.6.2019	30.6.2020	30.6.2019
Depreciation of property, plant and equipment	(519)	(318)	(1,038)	(590)
Amortization of intangible assets	(8)	(16)	(16)	(37)
Foreign exchange gain/(loss)				
- realized	131	123	82	(117)
- unrealized	(254)	54	113	42
Interest income	261	339	540	820

9. SEGMENT INFORMATION

Segment information is provided based on contribution by activities, sales contribution by geography and sales by major customers. Expenses, assets and liabilities which are common and cannot be meaningfully allocated to the segments are presented under unallocated expenses, assets and liabilities respectively.

(a) Contribution by Activities

	Research, D&D and Sales RM'000	Manu-facturing RM'000	Cloud RM'000	Invest-ment Holding RM'000	Total RM'000
Sales					
External sales	471	11,754	6,822		19,047
Internal sales	-	-	-	-	-
Total operating sales	471	11,754	6,822	-	19,047
Others and interest income	-	30	16	270	316
	471	11,784	6,838	270	19,363
Results					
Segment results	(66)	(1,975)	537	(945)	(2,449)
Finance costs	-	-	-	-	-
Income tax	(278)	-	(12)	-	(290)
Profit after tax before non-controlling interests	(344)	(1,975)	525	(945)	(2,739)
Non-controlling interests	-	-	(117)	-	(117)
Profit after tax after non-controlling interests	**(344)**	**(1,975)**	**408**	**(945)**	**(2,856)**
Other information					
Segment assets	14,355	48,694	19,106	51,080	133,235
Unallocated assets					3,898
					137,133
Segment liabilities	178	9,489	10,774	11	20,452
Unallocated liabilities					1,035
					21,487

9. SEGMENT INFORMATION (Cont'd)

(b) Sales Contribution by Geography for the EMS and Cloud Businesses

The geographical sales breakdown is as follows:

	6 months ended	
	30.6.2020	30.6.2019
	RM'000	RM'000
Malaysia	**14,912	9,344
Asia (excluding M'sia)	1,703	7,449
Europe	14,959	23,981
US	4,351	2,605
Oceania	80	38
Middle East	-	16
	36,005	43,433

** Includes RM12,432,172 from the Cloud business. The Cloud sales is mainly derived from Malaysia.

Note: The EMS business is 89.5% (1H'19: 99.4%) derived from the export markets with the balance of 10.5% (1H'19: 0.6%) from the local (Malaysian) market.

(c) Sales to Major Customers for the EMS Business

For the 6 months ended 30 June 2020, two (2) major international customers (each with revenue of more than 10% of the Group's revenue) contributed total revenue of approximately RM13.23 million (1H'19: RM26.30 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

As announced on 19 May 2020, the Company had exercised the Call Option to acquire the remaining 40% equity interest in G-AsiaPacific Sdn Bhd (GAP) at the Option Price of RM17,259,814.40 to be satisfied via the issuance of 53,768,892 Option Consideration Shares (K-One Shares) at the Issue Price of RM0.321 per K-One Share. The Call Option was completed on 18 June 2020 with GAP becoming a wholly owned subsidiary of K-One Technology Bhd..

GAP had on 13 May 2020 set up a wholly-owned new company in Singapore by the name of G-AsiaPacific (S) Pte. Ltd. to provide Cloud technology solutions in Singapore.

Save for the above, there were no other changes in the composition of the Group during the financial quarter ended 30 June 2020.

12. CONTINGENT ASSETS & LIABILITIES

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

	RM'000
K-One Industry Sdn Bhd	22,576
	22,576

13. CAPITAL COMMITMENTS

There were no material capital commitments for the period under review.

14. SUBSEQUENT EVENT

There are no subsequent events which have a material impact on the financial statements under review.

15. PERFORMANCE REVIEW

(a) Current quarter compared to the corresponding quarter of last year (2Q'20 vs 2Q'19)

For the second quarter ended 30 June 2020, the Group's sales revenue decreased by 25% to RM19.0 million from RM25.5 million in the corresponding quarter last year, attributed entirely to the contraction in its EMS business due primarily to the adverse impact of the Movement Control Order (MCO) implemented on 18 March 2020 to curb the spread of COVID-19. On a brighter note, the Cloud business demonstrated resilience to grow marginally for the same period to period comparison, albeit unable to make up for the sales reduction in the EMS business.

