K-One Technology Berhad

[Registration No. 200101004001 (539757-K)]

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2023

Condensed Consolidated Statements of Comprehensive Income
For The Fourth Quarter Ended 31 December 2023

Figures in RM'000	3 months ended		12 months ended	
	31.12.2023 Unaudited	31.12.2022 Unaudited	31.12.2023 Unaudited	31.12.2022 Audited
Operating revenue	40,625	47,394	167,240	164,845
Cost of sales	(32,545)	(40,216)	(144,787)	(144,679)
Gross profit	8,080	7,178	22,453	20,166
Other income	62	194	1,211	1,127
Interest income	229	158	785	490
Operating expense	(6,599)	(7,257)	(24,301)	(21,046)
Profit before tax	1,772	273	148	737
Income tax credit/(expense)	816	(67)	85	(837)
Profit/(Loss) for the period	2,588	206	233	(100)
Non-controlling interests	152	-	118	-
Profit/(Loss) after tax after non-controlling interests	**2,740**	**206**	**351**	**(100)**

Profit/(Loss) attributable to:

Owners of the Parent	2,740	206	351	(100)
Non-controlling interests	(152)	-	(118)	-
	2,588	206	233	(100)

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

Basic EPS/(LPS)	0.33	0.02	0.04	(0.01)
Diluted EPS/(LPS)	0.33	0.02	0.04	(0.01)

Condensed Consolidated Statements of Comprehensive Income
For The Fourth Quarter Ended 31 December 2023 (Cont'd)

Figures in RM'000	3 months ended		12 months ended	
	31.12.2023 Unaudited	31.12.2022 Unaudited	31.12.2023 Unaudited	31.12.2022 Audited
Profit/(Loss) for the period	2,588	206	233	(100)
Items that may be subsequently reclassified to profit:				
Foreign currency translation	78	52	38	38
Total comprehensive income/(loss)	**2,666**	**258**	**271**	**(62)**

Total comprehensive income/(loss) attributable to:				
Owners of the Parent	2,818	258	389	(62)
Non-controlling interests	(152)	-	(118)	-
	2,666	**258**	**271**	**(62)**

The above condensed consolidated statements of comprehensive income should be read in conjunction with the audited financial statements for the year ended 31 December 2022 and the accompanying explanatory notes attached to the interim financial statements.

Condensed Consolidated Statements of Financial Position
As At 31 December 2023

Figures in RM'000	Unaudited 31.12.2023	Audited 31.12.2022
ASSETS		
Non-Current Assets		
Property, plant and equipment	17,877	16,134
Prepaid land lease	797	825
Right of use asset	681	-
Intangible assets	2,069	66
Goodwill on consolidation	22,676	18,561
Investment property	4,536	4,632
Deferred tax assets	3,311	2,226
Other investment	-	115
Total Non-Current Assets	51,947	42,559
Current Assets		
Inventories	33,049	33,532
Trade receivables	29,881	34,588
Other receivables	3,527	4,056
Contract costs	4,001	3,931
Tax recoverable	2,621	1,589
Short term cash investments	8,634	5,075
Cash and bank balances	39,901	37,376
Total Current Assets	121,614	120,147
TOTAL ASSETS	**173,561**	**162,706**

EQUITY AND LIABILITIES		
Equity		
Share capital	123,644	123,644
Reserves	(2)	(40)
Non-controlling interests	1,454	-
Retained earnings	(8,644)	(8,995)
Total Equity	**116,452**	**114,609**

Condensed Consolidated Statements of Financial Position
As At 31 December 2023 (Cont'd)

Figures in RM'000	Unaudited 31.12.2023	Audited 31.12.2022
EQUITY AND LIABILITIES (Cont'd)		
Non-Current Liabilities		
Deferred tax liabilities	9	567
Other payable	33	-
Lease Liability	461	-
Total Non-Current Liabilities	503	567
Current Liabilities		
Trade payables	34,322	29,885
Other payables and accruals	7,053	7,902
Contract liabilities	13,069	9,585
Lease liability	222	-
Tax payable	1,940	158
Total Current Liabilities	56,606	47,530
Total Liabilities	57,109	48,097
TOTAL EQUITY AND LIABILITIES	**173,561**	**162,706**
Net assets per share attributable to Owners of the Parent (sen)	**14.00**	**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 2022 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 2023

