

K-One

K-One Technology Berhad (539757-K)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2020**

**Condensed Consolidated Statements of Comprehensive Income
For The Fourth Quarter Ended 31 December 2020**

Figures in RM'000	3 months ended		12 months ended	
	31.12.2020 Unaudited	31.12.2019 Unaudited	31.12.2020 Unaudited	31.12.2019 Audited
Operating revenue	31,348	26,704	91,203	97,048
Cost of sales	(27,348)	(19,836)	(76,437)	(73,286)
Gross profit	4,000	6,868	14,766	23,762
Other income	17	108	841	547
Interest income	184	362	972	1,749
Operating expenses	(9,556)	(4,696)	(22,586)	(17,310)
Other expenses	-	(514)	-	(514)
Fair value movement on put option liability	-	-	(927)	-
(Loss)/ Profit from operations	(5,355)	2,128	(6,934)	8,234
Share of profit after tax of equity-accounted associate	-	-	-	22
(Loss)/ Profit before tax	(5,355)	2,128	(6,934)	8,256
Income tax expense	(1,233)	(9)	(1,469)	(475)
(Loss)/ Profit for the period	(6,588)	2,119	(8,403)	7,781

(Loss)/ Profit attributable to:

Owners of the Parent	(6,588)	1,260	(8,814)	6,104
Non-controlling interests	-	859	411	1,677
	(6,588)	2,119	(8,403)	7,781

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

Basic (LPS)/ EPS	(0.84)	0.17	(1.16)	0.84
Diluted (LPS)/ EPS	(0.84)	0.17	(1.16)	0.82

**Condensed Consolidated Statements of Comprehensive Income
For The Fourth Quarter Ended 31 December 2020 (Cont'd)**

Figures in RM'000	3 months ended		12 months ended	
	31.12.2020 Unaudited	31.12.2019 Unaudited	31.12.2020 Unaudited	31.12.2019 Audited
(Loss)/ Profit for the period	(6,588)	2,119	(8,403)	7,781
Items that may be subsequently reclassified to profit or loss:				
Foreign currency translation	2	(7)	(4)	(67)
Total comprehensive (loss)/ income	(6,586)	2,112	(8,407)	7,714

Total comprehensive (loss)/ income attributable to:

Owners of the Parent	(6,586)	1,253	(8,818)	6,037
Non-controlling interests	-	859	411	1,677
	(6,586)	2,112	(8,407)	7,714

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 September 2020

Figures in RM'000	Unaudited 31.12.2020	Audited 31.12.2019
ASSETS		
<i>Non-Current Assets</i>		
Property, plant and equipment	17,746	15,264
Prepaid land lease	889	918
Intangible assets	13	26
Goodwill on consolidation	18,561	18,561
Deferred tax assets	33	1,401
Other investment	115	115
Total Non-Current Assets	37,357	36,285
<i>Current Assets</i>		
Inventories	19,134	20,310
Trade receivables	22,559	18,254
Other receivables	10,977	13,337
Tax recoverable	2,017	2,014
Short term cash investments	18,651	8,067
Cash and bank balances	37,766	42,617
Total Current Assets	111,104	104,599
TOTAL ASSETS	148,461	140,884

EQUITY AND LIABILITIES		
<i>Equity</i>		
Share capital	119,786	94,679
Reserves	1,695	4,343
Retained earnings	(6,859)	15,146
Put option over shares held by non-controlling interests	-	(16,212)
	114,622	97,956
Non-controlling Interests	-	2,903
Total Equity	114,622	100,859

Condensed Consolidated Statements of Financial Position
As At 31 December 2020 (Cont'd)

