



K-One Technology Berhad

[Registration No. 200101004001 (539757-K)]

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 30 JUNE 2022**

**Condensed Consolidated Statements of Comprehensive Income
 For The Second Quarter Ended 30 June 2022**

Figures in RM'000	3 months ended		6 months ended	
	30.6.2022 Unaudited	30.6.2021 Unaudited	30.6.2022 Unaudited	30.6.2021 Unaudited
Operating revenue	35,229	35,026	73,340	66,057
Cost of sales	(33,930)	(29,831)	(66,595)	(55,796)
Gross profit	1,299	5,195	6,745	10,261
Other income	745	661	956	891
Interest income	99	189	200	380
Operating expense	(4,817)	(4,313)	(9,449)	(8,545)
(Loss)/Profit before tax	(2,674)	1,732	(1,548)	2,987
Income tax expense	(151)	(317)	(574)	(418)
(Loss)/Profit for the period	(2,825)	1,415	(2,122)	2,569

(Loss)/Profit attributable to:

Owners of the Parent	(2,825)	1,415	(2,122)	2,569
Non-controlling interests	-	-	-	-
	(2,825)	1,415	(2,122)	2,569

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

Basic (LPS)/EPS	(0.34)	0.17	(0.26)	0.31
Diluted (LPS)/EPS	(0.34)	0.17	(0.26)	0.31

**Condensed Consolidated Statements of Comprehensive Income
 For The Second Quarter Ended 30 June 2022 (Cont'd)**

Figures in RM'000	3 months ended		6 months ended	
	30.6.2022 Unaudited	30.6.2021 Unaudited	30.6.2022 Unaudited	30.6.2021 Unaudited
(Loss)/Profit for the period	(2,825)	1,415	(2,122)	2,569
Items that may be subsequently reclassified to (loss)/profit:				
Foreign currency translation	(44)	3	(42)	6
Total comprehensive (loss)/income	(2,869)	1,418	(2,164)	2,575

Total comprehensive (loss)/income attributable to:

Owners of the Parent	(2,869)	1,418	(2,164)	2,575
Non-controlling interests	-	-	-	-
	(2,869)	1,418	(2,164)	2,575

The above condensed consolidated statements of comprehensive income should be read in conjunction with the audited financial statements for the year ended 31 December 2021 and the accompanying explanatory notes attached to the interim financial statements.

**Condensed Consolidated Statements of Financial Position
 As At 30 June 2022**

Figures in RM'000	Unaudited 30.6.2022	Audited 31.12.2021
ASSETS		
<i>Non-Current Assets</i>		
Property, plant and equipment	14,319	16,732
Prepaid land lease	840	854
Intangible assets	27	29
Goodwill on consolidation	18,561	18,561
Investment property	4,800	4,800
Deferred tax assets	1,846	1,930
Other investment	115	115
Total Non-Current Assets	40,508	43,021
<i>Current Assets</i>		
Inventories	30,519	27,668
Trade receivables	26,066	25,426
Other receivables	5,251	7,418
Tax recoverable	2,651	2,322
Short term cash investments	9,538	16,538
Cash and bank balances	34,867	29,871
Total Current Assets	108,892	109,243
TOTAL ASSETS	149,400	152,264

EQUITY AND LIABILITIES		
<i>Equity</i>		
Share capital	123,644	123,644
Reserves	(120)	245
Retained earnings	(11,009)	(9,210)
Total Equity	112,515	114,679

**Condensed Consolidated Statements of Financial Position
 As At 30 June 2022 (Cont'd)**

Figures in RM'000	Unaudited 30.6.2022	Audited 31.12.2021
EQUITY AND LIABILITIES (Cont'd)		
<i>Non-Current Liabilities</i>		
Deferred tax liabilities	396	387
Total Non-Current Liabilities	396	387
<i>Current Liabilities</i>		
Trade payables	25,244	26,401
Other payables and accruals	3,000	2,685
Contract liabilities	7,975	7,401
Tax payable	270	711
Total Current Liabilities	36,489	37,198
Total Liabilities	36,885	37,585
TOTAL EQUITY AND LIABILITIES	149,400	152,264
Net assets per share attributable to Owners of the Parent (sen)	13.52	13.78