	←--- 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 2023	123,644	-	(40)	-	(8,995)	114,609	-	114,609
Comprehensive income								
Profit for the period	-	-	-	-	351	351	1,454	1,805
Other comprehensive income								
Foreign currency translation difference	-	-	38	-	-	38	-	38
Total comprehensive Income	-	-	38	-	351	389	1,454	1,843
At 31 December 2023	123,644	-	(2)	-	(8,644)	114,998	1,454	116,452

Condensed Consolidated Statements of Changes in Equity
For The Fourth Quarter Ended 31 December 2023 (Cont'd)

	←---- 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 2022	123,644	323	(78)	-	(9,210)	114,679	-	114,679
Comprehensive loss								
Loss for the period	-	-	-	-	(108)	(108)	-	(108)
Other comprehensive income/(loss)								
Foreign currency translation difference	-	-	38	-	-	38	-	38
Reclassification of share option reserve upon expiry of ESOS	-	(323)	-	-	323	-	-	-
Total comprehensive income/(loss)	-	(323)	38	-	215	(70)	-	(70)
At 31 December 2022	123,644	-	(40)	-	(8,995)	114,609	-	114,609

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 2022 and the accompanying explanatory notes attached to the interim financial statements.

Condensed Consolidated Statements of Cash Flows
For The Fourth Quarter Ended 31 December 2023

Figures in RM'000	12 months ended 31.12.2023	12 months ended 31.12.2022
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	148	737
Adjustments for:		
Depreciation of property, plant and equipment	2,693	2,477
Amortization of intangible assets	16	8
Depreciation of investment property	96	168
Interest income	(785)	(490)
Foreign exchange gain – unrealized	(546)	20
Fair value gain on short term investment	-	(36)
Impairment of plant and equipment	-	1,637
Inventories written down	1,046	192
Receivables written off	293	5
Operating profit before working capital changes	2,961	4,718
Changes in working capital:		
Decrease/(Increase) in inventory	483	(6,055)
Decrease/(Increase) in receivables	8,935	(7,641)
Increase in payables	5,466	8,332
Net cash generated from/(used in) operations	17,845	(646)
Taxation paid	(145)	(774)
Interest income	785	490
Net cash generated from/(used in) operating activities	**18,485**	**(930)**
CASH FLOW FROM INVESTING ACTIVITIES		
(Placement)/Withdrawal of short-term cash fund	(3,500)	11,500
Placement of deposits with licensed bank	(4,300)	-
Acquisition of a subsidiary, net of cash acquired	(4,587)	-
Capitalisation of intangible assets	(2,019)	-
Purchase of property, plant and equipment	(4,335)	(3,347)
Net cash (used in)/generated from investing activities	**(18,741)**	**8,153**

Condensed Consolidated Statements of Cash Flows For The Fourth Quarter Ended 31 December 2023 (Cont'd)

Figure in RM'000	12 months ended	
	31.12.2023	31.12.2022
Net (decrease)/increase in cash and cash equivalents	(256)	7,223
Effect of exchange rate changes	307	282
Cash and cash equivalents at beginning of the financial year	17,876	12,371
CASH AND CASH EQUIVALENT AT END OF THE PERIOD	**17,927**	**19,876**

COMPOSITION OF CASH AND CASH EQUIVALENTS

Figure in RM'000	12 months ended	
	31.12.2023	31.12.2022
Cash and bank balances	17,927	19,876
Deposit placed with licensed banks	21,974	17,500
	39,901	37,376
Less: Non-short term fixed deposits	(21,974)	(17,500)
	17,927	**19,876**

The above condensed consolidated statements of cash flows should be read in conjunction with the audited financial statements for the year ended 31 December 2022 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 December2022.