EMS Sales

Sales from the EMS business decreased to RM12.2 million, a retraction of RM6.7 million from RM18.9 million in the corresponding quarter last year. The sales decline was mainly attributed to lower orders fulfilled following the temporary halt in production of electronic headlamps, consumer electronic gadgets and industrial equipment amid the MCO which came into force on 18 March 2020. The production of the above products or equipment could only be gradually resumed under Conditional Movement Control Order (CMCO) starting 4 May 2020 on tight inventory with supply chain disruption as local suppliers were re-opening on differing time schedules. As such, the final assembly in the integration of the complete products were hampered, causing order fulfilment hiccups.

However, the medical/healthcare segment of the EMS business was exempted from the MCO and allowed to operate under stringent conditions imposed by the Ministry of Health and the Ministry of International Trade & Industry, Malaysia. In this regard, the production of specific medical/healthcare products such as infusion pumps and thermal scanner sub-systems required in the hospitals to fight the COVID-19 pandemic were ramped up to meet urgent demand, resulted in the sales increase of medical/healthcare devices. However, the sales increase of such medical/healthcare devices were insufficient to make up for the shortfall arising from the non-medical/healthcare ie consumer electronics/industrial market segments.

15. PERFORMANCE REVIEW(Cont'd)

(a) Current quarter compared to the corresponding quarter of last year (Cont'd) (2Q'20 vs 2Q'19)

Cloud Sales

The Cloud business generated sales revenue of RM6.8 million in 2Q'20 as compared with RM6.6 million in the same corresponding quarter last year on higher recurring revenue. The COVID-19 provided the catalyst to accelerate the pace of cloud adoption and usage especially for operational continuity, as witnessed by behavioural shifts on work processes and remote working among the government and private sectors. Nevertheless, businesses viewed the retirement of legacy systems by replacing with Cloud solutions a major investment which require more evidence of an improving economy, resulting in delayed Cloud development/implementation order flows, which otherwise would have generated stronger sales growth momentum. Nonetheless, the recurring revenue from existing customers exhibited double digit growth which more than made up for the shortfall in development/implementation orders when comparing sales for the same periods (2Q'20 vs 2Q'19).

EMS/Cloud Earnings

The EMS business registered a loss of RM2.4 million, while the Cloud business contributed a profit of RM0.4 million, making a net loss of RM2.0 million. However, the recognition of fair value movement of Put Option liability over shares of a subsidiary, namely; G-AsiaPacific Sdn. Bhd. (GAP) of RM0.9 million increased the Group's loss attributable to equity holders of the parent company to RM2.9 million as compared to a profit of RM1.8 million for the corresponding quarter last year. The fair value movement was a non-cashflow item. Since the Put Option liability was eliminated in financial consolidation following the acquisition of the remaining 40% equity interest in GAP in June 2020, there will be no fair value movement impacting the financial performance of the Group moving forward.

The loss from the EMS business was mainly due to lower sales volume following the said temporary partial production halt in compliance to the MCO and overall gross profit margin slid from 24% in 2Q'19 to 10% in 2Q'20. Adverse production overhead variances on sales volume shrink and lower manufacturing yield on new product lines due to steep learning curve had significantly pulled down the overall gross margin. Increasing initial investments on prototype making to bid for new business, extra COVID-19 related expenses incurred for MCO/CMCO/RMCO compliance purposes and foreign exchange loss in view of the sliding US Dollar exacerbated the weak performance of the EMS business in 2Q'20.

15. PERFORMANCE REVIEW(Cont'd)

(a) Current quarter compared to the corresponding quarter of last year (Cont'd) (2Q'20 vs 2Q'19)

On the Cloud business, profit declined from RM0.8 million to RM0.4 million on lower gross profit margin, mainly dragged by sluggish Cloud solutions development/implementation orders which usually commanded premium margins.

(b) Current quarter versus the preceding quarter (2Q'20 vs 1Q'20)

The second quarter ended 30 June 2020 posted sales revenue of RM19.0 million, representing a 12% increase over the preceding quarter of RM17.0 million. The EMS and Cloud businesses contributed RM12.2 million and RM6.8 million respectively to make the RM19.0 million sales revenue for the current quarter.