Figures in RM'000	Unaudited 31.12.2020	Audited 31.12.2019
EQUITY AND LIABILITIES (Cont'd)		
<i>Non-Current Liabilities</i>		
Deferred tax liabilities	241	241
Total Non-Current Liabilities	241	241
<i>Current Liabilities</i>		
Trade payables	22,491	15,131
Other payables and accruals	4,761	2,363
Contract liabilities	6,331	5,215
Gross obligation under put option	-	16,332
Amount due to Directors	3	2
Tax payable	12	741
Total Current Liabilities	33,598	39,784
Total Liabilities	33,839	40,025
TOTAL EQUITY AND LIABILITIES	148,461	140,884
Net assets per share attributable to Owners of the Parent (sen)	14.05	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 Fourth Quarter Ended 31 December 2020**

	←----- Attributable to Owners of the Parent ----->						Non- controlling Interests	Total Equity
	←----- Non-distributable ----->			----- Distributable ----->				
	Share Capital	Share Option Reserve	Foreign Currency Translation Reserve	Other Reserve	Retained Earnings	Sub-total		
Figures in RM'000								
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	-	-	-	-	(8,814)	(8,814)	411	(8,403)
Other comprehensive income								
Foreign currency translation difference	-	-	(4)	-	-	(4)	-	(4)
Total comprehensive loss	-	-	(4)	-	(8,814)	(8,818)	411	(8,407)
Transaction with owners								
Issuance of Ordinary Shares pursuant to exercise of ESOS options and acquisition of balance 40% equity interest of GAP	25,107	(3,098)	-	-	-	22,009	-	22,009
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")	-	454	-	-	-	454	-	454
	25,107	(2,644)	-	16,212	(13,191)	25,484	(3,314)	22,170
At 31 December 2020	119,786	1,778	(83)	-	(6,859)	114,622	-	114,622

**Condensed Consolidated Statements of Changes in Equity
For The Fourth Quarter Ended 31 December 2020 (Cont')**

Figures in RM'000	←----- Attributable to Owners of the Parent ----->						Non- controlling Interests	Total Equity
	←----- Non-distributable Foreign Currency ----->				----- Distributable -----			
	Share Capital	Share Option Reserve	Translation Reserve	Other Reserve	Retained Earnings	Sub-total		
At 1 January 2019	94,679	3,681	(13)	-	9,042	107,389	-	107,389
Comprehensive loss								
Loss for the period	-	-	-	-	6,104	6,104	2,903	9,007
Other comprehensive income								
Foreign currency translation difference	-	-	(66)	-	-	(66)	-	(66)
Total comprehensive loss	-	-	(66)	-	6,104	6,038	2,903	8,941
Transaction with owners								
Issuance of Ordinary Shares	-	-	-	-	-	-	-	-
Elimination of Put Option over shares held by non-controlling interest	-	-	-	(16,212)	-	(16,212)	-	(16,212)
Changes in ownership interest of a subsidiary	-	-	-	-	-	-	-	-
Share based payment under Employees' Share Options Scheme ("ESOS")	-	741	-	-	-	741	-	741
	-	741	-	(16,212)	-	(15,471)	-	(15,471)
At 31 December 2019	94,679	4,422	(79)	(16,212)	15,146	97,956	2,903	100,859

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 Third Quarter Ended 30 September 2020

Figures in RM'000	12 months ended	
	31.12.2020	31.12.2019
CASH FLOW FROM OPERATING ACTIVITIES		
<i>(Loss)/ Profit before taxation</i>	(6,934)	8,256
Adjustments for:		
Depreciation of property, plant and equipment	2,122	1,434
Amortization of intangible assets	35	57
Share options granted under ESOS	454	742
Property, plant and equipment write off	-	31
Interest income	(972)	(1,749)
Finance cost	-	14
Foreign exchange loss – unrealized	97	91
Loss on disposal of an associate	-	524
Provision for doubtful debt on receivable pursuant to disposal of equity of an associate	4,990	-
Fair value movement on Put Option liability	927	120
Share of profit of associate company	-	(23)
Operating profit before working capital changes	719	9,497
Changes in working capital:		
Decrease / (Increase) in inventory	1,176	(4,823)
Increase / (Decrease) in receivables	(1,945)	718
Increase in payables	10,145	1,472
Cash generated from operations	10,095	6,864
Tax paid	(797)	(1,464)
Interest income	972	1,553
<i>Net cash from operating activities</i>	10,270	6,953
CASH FLOW FROM INVESTING ACTIVITIES		
Placement of short-term cash fund	(10,682)	20,358
Redemption/(Uplift) of deposits with licensed bank	5,500	(4,000)
Acquisition of a subsidiary	-	(14,700)
Investment in non- quoted securities	-	(116)
Purchase of property, plant and equipment	(4,575)	(5,300)
Purchase of intangible assets	(22)	(1)
<i>Net cash used in investing activities</i>	(9,779)	(3,759)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of term loan	-	(793)
<i>Net cash used in financing activities</i>	-	(793)