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 2022, except for the following Malaysian Financial Reporting Standards (MFRSs) and IC Interpretations (IC Int):

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

MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards
MFRS 3	Business Combinations
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations
MFRS 7	Financial Instruments: Disclosures
MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers
MFRS 16	Leases
MFRS 101	Presentation of Financial Statements
MFRS 107	Statement of Cash Flows
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
MFRS112	Income Taxes
MFRS 116	Property, Plant and Equipment
MFRS 119	Employee Benefits
MFRS 128	Investments in Associates and Joint Ventures
MFRS 132	Financial Instruments: Presentation
MFRS 136	Impairment of Assets
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets
MFRS 138	Intangible Assets
MFRS 140	Investment Property
MFRS 141	Agriculture

<u>New MFRS</u>

MFRS 17	Insurance Contracts

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 (99.5% export in 4Q'23; 93.3% export in 4Q'22) and is subject to seasonal fluctuations. Business in the second half of the year is normally stronger than the first half due to surge in demand attributed mainly to the consumer electronics market in conjunction with Christmas and New Year seasons overseas.

Revenue contribution from the Cloud Computing (Cloud) business is mainly derived from Malaysia, Singapore and Indonesia. Cloud revenue 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	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Depreciation of property, plant and equipment	(731)	(610)	(2,693)	(2,477)
Depreciation of investment property	(24)	(24)	(96)	(168)
Impairment of plant and equipment	-	-	-	(1,637)
Amortization of intangible assets	(4)	(5)	(16)	(8)
Foreign exchange gain/(loss)				
- realized	(83)	14	(565)	529
- unrealized	(203)	(886)	546	(31)
Inventories written down	-	-	(1,046)	(192)
Receivables written off	(207)	-	(293)	(5)
Interest income	229	158	785	490

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 underunallocated expenses, assets and liabilities respectively.

(a) Contribution by Activities

	Research, D&D and Sales	Manu-facturing	Cloud	Invest-ment Holding	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Sales					
External sales	153	19,071	20,870	531	40,625
Internal sales	-	-	-	-	-
Total operating sales	153	19,071	20,870	531	40,625
Others and interest income	2	50	24	215	291
	155	19,121	20,894	746	40,916
Results					
Segment results	137	642	882	111	1,772
Finance costs	-	-	-	-	-
Income tax credit/(expense)	(53)	758	(352)	463	816
Profit after tax before non-controlling interests	84	1,400	530	574	2,588
Non-controlling interests	-	-	152	-	152
Profit after tax after non-controlling interests	**84**	**1,400**	**682**	**574**	**2,740**
Other information					
Segment assets	1,019	76,645	38,962	50,974	167,600
Unallocated assets					5,961
					173,561
Segment liabilities	1,018	27,581	26,070	457	55,126
Unallocated liabilities					1,983
					57,109

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 31.12.2023		
	EMS RM'000	Cloud RM'000	Total RM'000
Malaysia	2,045	46,336	48,381
Asia (excluding M'sia)	23,584	27,861	51,445
Europe	52,414	76	52,490
US	12,990	-	12,990
Oceania	1,656	37	1,693
Middle East	231	10	241
	92,920	74,320	167,240

	12 months ended 31.12.2022		
	EMS RM'000	Cloud RM'000	Total RM'000
Malaysia	7,461	43,426	50,887
Asia (excluding M'sia)	14,887	15,525	30,412
Europe	63,265	266	63,531
US	11,336	8,446	19,782
Oceania	188	45	233
	97,137	67,708	164,845

Note: 1)The EMS business is 97.8% (FY 2022: 92.3%) derived from the export markets with the balance of 2.2% (FY 2022: 7.7%) from the local (Malaysian) market.

2)The Cloud business is 37.4% (FY 2022: 35.9%) derived from the overseas markets with the balance of 62.6% (FY 2022: 64.1%) derived from the local (Malaysian) market.

(c) Sales to Major Customers

For the financial year 2023, two (2) major international customerscontributed 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 31 December 2023.