EMS Sales

Sales for the EMS business expanded by RM0.8 million; from RM11.4 million (1Q'20) to RM12.2 million (2Q'20), representing a 7% increase. The uptick in EMS sales was driven by COVID-19-led surge in demand of certain medical/healthcare devices. However, the sluggish sales of industrial products and consumer electronic gadgets due mainly to lower order fulfilment following temporary production halt amid MCO, which concurrently induced supply chain disruption, dampened the sales growth momentum.

Cloud Sales

Sales revenue from the Cloud business increased by 21% to RM6.8 million in the current quarter as compared to RM5.6 million in the preceding quarter, underpinned by higher recurring revenue as the pandemic accelerated Cloud usage for operational continuity.

EMS/Cloud Earnings

The Group posted loss attributable to equity holders of the parent company of RM2.9 million as compared to a profit of RM0.1 million in the preceding quarter. Discounting the recognition of fair value movement on the Put Option liability of RM0.9 million, the Group's loss would have been RM2.0 million.

The EMS business registered a loss of RM2.4 million as compared with the same of RM0.3 million in the previous quarter due to lower gross profit margin with reasons as explained above, rise in extra COVID-19 related expenses to comply with MCO/CMCO stipulated conditions for safe operation and loss on foreign exchange caused by the sliding US Dollar.

15. PERFORMANCE REVIEW(Cont'd)

(b) Current quarter versus the preceding quarter (Cont'd) (2Q'20 vs 1Q'20)

Cloud sales evidently surged but its profit which registered at RM0.4 million was largely unchanged from the preceding quarter due mainly to profit margin contraction on decline of development/implementation orders which normally bear premium margins, foreign exchange loss and recognition of ESOS expense.

16. COMMENTARY ON PROSPECTS AND TARGETS

Cumulative sales for the first half of the year ended 30 June 2020 finished at RM36.0 million against RM43.4 million for the corresponding period last year, representing a decrease of 17%, attributed principally to the EMS business.

EMS's sales clocked-in at RM23.6 million in 1H'20 compared with RM35.3 million in the corresponding period last year, representing a decline of RM11.7 million (33%). While the COVID-19 pandemic has curtailed the mainstay EMS business, particularly, the consumer electronics and industrial segments following the temporary production halts in compliance with the MCO, the medical/healthcare segments on the contrary registered sales increase in view of strong market demand spurred by the COVID-19 pandemic. The exemption of such essential goods from the MCO to combat COVID-19 facilitated the fulfilment of orders. However, the surge in sales from the medical/healthcare segment was unable to off-set the shortfall arising from the non-medical/healthcare segment ie the consumer electronics and industrial segments. Thus, the EMS business on a net basis relegated south.

Cloud business generated sales revenue of RM12.4 million in 1H'20 as compared with RM8.1 million in the same corresponding period last year. As the comparative figure for last year only included the sales for March-June'19, following the completion of acquisition of 60% equity interest in GAP in March 2019, it is therefore not an apple-to-apple comparison.

Moving forward for the balance of the year, the Group is cautiously hopeful and expects to see sales improving based upon the rationales and expectations to be illustrated in the ensuing paragraphs below under the headings of the EMS Business and Cloud Business respectively.

16 COMMENTARY ON PROSPECTS AND TARGETS (Cont'd)

EMS Business

On the EMS business, the Group reiterates that it had been building its base and expanding its medical/healthcare sector since about 4 years ago. Therefore, the preceding is not a new venture for the Group. In fact, it was ISO 13485 certified, which is a pre-requisite to conduct business in the medical/healthcare industry in 2016, launched its Class 10k cleanroom the same year (2016) and was FDA (US) registered in 2018. In this medical/healthcare segment of its EMS business, it expects production to ramp up in the coming months for a particular new customer following the resolving of technical issues relating to manufacturing processes. It also anticipates the commencement of production of specific new medical/healthcare products for both existing and new customers in the immediate term. On the consumer electronics, industrial and IoT sectors of the EMS business, it expects sales in 2H'20 to pick up in tandem with many countries easing lockdowns and governments all over the world implementing stimulus packages to kick-start their respective economies.