**Condensed Consolidated Statements of Cash Flows
For The Fourth Quarter Ended 31 December 2020
(Cont'd)**

Figures in RM'000	12 months ended	
	31.12.2020	31.12.2019
Net increase in cash and cash equivalents	491	2,401
Effect of exchange rate changes	158	(140)
Cash and cash equivalents at beginning of the period	14,617	12,356
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	15,266	14,617

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figures in RM'000	12 months ended	
	31.12.2020	31.12.2019
Cash and bank balances	15,266	14,617
Deposit placed with licensed banks	22,500	30,109
	37,766	44,726
Less: Non-short term fixed deposits	(22,500)	(30,109)
	15,266	14,617

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):

Amendments/Improvements to MFRSs

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 Electronic Manufacturing Services (EMS) business, predominantly export in nature (99.4% export in 4Q’20; 95.8% export in 4Q’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 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		12 months ended	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Depreciation of property, plant and equipment	(561)	(415)	(2,122)	(1,434)
Amortization of intangible assets	(9)	(12)	(35)	(57)
Foreign exchange (loss)/gain				
- realized	(83)	51	(156)	(66)
- unrealized	(298)	55	(97)	(25)
Interest income	184	362	972	1,749
Provision for doubtful debt on receivable pursuant to disposal of equity of an associate	4,990	-	4,990	-

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	1,584	18,976	10,788	-	31,348
Internal sales	-	-	-	-	-
Total operating sales	1,584	18,976	10,788	-	31,348
Others and interest income	40	33	21	107	201
	1,624	19,009	10,809	107	31,549
Results					
Segment results	1,035	(2,599)	904	(4,695)	(5,355)
Finance costs	-	-	-	-	-
Income tax credit/(expense)	(368)	(588)	11	(288)	(1,233)
Profit/(loss) after tax before non-controlling interests	667	(3,187)	915	(4,983)	(6,588)
Non-controlling interests	-	-	-	-	-
Profit/(loss) after tax after non-controlling interests	667	(3,187)	915	(4,983)	(6,588)
Other information					
Segment assets	11,126	58,452	23,809	53,024	146,411
Unallocated assets					2,050
					148,461
Segment liabilities	500	19,213	13,832	40	33,585
Unallocated liabilities					254
					33,839

9. SEGMENT INFORMATION (Cont'd)

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

The geographical sales breakdown is as follows:

	12 months ended	
	31.12.2020	31.12.2019
	RM'000	RM'000
Malaysia	**31,073	26,913
Asia (excluding M'sia)	9,301	13,738
Europe	37,561	50,134
US	13,172	6,186
Oceania	96	61
Middle East	-	16
	<u>91,203</u>	<u>97,048</u>

** Includes RM30,597,116 from the Cloud business. The Cloud sales is mainly derived from Malaysia.

Note: The EMS business is 99.4% (4Q'19: 95.8%) derived from the export markets with the balance of 0.6% (4Q'19: 4.2%) from the local (Malaysian) market.