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:-

	RM'000
K-One Industry Sdn Bhd	20,576

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 (4Q'23 vs 4Q'22)

For the fourth quarter ended 31 December 2023 (4Q'23), the Group's sales revenue skidded to RM40.6 million from RM46.8 million in the corresponding quarter last year (4Q'22), registering a decrease of 13%, which was attributed entirely to the subdued performance in the Electronic Manufacturing Services (EMS) business.

EMS Sales

Sales from the EMS business declined to RM19.8 million in the current quarter from RM29.5 million in the corresponding quarter last year, representing a decrease of 33%, due mainly to:- a) weaker sales of electronic headlamps caused by demand normalisation after the launch of numerous new models by a specific major customer commencing 2H'22 and moderation in production volumes following manufacturing interruptions to cater for rework orders to conform to an engineering change, b) dip in sales of industrial equipment and IoT gadgets attributed to a sluggish global market and c) waning sales of medical supplies viz-a-viz the COVID-19 Antigen saliva self-test kits for the local market as the push to do self-test fizzled out with COVID-19 infections becoming less life-threatening.

However, improved sales of both medical/healthcare devices and floorcare products coupled with the increasing supply of spare parts and sub-assemblies for maintenance purpose to a specific customer since the end of last year, with the Group acting as its Asia Hub cushioned the above decelerating sales in the fourth quarter, but insufficient to make up for the above indicated shortfall.

Cloud Sales

The Cloud Computing (Cloud) business generated sales revenue of RM20.8 million in 4Q'23 as compared with RM17.3 million in the corresponding quarter last year, stamping an increase of 20%, attributed to:- a) steady performance in recurring sales from existing customers and onboarding of new customers as enterprises continued to transition into the Cloud for technological and cost saving reasons and b) inclusion of the top line of P.T. Gasia Pasific Indo (GAP Indo) in the consolidated financial statements enhanced the overall total sales following the completion of the acquisition of 36% shareholdings in the said company in mid-2023, thus making it a 51% subsidiary of the Group.

15. PERFORMANCE REVIEW (Cont'd)

(a) Current quarter compared to the corresponding quarter of last year (Cont'd) (4Q'23 vs 4Q'22)

EMS/Cloud Earnings

The EMS business registered a net profit of RM2.0 million while the Cloud business contributed a net profit of RM0.7 million, making a total net profit of RM2.7 million in 4Q'23 as compared to a total net profit of RM0.2 million for the corresponding quarter last year.

Despite lower sales, the EMS business in the reporting quarter delivered a net profit of RM2.0 million, turning around from a net loss of RM0.9 million in the corresponding quarter last year, attributed mainly to:- a) improved gross profit margin from 15% in 4Q'22 to 18% in 4Q'23 resulting from materials cost down, pass-through of portions of increased costs to customers and product mix changes favouring higher margin medical/healthcare devices, b) lower exchange loss {4Q'23:(RM0.3 million); 4Q'22:(RM0.9 million)} and c) recognition of deferred tax income of RM1.2 million for unused tax losses.

Cloud sales evidently surged but its net profit was lower at RM0.7 million as compared with RM1.1 million in the previous year's corresponding quarter due mainly to the rise in employee related expenses on increasing headcount to drive the next stage of business expansion, higher provision of operating expense, loss incurred by the emerging overseas subsidiary operations and the absence of reversal of tax expense recorded in 4Q'22. On the other hand, the financial incentive received from the principal after meeting targets off-set most of the preceding additional expenses.

(b) Current quarter versus the preceding quarter (4Q'23 vs 3Q'23)

The fourth quarter ended 31 December 2023 posted sales revenue of RM40.6 million, which was a 5% decrease over the preceding quarter of RM42.6 million on reduced sales from the EMS business.