The above condensed consolidated statements of financial position should be read in conjunction with the audited financial statements for the year ended 31 December 2021 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 2022**

Figures in RM'000	←----- 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		
At 1 January 2022	123,644	323	(78)	-	(9,210)	114,679	-	114,679
Comprehensive loss								
Loss for the period	-	-	-	-	(2,122)	(2,122)	-	(2,122)
Other comprehensive loss								
Foreign currency translation difference	-	-	(42)	-	-	(42)	-	(42)
Reclassification of share option reserve upon expiry of ESOS	-	(323)	-	-	323	-	-	-
Total comprehensive loss	-	-	(42)	-	(1,799)	(2,164)	-	(2,164)
At 30 June 2022	123,644	-	(120)	-	(11,009)	112,515	-	112,515

**Condensed Consolidated Statements of Changes in Equity
For The Second Quarter Ended 30 June 2022 (Cont'd)**

Figures in RM'000	←----- 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		
At 1 January 2021	119,786	1,744	(83)	-	(6,504)	114,943	-	114,943
Comprehensive income								
Profit for the period	-	-	-	-	2,569	2,569	-	2,569
Other comprehensive income								
Foreign currency translation difference	-	-	6	-	-	6	-	6
Total comprehensive income	-	-	6	-	2,569	2,575	-	2,575
Transaction with owners								
Share based payment under Employees' Share Options Scheme ("ESOS")	-	41	-	-	-	41	-	41
	-	41	-	-	-	41	-	41
At 30 June 2021	119,786	1,785	(77)	-	(3,935)	117,559	-	117,559

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 2021 and the accompanying explanatory notes attached to the interim financial statements

**Condensed Consolidated Statements of Cash Flows
For The Second Quarter Ended 30 June 2022**

Figures in RM'000	6 months ended	
	30.6.2022	30.6.2021
CASH FLOW FROM OPERATING ACTIVITIES		
<i>(Loss)/Profit before taxation</i>	(1,548)	2,987
Adjustments for:		
Depreciation of property, plant and equipment	1,375	1,259
Amortization of intangible assets	2	2
Share option granted under ESOS	-	73
Interest income	(200)	(380)
Foreign exchange gain– unrealized	(390)	(214)
Impairment of plant and equipment	1,643	-
Operating profit before working capital changes	882	3,727
Changes in working capital:		
Increase in inventory	(2,851)	(2,373)
Decrease/(Increase) in receivables	1,198	(3,278)
(Decrease)/Increase in payables	(268)	1,970
Net cash (used in)/generated from operations	(1,039)	46
Taxation paid	(862)	(366)
Interest income	200	380
<i>Net cash (used in)/generated from operating activities</i>	(1,701)	60
CASH FLOW FROM INVESTING ACTIVITIES		
Withdrawal of short-term cash fund	7,000	3,121
Placement of deposits with licensed bank	-	(1,000)
Purchase of property, plant and equipment	(591)	(532)
<i>Net cash generated from/ (used in) investing activities</i>	6,409	(1,589)

**Condensed Consolidated Statements of Cash Flows
 For The Second Quarter Ended 30 June 2022 (Cont'd)**

Figure in RM'000	6 months ended	
	30.6.2022	30.6.2021
Net increase in cash and cash equivalents	4,708	1,649
Effect of exchange rate changes	280	112
Cash and cash equivalents at beginning of the period	9,879	14,704
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	14,867	16,465

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figure in RM'000	6 months ended	
	30.6.2022	30.6.2021
Cash and bank balances	14,867	16,455
Deposit placed with licensed banks	20,000	23,500
	34,867	39,965
Less: Non-short term fixed deposits	(20,000)	(23,500)
	14,867	16,465

The above condensed consolidated statements of cash flows should be read in conjunction with the audited financial statements for the year ended 31 December 2021 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 2021.

