

KEY ALLIANCE GROUP BERHAD (*Company No. 609953-K*)
(FORMERLY KNOWN AS DVM TECHNOLOGY BERHAD)
(Incorporated in Malaysia)

NOTES TO THE QUARTERLY REPORT – 30 SEPTEMBER 2014

A. EXPLANATORY NOTES

A1. Basis of Preparation

The condensed consolidated interim financial statements are unaudited and have been prepared in accordance with the requirements of MFRS 134 – Interim Financial Reporting issued by the Malaysian Accounting Standards Board and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) for ACE Market (“AMLR”) and should be read in conjunction with the Group’s audited financial statements for the financial year ended 31 December 2013.

The significant accounting policies adopted by the Group are consistent with those adopted in the audited financial statements for the financial year ended 31 December 2013.

The condensed consolidated interim financial statements are the Group’s first MFRS condensed consolidated interim financial statements and MFRS 1 – First-time Adoption of Malaysian Financial Reporting Standards has been applied. The transition of MFRS framework does not have any material financial impact to the financial statements of the Group.

A2. Auditors’ Report

The auditors’ report for the Group’s annual financial statements for the financial year ended 31 December 2013 was not subject to any qualification.

A3. Seasonal or Cyclical Factors

The Group does not experience any significant seasonal or cyclical sales cycle. However, there may be fluctuations between the quarters due to the nature of the Group’s integration businesses which are secured on a project by project basis.

A4. Unusual Items

During the financial quarter under review, there were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group.

A5. Material Changes in Estimates

There were no changes in the estimate of amounts reported in the prior quarter or financial year which have material effect on the current quarter results.

A6. Changes in Debts and Equity Securities

There were no issuance and repayment of debt and equity securities, share buy-backs, share cancellation, shares held as treasury shares and resale of treasury shares during the current quarter under review.

A7. Dividend

No dividend has been declared or paid during the current financial year-to-date under review.

A8. Segmental Reporting

The Group is primarily engaged in the information communication technology and other information technology (“IT”) related services, therefore segmental analysis is not presented and operations are conducted predominantly in Malaysia.

A9. Valuation of Property, Plant and Equipment

There was no valuation being carried out for the current quarter under review.

A10. Subsequent Events

The Company had obtained approval from shareholders in Extraordinary General Meeting held on 27 October 2014 to change its name from DVM Technology Berhad to Key Alliance Group Berhad. The Company has subsequently on 7 November 2014 obtained approval from Companies of Commission of Malaysia for change of name.

Other than above, there were no other material events subsequent to the end of the current quarter under review up to the date of this quarterly report.

A11. Changes in the Composition of the Group

On 24 June 2014, the Group entered into a Share Sale Agreement with Pacifica Group Sdn Bhd to acquire 300,000 ordinary shares of RM1.00 each in GE Green Sdn Bhd (“GEGSB”), representing 100% equity interest in GEGSB, with a total cash consideration of RM7,000,000. GEGSB is principally engaged in the distribution of kitchen appliances in Malaysia. The acquisition was completed on 31 October 2014.

On 23 July 2014, the Group invested additional 298 ordinary shares of RM1.00 each in DVM Allsportz Asia Sdn Bhd (formerly known as DVM Communication Sdn Bhd), representing 29.8% of the enlarged issued and fully paid up share capital in DVM Allsporz Asia Sdn Bhd at a total consideration of RM298.00. Consequently, the Group had diluted its equity interest in DVMCOM from 100% to 30% of the fully paid up share capital in DVMCOM and DVMCOM become the associate company of the Group. The remaining 70% of the equity interest were acquired and held by another three individual shareholders.

There were no other material changes to the composition of the Group for the current quarter under review.

A.12 Contingent Consideration

	THE COMPANY	
	As at 30 September 2014 RM'000	As at 31 December 2013 RM'000
Current portion	<u>3,060</u>	<u>-</u>

The contingent consideration represents the fair value of the outstanding purchase consideration ("outstanding") payable to the vendors of a subsidiary which was acquired during the financial period. The outstanding is contingent based on the estimation of management report on earn-out basis for the financial period ended 30 June 2014.

A13. Changes in Contingent Assets and Contingent Liabilities

Contingent liabilities of the Group as at 30 September 2014 are as follows:

	Group Level	
	As at the LPD (RM'000)	As at 31 December 2013 (RM'000)
Secured		
Bank guarantees issued in favour of third parties by a licensed bank	858	858
	Company Level	
	As at the LPD (RM'000)	As at 31 December 2013 (RM'000)
Unsecured		
Corporate guarantees issued to financial institution for credit facilities granted to subsidiaries	5,650	-

A14. Capital Commitments

There were no material capital commitments for the purchase of property, plant and equipment incurred or known to be incurred for in the current quarter under review.

B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES BERHAD'S LISTING REQUIREMENTS

B1. Review of Performance

The Group recorded revenue of RM19 million, 143.58% or RM11.2 million higher than RM7.820 million recorded in the corresponding quarter last year. The increase in revenue was driven mainly by the projects secured from the government sectors and approximately 29.19% of the revenue derives from the trading activities. Digital Paper Solutions Sdn Bhd has recorded revenue of RM5.56 million for the quarter under review.

The Group recorded a net loss after taxation of RM1.3 million as compared to the last year corresponding quarter's loss after taxation of RM45,000. This performance is as a result of increase of project cost due to competitive market and impairment loss on receivables of RM600,000 and depreciation of RM553,000 for the quarter under review. The Group has been actively pursuing for new businesses with positive feedbacks for the coming future.

B2. Future Prospect

The Board is of the view that the Group's prospect will remain challenging in near future.