(c) Sales to Major Customers for the EMS Business

For the 12 months ended 31 December 2020, two (2) major international customers (each with revenue of more than 10% of the Group's revenue) contributed total revenue of approximately RM30.6 million (FY'19: RM48.9 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 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	<u>20,576</u>
	<u>20,576</u>

13. CAPITAL COMMITMENTS

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

14. SUBSEQUENT EVENT

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

15. PERFORMANCE REVIEW

(a) Current quarter compared to the corresponding quarter of last year (4Q'20 vs 4Q'19)

For the fourth quarter ended 31 December 2020, the Group's sales revenue increased to RM31.3 million from RM26.7 million in the corresponding quarter last year, denoting an increase of 17%, primarily due to a surge in sales in the EMS business, in particular the medical/healthcare segment which demonstrated resilient growth.

EMS Sales

Sales from the EMS business surged to RM20.6 million in the current quarter from RM16.9 million in the corresponding quarter last year, representing an increase of 22%, driven mainly by strong demand of medical/healthcare devices on sustainable growth which is further boosted by electronic headlamps and industrial equipment order increases amid an uneven economic recovery. However, IoT gadgets were subjected to soft market sentiments due to economic headwinds in the prevailing COVID-19 pandemic crisis.

15. PERFORMANCE REVIEW (Cont'd)

(a) Current quarter compared to the corresponding quarter of last year (Cont'd) (4Q'20 vs 4Q'19)

Cloud Sales

The Cloud business generated sales revenue of RM10.7 million in 4Q'20 as compared with RM9.8 million in the corresponding quarter last year, representing an increase of 9%. Recurring income exhibited growth resilience as the COVID-19 pandemic catalyzed the pace of cloud adoption and usage especially for operational continuity, as witnessed by the increasing behavioural shifts on work processes and remote working among the public and private business sectors amid the second/third wave of COVID-19 outbreak locally and abroad. Additionally, G-AsiaPacific (S) Pte Ltd (GAP S'pore), a wholly owned subsidiary of G-AsiaPacific Sdn Bhd (GAP), which in turn is wholly owned by K-One Technology Berhad commenced contributing revenue for partial December 2020 subsequent to it entering into an agreement to provide cloud services to a new key customer based in Singapore. On the other hand, there are visible signs that businesses are delaying the retirement of legacy systems by replacing with Cloud solutions to focus on surviving the COVID-19 crisis, which otherwise would have generated stronger sales growth momentum with added contribution from development/implementation orders.

EMS/Cloud Earnings

The EMS business registered a loss of RM2.5 million while the Cloud business contributed a profit of RM0.9 million. However, as a measure of prudence in view of the prevailing challenging economic conditions, the provision for doubtful debt of RM5.0 million on the receivable pursuant to the disposal of equity of an associate back to the former vendors increased the Group's loss attributable to equity holders of the parent company to RM6.6 million as compared to a profit of RM1.3 million for the corresponding quarter last year. Discounting the provision for doubtful debt of RM5.0 million, the Group's loss would have been RM1.6 million for the reporting quarter.

The loss from the EMS business was mainly attributed to the overall gross profit margin slid from 24% in 4Q'19 to 10% in 4Q'20 and reversal of deferred tax assets of RM1.0 million on the principle of prudence in view of the unprecedented global economic uncertainties brought about by the outbreak of COVID-19 pandemic. Lower manufacturing yield on new product lines due to steep learning curve had weighed on the overall gross margin. Extra COVID-19 related precautionary steps taken and associated expenses incurred for Recovery Movement Control Order (RMCO) compliance purposes, increased logistic costs and the weak USD exacerbated the margin compression, resulting in weak earnings performance of the EMS business in 4Q'20.

15. PERFORMANCE REVIEW(Cont'd)

**(a) Current quarter compared to the corresponding quarter of last year (Cont'd)
(4Q'20 vs 4Q'19)**

On the Cloud business, profit declined from RM1.3 million to RM0.9 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
(4Q'20 vs 3Q'20)**

The fourth quarter ended 31 December 2020 posted sales revenue of RM31.3 million, representing a 31% increase over the preceding quarter of RM23.9 million. The EMS and Cloud businesses contributed RM20.6 million and RM10.7 million respectively to make the RM31.3 million sales revenue for the current quarter.