Following the declaration by the World Health Organization (WHO) on 11 March 2020 that COVID-19 is officially a pandemic, the Group which had been serving the medical/healthcare industry under its EMS flagship decided to extend its medical product portfolio to encompass COVID-19 medical aids with the dual objectives of combating COVID-19 by making up shortages and also at the same time fulfilling its corporate social responsibility as a good corporate citizen. Leveraging on its development and manufacturing expertise, it took the opportunity to manufacture nasal swabs and the NASA-JPL ventilators (VITAL ventilators). In this regard, the Group confirms that it has undergone the necessary evaluation to successfully register its subsidiary, K-One Resources Sdn. Bhd. for the manufacturer's establishment licence granted by the Medical Device Authority (MDA) under the Ministry of Health, Malaysia (MOH). The manufacturer's establishment licence is required for local manufacturers which intend to manufacture medical devices for supply in Malaysia. Having obtained the manufacturer's establishment licence, the Group is awaiting the approval of MDA for the said medical devices. The mass production of the nasal swab is in place. The Group has been preparing the marketing network and is in position to reach out to the target customers locally and abroad.

16 COMMENTARY ON PROSPECTS AND TARGETS (Cont'd)

As for the NASA-JPL ventilator, the Group has completed building its prototypes. It is set to move on to testing and evaluation, industrialization, pilot and mass production. Being a complex equipment which is applied to save lives for those in critical condition with acute breathing difficulties, it is crucial to perform every stage running towards mass production strictly and diligently. The Group is gearing up and anticipates to be able to supply the NASA-JPL ventilators to hospitals in US as soon as possible as FDA has recently reported that there is currently a shortage of ventilators. The Group believes that the US would be a good initial target market to turn in the sales revenue. Meanwhile, it is also preparing to establish marketing channels to specific countries, such as India, Philippines and Indonesia which have significant numbers of COVID-19 infections. For ventilator sales, the Group does not view Malaysia as the main market as the demand is not expected to be significant since COVID-19 infections is well under control in the good hands of MOH and other related government agencies. Nonetheless, it would seek the approval and support of the respective Malaysian authorities as the Group views the ventilator business going beyond COVID-19 as it is still required to be used to assist patients with acute breathing difficulties due to other critical diseases. The Group envisages in supporting Malaysia to be self-reliant by manufacturing locally such advanced medical equipment.

In anticipation of impending sales growth, the Group had acquired a factory, which is located in the vicinity of the existing plants at Kawasan Perindustrian Silibin, Ipoh with a purchase consideration of approximately RM1.3 million as announced on 24 August 2020 to accommodate the Group's near term operational and manufacturing expansions.

Furthermore, the Group had also adopted specific strategies on top of the above rationales/sales expectations which may help to alleviate overall business for the balance of the year and in the mid-term. In looking ahead, the Group is assessing to develop and/or manufacture medical consumables which are used in conjunction with the COVID-19 vaccine. Simultaneously, the Group is working hard to convert potential US customers to actual clients by riding the foreseeable next wave of manufacturing diversions following the reignited US-China frictions. Multinationals who depended heavily on the Chinese supply chain ecosystem may take steps to re-route their production from China to new locations, including Malaysia as they would take measures to strike a balance between production cost efficiency and risk management.

16 COMMENTARY ON PROSPECTS AND TARGETS (Cont'd)

Cloud Business

The Cloud business is the second engine of growth of the K-One Group. It has contributed positive results in both the top and bottom lines since its acquisition of GAP in March 2019. Despite the enforcement of MCO in Malaysia on 18 March 2020 and subsequent morphing to CMCO and RMCO currently, the Group's Cloud business remains resilient. During MCO, it might have stunted development order growth from new customers due to restricted movement and a wait-and-see attitude of most businesses, the recurring business from existing customers, on the contrary, increased as the practice of remote working spurred internet connectivity and data usage which benefited Cloud. As businesses gradually resumed in most sectors in Malaysia in 2H'20 and enterprises gaining confidence with the economy, the Group expects a pick-up in new customers signing up for Cloud while the recurring business based on Cloud utilization from existing customers is anticipated to continue to escalate as remote working and e-commerce become a trend. The government's promotion of digitalization with the coming launch of the Digital Economy Master Plan in October 2020 will augur well for Cloud adoption by both the private and public sectors. Private enterprises and the public sector are expected to accelerate Cloud adoption to bolster their digital infrastructure backbone to support remote working as well as to deliver digital services to their customers. The Group via GAP which is a Cloud pioneer is well positioned to tap the growing switch to Cloud services which offer agility, flexibility, scalability and security to meet corporate needs. The Group is in good stead to service the public sector ie government agencies as Amazon Web Services (AWS) has recently endorsed GAP as the first Cloud partner in Malaysia with Public Sector badge which gives it the preferred privilege to access the public sector which has immense potential.