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 2021, except for the following Malaysian Financial Reporting Standards (MFRSs) and IC Interpretations (IC Int):

Amendments/Improvements to MFRSs

MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards
MFRS 3	Business Combinations
MFRS 9	Financial Instruments
MFRS 16	Leases
MFRS 116	Property, Plant and Equipment
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets
MFRS 141	Agriculture

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 K-One Group’s Electronic Manufacturing Services (EMS) business is predominantly export-oriented (84.9% export in 1H’22; 99.9% export in 1H’21) and is subject to seasonal fluctuations. The increase in local sales for 1H’22 was due to the brisk demand uptick of COVID-19 Antigen saliva self-test kits in the local market attributed to the sharp rise of COVID-19 infections caused by the Omicron variants in the beginning of the year. Discounting the preceding as an exception, business in the second half of the year is normally stronger than the first half of the year due to surge in demand attributed mainly to the consumer electronics market in conjunction with Christmas and New Year seasons overseas.

3. COMMENTS ABOUT SEASONAL OR CYCLICAL FACTORS (Cont'd)

Revenue contribution from the Cloud Computing (Cloud) business is mainly derived from Malaysia and Singapore 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	
	30.6.2022	30.6.2021	30.6.2022	30.6.2021
Depreciation of property, plant and equipment	(688)	(641)	(1,375)	(1,259)
Impairment of plant and equipment	1,643	-	1,643	-
Amortization of intangible assets	-	(1)	(2)	(2)
Foreign exchange gain/ (loss)				
- realized	470	182	419	204
- unrealised	205	(73)	390	214
Interest income	99	189	200	380

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	29	17,397	17,803	-	35,229
Internal sales	-	-	-	-	-
Total operating sales	29	17,397	17,803	-	35,229
Others and interest income	76	644	14	110	844
	105	18,041	17,817	110	36,073
Results					
Segment results	104	(3,058)	743	(463)	(2,674)
Finance costs	-	-	-	-	-
Income tax expense	-	-	(151)	-	(151)
(Loss)/Profit after tax before non-controlling interests	104	(3,058)	592	(463)	(2,825)
Non-controlling interests	-	-	-	-	-
(Loss)/Profit after tax after non-controlling interests	104	(3,058)	592	(463)	(2,825)
Other information					
Segment assets	7,844	63,476	34,114	39,469	144,903
Unallocated assets					4,497
					149,400
Segment liabilities	210	13,633	22,177	154	36,174
Unallocated liabilities					711
					36,885

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 30.6.2022		
	EMS RM'000	Cloud RM'000	Total RM'000
Malaysia	5,868	20,754	26,622
Asia (excluding M'sia)	5,858	13,622	19,480
Europe	19,531	23	19,554
US	7,475	-	7,475
Oceania	63	146	209
	38,795	34,545	73,340

	6 months ended 30.6.2021		
	EMS RM'000	Cloud RM'000	Total RM'000
Malaysia	24	16,796	16,820
Asia (excluding M'sia)	7,237	8,185	15,422
Europe	22,774	-	22,774
US	11,027	-	11,027
Oceania	14	-	14
	41,076	24,981	66,057

Note: 1)The EMS business is 84.9% (1H'21: 99.9%) derived from the export markets with the balance of 15.1% (1H'21: 0.1%) from the local (Malaysian) market.

2)The Cloud business is 39.9% (1H'21: 32.8%) derived from the overseas markets with the balance of 60.1% (1H'21: 67.2%) derived from the local (Malaysian) market.

(c) Sales to Major Customers

For the 6 months ended 30 June 2022, two (2) major international customers contributed more than 10% of the Group's revenue.

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 30 June 2022.

12. CONTINGENT ASSETS & LIABILITIES

As at the end of the quarter under review, the corporate guarantee for credit facilities granted to a subsidiary but not utilised as the Group has cash surplus was:-

	<u>RM'000</u>
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 (2Q'22 vs 2Q'21)

For the second quarter ended 30 June 2022 (2Q'22), the Group's sales revenue increased marginally to RM35.2 million from RM35.0 million in the corresponding quarter last year (2Q'21), recording growth of 1%. The sales growth was entirely attributed to the strong performance in the Cloud Computing (Cloud) business while the EMS business declined.

EMS Sales

Sales from the EMS business retracted to RM17.4 million in the current quarter from RM21.0 million in the corresponding quarter last year, representing a decrease of 17%. The sales decline was due mainly to lower OEM/ODM orders fulfilled following manufacturing interruptions caused by multiple headwinds from production labour shortages to supply chain and logistic disruptions. In addition, the technical issues encountered in the production of specific components by key suppliers prolonged the qualification process for certain new models of electronic headlamps compounded the sales decline.