EMS Sales

Sales for the EMS business expanded to RM20.6 million (4Q'20) from RM16.5 million (3Q'20), representing a 25% increase. The uptick in EMS sales was mainly due to the continuous sales growth momentum of medical/healthcare devices and improved demand of electronic headlamps and industrial equipment.

Cloud Sales

Sales revenue from the Cloud business increased by 45% to RM10.7 million in the current quarter as compared to RM7.4 million in the preceding quarter, due mainly to the growing contribution from the recurring revenue and uplift in development/implementation orders.

EMS/Cloud Earnings

The Group posted loss attributable to equity holders of the parent company of RM6.6 million as compared to a profit of RM0.5 million in 3Q'20. The EMS business registered a loss of RM2.5 million as compared with a profit of RM0.1 million in the previous quarter due to lower gross profit margin, higher exchange loss on USD slide and reversal of deferred tax assets. Earnings from the Cloud business increased to RM0.9 million from RM0.4 million on the surge in Cloud sales. Nonetheless, the reporting quarter's loss had been negatively affected by the provision for doubtful debts of RM5.0 million as explained earlier.

16. COMMENTARY ON PROSPECTS AND TARGETS

Sales revenue for 2020 declined from RM 97.1 million to RM91.2 million year-on-year, representing a decrease of 6%, attributed entirely to the contraction in its EMS business due primarily to the outbreak of the COVID-19 pandemic declared by the World Health Organization (WHO) on 11 March 2020, which adversely affected global demand of its non-medical/healthcare business, vis-a-vis consumer electronic products, industrial equipment and IoT gadgets. The ensuing lockdowns in most parts of the world and the imposition of versions of Movement Control Orders (MCO) in Malaysia crippled almost all economic activities which consequently weighed down demand of non-essential goods, hence, adversely impacted the non-medical/healthcare segment of its EMS business.

EMS's sales eased 17% to RM60.6 million as compared with RM73.2 million in the preceding year. Industrial equipment, electronic headlamps and IoT gadgets succumbed to the COVID-19 pandemic induced global economic downturn. The medical/healthcare segments, on the contrary, registered sales increase in view of strong market demand spurred by the COVID-19 pandemic with production ramp up for both existing and new medical/healthcare customers. However, these were insufficient to make up for the shortfall arising from the said industrial, consumer electronics and IoT market segments.

Cloud business, the second engine of growth of the K-One Group, generated sales revenue of RM30.6 million in 2020 as compared with RM23.9 million in the previous year. Despite the enforcement of MCO/CMCO/RMCO in Malaysia since 18 March 2020, the Group's Cloud business remains upbeat. While development/implementation order growth from new customers had been stunted due to restricted movement and a wait-and-see attitude of most businesses, the recurring business from existing customers, on the contrary, increased as remote working, e-commerce and e-learning uptrends spurred Internet connectivity and data usage which benefited Cloud.

Moving forward to 2021, barring unforeseen circumstances, the Group is cautiously optimistic and expects to see sales performance on a rising trend based upon the rationales and expectations conjectured below in the EMS and Cloud businesses's prospects respectively.