Having completed the acquisition of the balance 40% of GAP in June'20, the Group effectively owns GAP 100%. Thus, it will be able to consolidate the entire earnings of GAP into its books in 2H'20 and thereafter. Consequently, the Group is expected to account in full the financial benefits in the anticipated uptick in the Cloud business in the coming months. On another note, the Cloud business's ongoing expansion in Singapore and Indonesia through its wholly-owned subsidiary and associate company, namely; G-AsiaPacific (S) Pte. Ltd. and P.T. GAsia Pasific Indo. respectively are making steady progress in promoting Cloud computing solutions in the said countries. The Group expects increasing contributions from the preceding moving forward as COVID-19 accelerates organizations anywhere and wherever to solidify their business survival and build growth for a New Normal.

16 COMMENTARY ON PROSPECTS AND TARGETS (Cont'd)

It is worth to note that the Group is debt free and has cash surplus of RM51 million. During such times of poor or recessionary economies, the Group's strong financial position would enable it to expand its business organically without financial constraints and also be able to seize the opportunity to acquire synergistic businesses at less demanding valuations.

In conclusion, the Group is cautiously hopeful and expects the overall sales outlook for the balance of the year to be on a rising trend. Nevertheless, there are major risks as it is operating in a bumpy global economic environment marked with instability, unabating COVID-19 pandemic woes, lingering global protectionism in the likes of the reignited US/China trade war and heightened geopolitical tensions.

In this New Normal, it is challenging to gauge future prospects with any certainty. However, the Group will fall back on its experience, management competencies and technical knowledge to guide it through this unprecedented global condition. It will try its best to meet the challenges ahead and navigate wisely to overcome new risks in unchartered waters such as those posed by the medical aids related to COVID-19 which it had expanded into.

17. INCOME TAX EXPENSE/(CREDIT)

	3 months ended		6 months ended	
	30.6.2020	30.6.2019	30.6.2020	30.6.2019
	RM'000	RM'000	RM'000	RM'000
Deferred tax income	-	-	-	(564)
Current tax expense	290	270	302	824
Total Income Tax Expense	290	270	302	260

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

18. PURCHASES OR SALES OF UNQUOTED SECURITIES AND PROPERTIES

There were no purchases or disposal of unquoted securities and properties during the financial quarter.

19. QUOTED SECURITIES

There were no purchases or disposal of quoted securities during the financial quarter under review.

20. CORPORATE PROPOSALS

There are no corporate proposals announced but not completed as at the reporting date.

21. BORROWINGS AND DEBTS SECURITIES

The Group has neither any secured nor unsecured borrowings as at 30 June 2020.

22. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

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

23. CHANGES IN MATERIAL LITIGATION

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

24. PROPOSED DIVIDEND

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

25. EARNINGS PER SHARE

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

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

(a) Basic earnings per share

	3 months ended		6 months ended	
	30.6.2020	30.6.2019	30.6.2020	30.6.2019
(Loss)/ Profit attributable to equity holders of the parent (RM'000)	(2,856)	1,750	(2,748)	3,465
Weighted average number of Ordinary Shares in issue ('000)	751,733	728,939	741,713	728,939
(Loss)/ Earnings Per Ordinary Share (sen)	(0.38)	0.24	(0.37)	0.48

25. EARNINGS PER SHARE (Cont'd)

(b) Diluted earnings per share

	3 months ended		6 months ended	
	30.6.2020	30.6.2019	30.6.2020	30.6.2019
(Loss)/ Profit attributable to equity holders of the parent (RM'000)	(2,856)	1,750	(2,748)	3,465
Weighted average number of Ordinary Shares in issue ('000)	751,733	728,939	741,713	728,939
Effect of Share Options ('000)	-	12,167	-	12,167
Adjusted weighted average number of Ordinary Shares in issue ('000)	751,733	741,106	741,713	741,106
Diluted (Loss)/ Earnings Per Ordinary Share (sen)*	(0.38)	0.24	(0.37)	0.47

* The diluted loss per share is the same with the basic loss per share for three (3) months and six (6) months ended 30 June 2020 as the potential ordinary shares are anti-dilutive.

26. 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 27 August 2020.

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

27 August 2020