Fortunately, sales of medical supplies viz-a-viz the COVID-19 Antigen saliva self-test kits in 2Q'22 which were non-existent in 2Q'21 cushioned the sales drop. To recap, the Group commenced the distribution of the said COVID-19 self-test kit in November 2021 after receiving the relevant approval from the Medical Device Authority ("MDA") under the Ministry of Health, Malaysia on 26 October 2021.

Cloud Sales

The Cloud business generated sales revenue of RM17.8 million in 2Q'22 as compared with RM14.0 million in the corresponding quarter last year, representing a sterling increase of 27% on sturdy performance in recurring sales from existing customers in key markets, streaming of new customers, and the addition of Cloud complementary product sales. The public sectors and private enterprises continued transition into the Cloud and doubled down adoption of the technology leading to sustained high traffic in electronic public service delivery, online shopping (E-commerce) and work-from-home (WFH) culture in the New Normal spurring videoconference use, catalysed Cloud usage, thus leading to its continued sales uptick.

15. PERFORMANCE REVIEW (Cont'd)

**(a) Current quarter compared to the corresponding quarter of last year (Cont'd)
(2Q'22 vs 2Q'21)**

EMS/Cloud Earnings

The EMS business registered a net loss of RM3.4 million while the Cloud business contributed a net profit of RM0.6 million, making a total net loss of RM2.8 million in 2Q'22 as compared to a net profit of RM1.4 million for the corresponding quarter last year.

The EMS business in the reporting quarter delivered a net loss of RM3.4 million as compared with a net profit of RM0.3 million in the corresponding quarter last year. The current quarter's loss was largely due to the provision of impairment losses on tooling and machinery totalling RM1.6 million on early obsolescence of assets following the impending launch of replacement models by customers to keep pace with technological advances. Furthermore, lower revenue and margin erosion due to adverse production overhead variances from suboptimal utilisation rates of the facilities, cost pressure from soaring prices of materials, persistent rise in logistic costs and surge in production labour costs following the increase in minimum monthly wage to RM1,500 effective 1 May 2022 exacerbated the loss. Nevertheless, the loss was negated to a certain extent by foreign exchange gain due to strengthening of the USD in the quarter concerned as being export oriented, the bulk of the EMS's inward remittances were denominated in USD.

Cloud sales evidently surged but its net profit which registered at RM0.6 million was largely unchanged from the corresponding quarter last year due mainly to lower gross profit margin compromised by higher Cloud complementary product sales which usually commanded lower margins, foreign exchange loss owing to the strengthening of USD and jump in operating expenses on increasing headcount to drive the next stage of business expansion.

15. PERFORMANCE REVIEW (Cont'd)
(b) Current quarter versus the preceding quarter
(2Q'22 vs 1Q'22)

The second quarter ended 30 June 2022 posted sales revenue of RM35.2 million, representing an 8% decrease over the preceding quarter of RM38.1 million, on the back of reduced sales from the EMS business. Although Cloud sales increased, it was insufficient to offset the EMS sales dip.

EMS Sales

The EMS business registered sales of RM17.4 million in 2Q'22 as compared to RM21.4 million in 1Q'22, representing a 19% decrease due to:- a) weaker performance of medical supplies resulting from the decline in demand for COVID-19 Antigen saliva self-test kits since the Omicron peak in 1Q'22 and b) supply chain disruption and component production technical issues for certain new models impacted the OEM/ODM order fulfilment, despite proactive measures on inventory planning.

Cloud Sales

Sales revenue from the Cloud business increased by 7% to RM17.8 million from RM16.7 million in the preceding quarter, driven by the growing usage and adoption of Cloud catalysed by the ongoing COVID-19 pandemic or endemic. The rising awareness of enterprises spurred by the COVID-19 pandemic on the need to transform digitally for long term sustainability is providing the natural impetus to push Cloud sales.

EMS/Cloud Earnings

The Group posted loss attributable to equity holders of the parent company of RM2.8 million in the current quarter as compared to a profit of RM0.7 million in the preceding quarter (1Q'22).