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

EMS Business

- a) In the medical/healthcare segment of the EMS business, production of specific new medical/healthcare products is being ramped up to meet increasing demand attributed to the persistence of COVID-19 infections worldwide, notwithstanding the COVID-19 vaccine rollout which will take time to achieve herd immunity. Furthermore, the Group's on-going expansion in its own product portfolio in the medical/healthcare business is taking traction. Its current medical devices portfolio encompasses nasal/oral swabs and vials (used in COVID-19 testing), ventilators (necessary for COVID-19 patients with severe breathing difficulties) and syringe safety needle caps (required for inoculation of COVID-19 vaccine). Beyond the COVID-19 pandemic period, these named medical devices are still relevant or needed and can be applied for detection and treatment of other diseases. The Group had been transforming its EMS business over the last few years to focus on medical/healthcare devices to fill the void created following its exit from the mobile phone accessories market in 2016. The COVID-19 pandemic provided the catalyst for it to accelerate its transformation journey in building up its medical/healthcare business segment. The Group is also engaged in discussion with Vaxine Pty Ltd (Vaxine), an Australian biotechnology company focusing on development of innovative vaccine technologies, to manufacture and/or distribute COVID-19 vaccine developed by Vaxine. It is unable to ascertain as to how this will pan out as the situation remains fluid. Additionally, the business collaboration with an established local company, Selia-Tek Medical Sdn Bhd (Selia-Tek) is expected to enhance the distribution of the said medical aids (nasal/oral swabs, ventilators and other medical consumables) amid the second or third wave of COVID-19 outbreak locally. On the other hand, the Group will promote and distribute Selia-Tek's syringes abroad.
- b) On the consumer electronics, industrial and IoT sectors of the EMS business, orders from existing customers are gradually recovering aided by vaccine hope and stimulus packages from governments all over the world to pump-prime their respective economic activities. In reality, both the medical/healthcare and non-medical/healthcare segments are expected to continue to expand as overall business confidence improves. The rising trend of its EMS business in the 4 quarters of 2020 (1Q'20:RM11.4 million; 2Q'20:RM12.2 million; 3Q'20:RM16.5 million; 4Q'20:RM20.6 million) with sales peaking at RM20.6 million on 4Q'20 is a good sign that business recovery is anticipated to sustain and should spill over to 2021.

It is to be noted that OEM/ODM sales comprising of medical/healthcare devices and non-medical/healthcare products (consumer electronics/IoT/industrial) under the EMS business stand as the key driver and major contributor while the own brand medical/healthcare devices (nasal and oral swab/ventilator/syringe safety needle cap) are emerging business which the Group is investing for the future. The OEM/ODM sales had been the anchor business with significant revenue contribution to the Group since its establishment and is anticipated to make a rebound moving forward. The own brand medical/healthcare business is sprouting and in the long run is expected to counter-balance the anchor business. Meanwhile the OEM/ODM sales is the steady flag carrier awaiting for the own brand medical/healthcare business to mature.

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

- c) Simultaneously, the Group is working hard to convert potential US customers to actual clients by riding the foreseeable next wave of manufacturing diversions out of China. The Group has taken the necessary steps to adapt to the evolution of Asia's trade landscape under the Regional Comprehensive Economic Partnership (RCEP), which was signed in November 2020 to position itself as a choice beneficiary of the potential business diversion.

Cloud Business

- a) Recurring revenue from the significant pool of GAP's existing customers totalling more than 3,000 is expected to be sturdy as most businesses and society at large would most likely continue to work from home and adopt new behavioural habits of online buying. It is anticipated that integrated work-from-home strategies will continue to be employed post-pandemic to harmonize and optimize employer, employee, and environmental outcomes. The digital transformation of work during and post COVID-19 augurs well for cloud usage and is thus beneficial to the Cloud business of the K-One Group.
- b) Both GAP S'pore and P.T. GAsia Pasific Indo (investment of GAP) are making good progress in Singapore and Indonesia respectively. As GAP S'pore had recently secured a new customer, which is a well-known provider of stock image services worldwide, it will act as a good reference to facilitate the Group's further penetration into the fast growing and huge Cloud computing market in Singapore and the South East Asia region.
- c) Sales peaked in 4Q'20 at RM10.7 million from a rising trend over the year in 2020 (1Q'20:RM5.6 million;2Q'20:RM6.8 million;3Q'20:RM7.4 million;4Q'20:10.7 million). The sales uptrend is expected to spill over to 2021 as the contract of approximately RM10 million per year over 3 years with a key customer based in Singapore kicks-off fully commencing January 2021. With the global economy envisaged to recover in 2021, the Group expects to bring on board more new customers as business confidence normalize.
- d) The launch of the MyDIGITAL initiative and the Malaysia Digital Economy Blueprint by our Prime Minister, Tan Sri Muhyiddin Yassin on 19 February 2021 is expected to spur immense opportunities in the digital space, in particular, the government's Cloud First strategy which involves the targeted migration of 80% of public data to hybrid systems by the end of 2022. In this respect, the government has given conditional approvals appointing Google, Amazon, Microsoft and Telekom Malaysia as Cloud Service Providers (CSPs). The K-One Group via wholly-owned subsidiary, GAP has been working with Google, Amazon and Microsoft as their respective Authorized Partners in the provision of Cloud services for many years. GAP holds the specific Public Sector Partner badge with Amazon (AWS), amongst other partnership programs. With the government opening up to allow Cloud services to be provided by the approved CSPs ie Google, Amazon, Microsoft and Telekom Malaysia, the Group is poised to take advantage of the significant Cloud business in the public sector, as it believes it has the competencies and seasoned experience to offer specific Cloud services, although taking cognizance that the government has proposed the appointment of 3 local Manage Service