15. PERFORMANCE REVIEW (Cont'd)

(b) Current quarter versus the preceding quarter (4Q'23 vs 3Q'23)

EMS Sales

Sales for the EMS business reduced by RM2.4 million; from RM22.2 million (3Q'23) to RM19.8 million (4Q'23), indicating a 11% decrease due to:- a) decelerating sales of medical/healthcare devices caused by soft global market demands, b) lower electronic headlamps orders fulfilled following production interruption as a result of engineering change and rework of specific models and c) spare parts and sub-assemblies supply business unable to uphold sturdy sales after experiencing strong growth in 1H'23. However, better demand for floorcare products minimized the above indicated sales slip.

Cloud Sales

Sales revenue from the Cloud business increased by 2% to RM20.8 million from RM20.4 million in the preceding quarter, driven by the rising awareness of enterprises spurred by the COVID-19 pandemic on the need to transform digitally for long term sustainability provided the natural impetus to push Cloud recurring revenue on a rising path.

EMS/Cloud Earnings

The Group posted profit attributable to equity holders of the parent company of RM2.7 million in the current quarter as compared to a loss of RM2.0 million in the preceding quarter (3Q'23).

The EMS business delivered a profit of RM2.0 million in the reporting quarter, versus a loss of RM2.8 million in 3Q'23 driven by improved margin (4Q'23:18%; 3Q'23:5%) attributed to the Group's concerted efforts on materials cost-down, higher costs pass-through and product mix changes favouring the higher margin models of the electronic headlamps, floorcare products and industrial equipment. The recognition of deferred tax income for unused tax losses enhanced the profit but curtailed by foreign exchange loss due to weakening of the USD in the quarter concerned.

Despite marginally higher sales, the Cloud business recorded a lower profit of RM0.7 million as compared to RM0.8 million in the previous quarter due mainly to the increase in operating expenses and loss incurred by overseas subsidiaries. However, the granting of specific financial incentives by the principal for achieving targets partially cushioned the higher expenses and loss incurred.

16. COMMENTARY ON PROSPECTS AND TARGETS

The K-One Group achieved annual sales of RM167.2 million in 2023 against RM164.8 million for last year, representing an increase of 1% attributed entirely to the uptick of Cloud sales.

EMS sales closed at RM92.9 million for 2023 as compared with RM97.1 million in the preceding year, denoting a decrease of 4%. The sales retraction was due mainly to:- a) weaker performance of electronic headlamps on production volume contraction to cater for rework orders following an engineering change and demand normalisation after new model launches by a specific major customer a year ago, b) sluggish sales of industrial equipment on soft global market and c) reduced demand for COVID-19 Antigen saliva self-test kits in light of the less life-threatening COVID-19 strains at the tail-end of the pandemic.

On the other hand, the spare parts and sub-assemblies supply business for maintenance purpose with K-One acting as the Asia Hub for a specific customer which started towards the end of 2022 grew significantly, while medical/healthcare devices and floorcare products experienced an uptick in sales as well. These gains, however, were insufficient to make up for the shortfall chalked up in the consumer electronics, industrial and medical supplies segments.

The Cloud business achieved fresh record annual sales revenue of RM74.3million as compared with RM67.7 million in 2022, marking an increase of 10% on stronger recurring revenue and the consolidation of the post-acquisition top line of GAP Indo. The recurring revenue of the Cloud business remained upbeat, fuelled by private enterprises and the public sector realizing the benefits of Cloud and embracing it to adapt to the changing (changed) human behaviour of work from home (WFH), online learning, online buying and e-government services in the New Normal.

The Group delivered a net profit of RM0.4 million in 2023, turning around from a net loss of RM0.1 million in the preceding year. The EMS business recorded a loss of RM2.9 million in 2023, a loss reduction from RM3.1 million loss a year ago despite lower sales and adverse foreign exchange movements as the recognition of deferred tax income for unused losses defrayed some of the losses. The Cloud business registered a higher profit of RM3.3 million in 2023 as compared to RM3.0 million in the previous year on sales surge, profit contribution from GAP Indo based on 51% equity interest and the granting of specific financial incentives by the principal for targets achievement.