The EMS business in the reporting quarter delivered a loss of RM3.4 million, from a profit of RM0.1 million in 1Q'22, weighted primarily by tooling and machinery impairments, lower revenue and compressed margins due to increased materials and logistic costs. The implementation of the RM1,500 minimum monthly wage effective 1 May 2022 and the suboptimal utilisation of facilities in 2Q'22 aggravated the loss situation. Furthermore, intense price competition of COVID-19 Antigen saliva self-test kits since the Omicron peak in 1Q'22 weighed on the margin contraction. Nonetheless, the loss was partly offset by foreign exchange gain in line with strengthening of the USD during the quarter.

15. PERFORMANCE REVIEW (Cont'd)
(b) Current quarter versus the preceding quarter (Cont'd)
(2Q'22 vs 1Q'22)

Despite the sales revenue uptick, profit from the Cloud business was flat at RM0.6 million due mainly to foreign exchange loss, rise in operating expenses on headcount expansion and margin compromise in specific cases to take market share and defend competition.

16. COMMENTARY ON PROSPECTS AND TARGETS

For the first half of the year ended 30 June 2022, the K-One Group delivered sales of RM73.3 million against RM66.1 million for the corresponding period last year, representing an increase of 11% underpinned entirely by the strong multi-year growth of the Cloud business.

EMS sales clocked-in at RM38.8 million in 1H'22 as compared with RM41.1 million in the corresponding period last year, representing a decrease of 6% due mainly to manufacturing interruptions arising from production labour shortages, component supply hiccups and logistic disruptions which resulted in the delay in OEM/ODM product deliveries despite stable customer orders. Incidentally, the prolonged qualification process of certain new models of electronic headlamps due to technical issues encountered in the production of specific components by key suppliers compounded the EMS sales decline. On the other hand, the encouraging performance of medical supplies, driven by strong sales of the COVID-19 Antigen saliva self-test kits in the local market, particularly in 1Q'22 with heightened awareness on the need to perform at-home COVID-19 test to curb the spike of the Omicron variant, helped cushion the drop in EMS sales.

The Cloud business generated sales revenue of RM34.5 million in 1H'22 as compared with RM25.0 million in the corresponding period last year, marking a commendable growth rate of 38%. The Cloud business remained upbeat, whether COVID-19 is pandemic or turning endemic has no relevance to Cloud adoption, which continues to climb in view of the escalating growth of enterprises and public sectors realizing the benefits of Cloud and embracing it to adapt to the changing (changed) human behaviour of WFH, online learning, online buying and e-government services in the New Normal. In fact, with the economies in most countries opening up, the Group's Cloud business is expected to take advantage of the escalation in new migrations to the Cloud in the ASEAN region.

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

Moving forward to 2H'22, barring unforeseen circumstances, the Group is cautiously optimistic and expects to see sales trending higher than 1H'22 based upon the rationales and expectations illustrated below in the EMS and Cloud businesses's prospects respectively.

EMS Business

1) The EMS business is working towards the commencement of production of specific new medical/healthcare products for existing and new customers in 2H'22. Sales for consumer electronics, industrial and IoT sectors of the OEM/ODM segment are expected to scale higher in tandem with the launching of replacement models and year end demand peaks. However, macroeconomic uncertainties on tighter monetary policy, geopolitical turmoil, and consumer demand weakness may curtail the expected sales growth. Nonetheless, the Group will use its best endeavour to steer through the persistent global economic volatility in the New Normal.

2) The COVID-19 Antigen saliva self-test kits may rebound in sales in 2H'22 driven by fresh wave(s) of COVID-19 infections arising from the highly mutated Omicron variants in BA.4 and BA.5. Meanwhile, the Group is working to extend the conditional approval expiry of its COVID-19 Antigen saliva self-test kits while at the same time is preparing to launch other medical devices and consumables either as Own Brand Manufacturer (OBM) or Authorized Representative (AR) products, leveraging on the distribution network ie pharmacies and hospitals that it has established. The Group took the opportunity to showcase its Medkaire ventilator licensed by NASA-JPL at the Annual Scientific Congress 2022 organized by the Malaysian Society of Anaesthesiologists & College of Anaesthesiologists in Kuala Lumpur recently. It garnered overwhelming response with a stream of visitors to our booth to witness the first locally manufactured ventilator in Malaysia.