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

Providers (MSPs). The Group opines that the Cloud opportunities are aplenty in the public sector which can accommodate many players and it trusts its expertise and track record will be given due consideration.

It is worth to note that the Group is debt free and has cash surplus of RM56 million. During such times of poor or recessionary economies, it is advantageous to be in a strong financial position so that it can expand its business organically without financial restraints and be also able to seize the opportunity to acquire synergistic businesses at less demanding valuations.

In conclusion, the Group is cautiously optimistic and expects the overall sales and financial outlook for 2021 to turnaround, with its medical/healthcare OEM/ODM and OBM businesses and Cloud business primed for further growth in the coming years underpinned by the unprecedented opportunities brought upon by the changing business landscape inflicted by COVID-19. The Group acknowledges that it is operating in a vulnerable global economic environment with mounting global economic risks marked with instability, unabating COVID-19 pandemic woes, lingering global protectionism and heightened geopolitical risk. Notwithstanding, it will endeavour to capitalise on new opportunities which may arise to enhance its growth prospects.

In this New Normal, it is challenging to gauge future prospects with any certainty. However, the Group will fall back on its seasoned 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 any new risks in uncharted waters such as those posed by the medical aids and ancillaries related to COVID-19 which it had expanded into.

17. INCOME TAX EXPENSE/(CREDIT)

	3 months ended		12 months ended	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	RM'000	RM'000	RM'000	RM'000
Current tax expense	252	100	488	840
Deferred tax expense / (income)	981	(91)	981	(365)
Total Income Tax Expense	1,233	9	1,469	475

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 31 December 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		12 months ended	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
(Loss)/ Profit attributable to equity holders of the parent (RM'000)	(6,588)	1,260	(8,814)	6,104
Weighted average number of Ordinary Shares in issue ('000)	783,067	728,939	762,322	728,939
(Loss)/ Earnings Per Ordinary Share (sen)	(0.84)	0.17	(1.16)	0.84

25. EARNINGS PER SHARE (Cont'd)

(b) Diluted earnings per share

	3 months ended		12 months ended	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Profit/ (Loss) attributable to equity holders of the parent (RM'000)	(6,588)	1,260	(8,814)	6,104
Weighted average number of Ordinary Shares in issue ('000)	783,067	728,939	762,322	728,939
Effect of Share Options ('000)	8,313	12,167	8,313	12,167
Adjusted weighted average number of Ordinary Shares in issue ('000)	791,380	741,106	770,635	741,106
Diluted Earnings/ (Loss) Per Ordinary Share (sen)*	(0.84)	0.17	(1.16)	0.82

* The diluted loss per share is the same with the basic loss per share for twelve (12) months ended 31 December 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 24 February 2021.

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

24 February 2021