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

Moving forward to 2024, barring unforeseen circumstances, the Group is cautiously optimistic and expects to see sturdy sales and earnings growth based upon the rationales and expectations illustrated below in the EMS and Cloud businesses's prospects respectively.

EMS Business

1) Sales of electronic headlamps is expected to recover in 2024 after clearing the reworks in 2H'23. The industrial and IoT sectors are also anticipated to trend higher driven by running of new product lines for specific customers who continued to enjoy pockets of growth in spite of the fragile global economic environment. Furthermore, the Group is expecting to manufacture new medical devices for certain new customers. It managed to break into a new market segment, that is, the solar energy industry (renewable energy) at the end of 2023 by developing solar power system ancillary products which will commence production in mid-2024. The cost-down exercise and implementation of automation in the Group's manufacturing processes while working towards smart manufacturing as part of its Industry 4.0 attainment will be intensified to strengthen its competitiveness moving forward.

2) On the healthcare distribution business front, the Group is anchored by its exclusive distributorship for Diversey hygiene-care products in Malaysia and own brand manufacturer (OBM) for ventilator. Besides, it is acting as authorized representatives (AR) of healthcare consumables and medical supplies in the likes of fish oil products, acne patches and wound care products. As the Diversey hygiene-care products continue to receive good response from the hospitals and hospitality fraternities, efforts, which include recruitment of suitable agents and expansion to cover a broader spectrum of markets such as F&B will be accelerated for stronger organic growth. The NASA-JPL designed ventilator licensed to the Group for manufacturing is undergoing the final stages of stringent clinical tests before completing submission for approval by the Medical Device Authority (MDA) under the Ministry of Health, Malaysia. The said NASA-JPL licensed ventilator, which will be branded as Medkaire will first be launched in the local market after receiving approval from MDA anticipated to be end 2024, while seeking the necessary approval/certification to be launched abroad.

3) The Group is poised to take advantage of manufacturing relocation opportunities unlocked by the ongoing intense rivalry between US and China. It believes that it has what it takes to win some of these manufacturing relocation opportunities.

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

Cloud Business

1) The Cloud business in ASEAN is still at its adolescence stage with ample market potential. As one of the pioneers in the Cloud space in Malaysia, it will leverage on its credentials, staff strength and expertise to continue to grow the recurring revenue from the significant pool of its existing Cloud customers, step forward to take on large enterprises and expand outwards to make its mark in the ASEAN market.

2) The plan announced by AWS in March 2023 to invest RM25.5 billion to launch data centers in Malaysia augurs well for the local Cloud sector as it further encourages more Malaysian companies to adopt the Cloud-First Strategy. Cloud services in Malaysia is experiencing continuous vibrant growth, with the government of Malaysia being the key vertical in promoting Cloud adoption locally as Malaysia aspires to be a high-technology country by 2030. Recurring revenue generated from the Malaysian market was on an upward trend for 2023 and is expected to remain in the positive trajectory moving forward.

3) The growth of the Cloud business is set to be accelerated in conjunction with the business expansion to Indonesia and Vietnam via GAP Indo and G-AsiaPacific (Vietnam) Company Limited ("GAP Vietnam") respectively with the completion of the relevant M&A/JV exercises in 2023. The Cloud markets in Indonesia and Vietnam are huge and at its infancy stage of growth. Leveraging on the experience and competencies of its Cloud unit in Malaysia and the combined strength of its local partners in Indonesia and Vietnam respectively, it is confident to penetrate these two markets and garner meaningful market share in the medium term. The Group is envisioned to further expand its Cloud footprint to other high-growth ASEAN countries, with priority given to Cambodia, Philippines and Thailand in the near future. It is also eyeing the Australian market, though mature but has immense potential.

The Group is cautiously optimistic on its business prospects moving forward as it takes cognizance of the soft, volatile and fragile global economy. Being in industries or market segments such as healthcare, IoT and Cloud which are normally resilient to the market downturn, the Group will harness its honed experience and professional expertise to maximize the capture of these market potentials to the best of its ability.