3) The Group's sales team had resumed its overseas travelling in view of easing of travel curbs and economic reopenings to visit customers and also to participate in exhibitions to reach out to target customers, especially those located in the US as it intends to divert US manufacturing from China to Malaysia sparked by the Sino-American great-power confrontation and further fuelled by China's zero-COVID containment strategy. These physical customer visits and exhibitions are gradually bearing fruits and are crucial in a market which is becoming increasingly competitive in the New Normal.

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

Cloud Business

1) It is anticipated that Cloud adoption by both the public and private enterprises will move full steam ahead post-pandemic based on the Cloud business's first half financial performance. Cloud is undoubtedly a key driver in digital transformation which businesses could hardly ignore for long term sustainability. Hence, recurring revenue from the significant pool of the existing Cloud customers is expected to be sturdy while contribution from development/implementation of Cloud solutions is envisaged to be stronger post-pandemic upon the normalization of economic activities in its key markets.

2) The Group is aiming to collaborate with the Malaysian government's appointed Cloud Service Providers (AWS, Google, Microsoft and TM) and/or the Bumi Managed Service Providers to capitalise on the government's MyDigital initiative with emphasis on public data migration to hybrid systems by 2022. Towards this end, it is continuously working out plans to complement and supplement the said service providers.

3) Although the Cloud market is getting crowded with increasing competition, the Group has adopted the strategy to strongly defend its market share as one of the leading Cloud service providers in Malaysia by stepping up its service level and giving competition, especially new companies entering the Cloud market a run for the money. The Group is increasing its staff strength and extending out to tap into other specialized services such as cybersecurity, artificial intelligence and machine learning which are witnessing significant business potential.

4) The Cloud business's ongoing expansion in Singapore and Indonesia respectively are making steady progress. As the Cloud market in ASEAN, in particular Indonesia and Vietnam are huge, the Group is looking forward to accelerate its expansion into these two countries in the near term.

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

The Group is cautiously optimistic on its business prospects for 2H'22, barring unforeseen circumstances. It will maintain its momentum in building up the medical/healthcare segment in the EMS business, the emerging OBM/AR medical supplies portfolio and catching the abundant opportunities in the Cloud business in ASEAN while keeping a tight rein on costs and adapting to the fluid environment. In this New Normal, the Group cautions that it is operating in a volatile global economic environment tainted with growing inflationary pressures, global monetary tightening, prolonged global supply chain disruptions, extended production labour shortages, hard-to-predict dynamics of COVID-19 variants and heightened geopolitical instability. Nonetheless, the Group will endeavour to navigate through these challenges to the best of its ability and deliver the desired achievements.

17. INCOME TAX EXPENSE

	3 months ended		6 months ended	
	30.6.2022	30.6.2021	30.6.2022	30.6.2021
	RM'000	RM'000	RM'000	RM'000
Current tax expense	151	305	574	374
Deferred tax expense	-	12	-	44
Total Income Tax Expense	151	317	574	418

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 2022.

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.

25. EARNINGS PER SHARE (Cont'd)

(a) Basic earnings per share

	3 months ended		6 months ended	
	30.6.2022	30.6.2021	30.6.2022	30.6.2021
(Loss)/Profit attributable to equity holders of the parent (RM'000)	(2,825)	1,415	(2,122)	2,569
Weighted average number of Ordinary Shares in issue ('000)	832,007	815,793	832,007	815,793
(Loss)/Profit Earnings Per Ordinary Share (sen)	(0.34)	0.17	(0.26)	0.31

(b) Diluted earnings per share

	3 months ended		6 months ended	
	30.6.2022	30.6.2021	30.6.2022	30.6.2021
(Loss)/Profit attributable to equity holders of the parent (RM'000)	(2,825)	1,415	(2,122)	2,569
Weighted average number of Ordinary Shares in issue ('000)	832,007	815,793	832,007	815,793
Effect of Share Options ('000)	-	5,796	-	5,796
Adjusted weighted average number of Ordinary Shares in issue ('000)	832,007	821,589	832,007	821,589
Diluted (Loss)/Profit Earnings Per Ordinary Share (sen)	(0.34)	0.17	(0.26)	0.31

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 August 2022.

BY ORDER OF THE BOARD

WONG YOUN KIM (MAICSA 7018778)

Company Secretary

24 August 2022