B3. Changes in Profit/Loss before Taxation against Immediate Preceding Quarter

For the current quarter under review, the Group's revenue was RM19 million represents an increase of RM11.11 million as compared to immediate preceding corresponding quarter revenue of RM7.89 million. This was attributed to the increase of billing for the products and services in the quarter under review. Current quarter recorded a loss after tax of RM1.3 million as compared to a loss after tax of RM110,000 for the immediate preceding corresponding quarter. The loss after tax for the current quarter under review was mainly due to increase in project cost, impairment loss on receivables of RM600,000 and depreciation of RM553,000. In addition, the Group has incurred additional professional expenses pertaining to the Group's effort in tendering of new project.

B4. Profit Forecast

- (a) No profit forecast was announced hence there was no comparison made with the actual results.
- (b) There is no shortfall in profit guarantee as the Group did not provide any profit guarantee.

B5. Taxation

The Group tax provision has been off-set against the reversal of tax over provided previously.

B6. Profit on sale of Unquoted Investments and/or Properties

There was no disposal of unquoted investments and/or properties for the current quarter and financial year-to-date under review.

B7. Purchase and Disposal of Quoted Securities

There was no purchase or disposal of quoted securities for the current quarter and financial year-to-date under review. The Group does not have any material investment in quoted securities as at the reporting date.

B8. Corporate Proposals

Private Placement

On 25 February 2014, the Company (“Company” or “KGROUP”) announced proposed private placement of up to ten percent (10%) of the issued and paid-up share capital of KGROUP (“Proposed Private Placement”).

Bursa Securities Berhad had, vide its letter dated 20 March 2014, approved the listing of and quotation for up to 87,120,000 Placement Shares, representing up to ten percent (10%) of the enlarged issued and paid-up share capital of KGROUP.

Bursa Securities Berhad had, vide its letter dated 22 September 2014, approved the extension of time of 6 months from 20 September 2014 until 19 March 2015 to complete the implementation of the Proposed Private Placement.

The Company is in the midst of identifying suitable places.

Proposed Diversification

On 24 June 2014, the Group announced proposed diversification of the business of the Group to include the trading of home appliances (“Proposed Diversification”).

The Proposed Diversification is part of the Group’s plan to diversify into other industry which will provide another stream of revenue sources to reduce the Group’s dependency on the Group’s existing business in the ICT industry.

Further to the announcement made on 27 October 2014, the resolutions in relation to the Proposed Diversification were approved by the shareholders of the Company..

B9. Group Borrowings and Debt Securities

	Short-term	Long-term	Total
	RM’000	RM’000	RM’000
Secured			
Hire purchase payable	184	750	934
Finance Lease	142	567	709
Term loan	389	4,611	5,000
Total	715	5,928	6,643

B10. Off Balance Sheet Financial Instruments

The Group does not have any off-balance sheet financial instruments as at the date of this quarterly report.

B11. Material Litigation

The Group has not engaged in any material litigation either as plaintiff or defendant. The directors do not have any knowledge of any proceedings pending or threatened against the Group since the last financial year ended 31 December 2013 up to the date of this quarterly report.

B12. Dividend

No dividend has been declared or paid during the current quarter and the financial year-to-date under review.

B13. Profit/(Loss) Before Tax

Profit/(Loss) for the period is arrived after crediting/(charging) the following:

	Quarter Ended		Cumulative Year-To-Date Ended	
	30/9/2014 RM'000	30/9/2013 RM'000	30/9/2014 RM'000	30/9/2013 RM'000
Interest income	81	189	320	220
Interest expense	(11)	(135)	(22)	(421)
Depreciation & amortization	(553)	(216)	(1,439)	(1,154)
Impairment loss on receivables	(600)	-	(600)	-

B14. Realised and Unrealised Profits/(Losses)

The realised and unrealised profits/(losses) of the group for the period ended are as follows:

	As at 30 September 2014 RM'000	As at 31 December 2013 RM'000
Total accumulated loss		
Realised	(33,063)	(31,259)
Unrealised	2,543	2,405
	(30,520)	(28,854)
Share of accumulated losses of an associate company	(106)	(115)
Consolidated adjustments	2,543	2,407
	(28,083)	(26,562)

B15. Status of utilization of proceeds

On 8 July 2013, the Rights Issue with Warrants has been completed with the listing of Rights Shares and Warrants on the ACE Market of Bursa Malaysia Securities Berhad. As at 31 October 2014, the status utilisation of the proceeds raised is as follow:

Purpose	Proposed Utilisation RM'000	Actual Utilisation RM'000	Intended Timeframe for Utilisation
Working capital expenditures			
(a) Day-today working capital expenses	26,620	17,808	Within 24 months
(b) Setting up of startup accelerator	3,900	1,011	Within 24 months
Repayment of bank borrowings	7,800	7,800	Within 6 months
To defray expenses relating to the Proposals	400	400	Within 1 month

B16. Earnings per Share**Basic**

The earnings per share for the current quarter and cumulative quarter year-to-date are computed as follows:

	Quarter Ended		Year-To-Date Ended	
	30/9/2014 RM'000	30/9/2013 RM'000	30/9/2014 RM'000	30/9/2013 RM'000
Net profit/(loss) for the period (RM'000)	1,292	45	(1,349)	(1,861)
Weighted average number of ordinary shares in issue ('000)	580,800	193,600	580,800	580,800
Earnings per share (sen)	(0.25)	0.03	(0.026)	(0.96)

Diluted

The fully diluted loss per ordinary share for the Group for the current financial period is not presented as the warrants would be anti-dilutive as the exercise price is higher than the fair value of the Company's shares.