As a long term business strategy, the M&A route to embark on the next step of the Group's journey as a sustainable technology innovator and strategic cloud services provider is ongoing as it wishes to take advantage of its debt-free position and cash surplus of RM48.5 million as at end 2023 to leap-frog its business growth.

17. INTANGIBLE ASSETS

The Group capitalised the development costs of RM2.0 million incurred on its NASA/JPL ventilator project (Project) for 2024 as intangible assets.

Following competitive assessment by NASA's Jet Propulsion Laboratory (NASA/JPL), California Institute of Technology (Caltech), which manages for NASA-JPL granted a Non-Exclusive License Agreement to the Group on 28 May 2020 to manufacture and distribute the VITAL ventilators worldwide. VITAL is the acronym for Ventilator Intervention Technology Accessible Locally. The VITAL ventilator of NASA-JPL uses far fewer parts than a conventional ventilator and these parts are easily available from the market and not the usual parts found in conventional ventilators so as not to disrupt the latter’s supply chain. It is a low-cost ventilator designed and built with less maintenance requirements and can be modified for use in field hospitals to address the shortage of ventilators during the then COVID-19 pandemic in specific countries.

However, the Group is looking further ahead, beyond the COVID-19 pandemic period. Using the VITAL ventilator platform, it intends to further develop it with more features and adopt the enhanced product(s) as its own product line in the future. The enhancements shall focus on widening the ventilator’s scope of applications to include other acute respiratory diseases, add-ons such as IoT enabled features and other technology value-adds which are in line with current market requirements. The improved ventilator will then be launched under its own brand name – Medkaire.

The Group and the Malaysian Investment Development Authority (MIDA) has on 6 September 2021 entered into an agreement (Grant Agreement) to facilitate the latter to disburse matching grants (Grant) not exceeding RM12.3 million for the purpose of further developing and manufacturing the said VITAL ventilator. MIDA’s grant is offered under the Domestic Investment Strategic Fund (DISF). It is a 1:1 matching grant which covers mainly R&D costs, training expenses, specialized equipment cum facilities upgrade expenditures and certification fees for the Project.

With the said MIDA grant, the Group is gearing to take the VITAL ventilator for enhancements and secure the relevant MDA, CE and FDA certifications as appropriate. It is currently undergoing the final stages of stringent clinical tests before completing submission for approval by MDA. Being categorized as a Class C medical device (with high moderate risks), considered as semi-invasive in use, it is required to undergo stringent clinical tests before it can be approved by MDA. The Group will ramp up its efforts to launch the Medkaire ventilator in the local market upon receiving the required government approval which is anticipated to be by end 2024.

18. INCOME TAX EXPENSE

	3 months ended		12 months ended	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
	RM'000	RM'000	RM'000	RM'000
Current Tax Expense				
Current corporate tax	805	863	1,624	1,597
Under/(Over) provision in prior financial year	21	(500)	(67)	(643)
Deferred tax income	(1,642)	(296)	(1,642)	(117)
Total Income Tax (Credit)/Expense	(816)	67	(85)	837

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

19. PURCHASES OR SALES OF UNQUOTED SECURITIES AND PROPERTIES

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

20. QUOTED SECURITIES

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

21. CORPORATE PROPOSALS

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

22. BORROWINGS AND DEBTS SECURITIES

The Group has neither any secured nor unsecured borrowings as at 31 December 2023.

23. 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.

24. 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.

25. PROPOSED DIVIDEND

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

26. 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.

Basic/Diluted earnings per share

	3 months ended		12 months ended	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Profit/(loss) attributable to equity holders of the parent (RM'000)	2,740	206	351	(100)
Weighted average number of Ordinary Shares in issue ('000)	832,007	832,007	832,007	832,007
Basic/Diluted Earnings/(Loss) Per Ordinary Share (sen)	0.33	0.22	0.04	(0.01)

27. AUTHORIZED FOR ISSUE

The interim financial statements are authorized for issue by the Board of Directors in accordance with a resolution of the Directors on 26 February 2024.

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

26 February 2024