

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

Notes to the Interim Financial Report

For the Fourth quarter ended 31 December 2014

A. EXPLANATORY NOTES

A1. Basis of Preparation

The condensed consolidated interim financial statements are unaudited and have been prepared in accordance with the Malaysia Financial Reporting Standards (“MFRSs”) 134 – *Interim Financial Reporting* and Rule 9.22 of the ACE Marketing Listing Requirements (“AMLR”) of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The interim financial statements 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.

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A7. Dividend

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

A8. Segmental Reporting

The Group's reportable segments were identified as follows:

- Information Communication Technology ("ICT") Services– Provision of comprehensive range of ICT and other information technology related services including trading of hardware and software and related services
- Kitchen Appliances Services – Provision of distributing and reselling of kitchen appliances and related services

Other non-reportable comprise operations related to investment holding.

Business Segments	ICT Services RM'000	Kitchen Appliances Services RM'000	Others RM'000	Elimination RM'000	Group RM'000
Financial year-to-date ended 31 December 2014					
Revenue	54,606	2,919	-		57,525
Segment results	(2,502)	(122)	(998)		(3,622)
Impairment of goodwill					(487)
Interest expenses					(145)
Interest income					434
Share of loss of associate					(114)
Loss before tax					(3,934)
Segment assets	10,082	8,816	50,582	(778)	68,702

A9. Valuation of Property, Plant and Equipment

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

A10. Subsequent Events

There were no material events subsequent to the end of the current quarter under review up to the date of this quarterly report.

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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.

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 31 December 2014	As at 31 December 2013
	RM'000	RM'000
Current portion	3,060	-

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 31 December 2014 are as follows:

	Group Level	
	As at 31 December 2014	As at 31 December 2013
	RM'000	RM'000
Secured		
Bank guarantees issued in favour of third parties by a licensed bank	858	858

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A14. Capital Commitments

Capital commitments of the Group as at 31 December 2014 is as follow:

Instalments payable for properties	RM'000 5,951
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There were no other 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 RM22 million, 120% or RM12 million higher than RM10 million recorded in the corresponding quarter last year.

The Group recorded a net loss after taxation of RM2.87 million as compared to the last year corresponding quarter's loss after taxation of RM645,000. This performance is as a result of increase of project cost due to competitive market, impairment loss on receivable of RM350,000, impairment on goodwill of RM487,000, fair value adjustment for investment of RM300,000 and taxation of RM296,000 for the quarter under review. The Group has been actively pursuing for new businesses with positive feedbacks for the coming future.

The performance of the respective business segments for the quarter ended 31 December 2014 as compared to the last year corresponding quarter is analysed as follows:-

1) *ICT Services*

The ICT services segment recorded revenue of RM19.09 million in the current financial quarter ended 31st December 2014 from RM10 million in the last year corresponding quarter, representing an increase of 91%. The increase in revenue was driven mainly by the projects secured from the government sectors and approximately 36% of the revenue derives from the trading activities. Digital Paper Solutions Sdn Bhd has recorded revenue of RM6.78 million for the quarter under review.

2) *Kitchen Appliances Services*

No segment review done for this quarter as this is the new business venture with new income stream brought to the group during current quarter whereby no comparative figures are available.

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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 RM22 million represents an increase of RM3 million as compared to immediate preceding corresponding quarter revenue of RM19 million. This was attributed to the increase of billing for the products and services and the revenue recorded by the newly acquired subsidiary in the quarter under review. Current quarter recorded a loss after tax of RM2.87 million as compared to a loss after tax of RM1.3 million 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 RM350,000, impairment on goodwill of RM487,000, fair value adjustment for investment of RM300,000 and taxation of RM296,000. In addition, the Group has incurred additional professional expenses pertaining to the Group's effort in tendering of new project and the acquisition of new businesses.

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

	12-months ended 31/12/2014 RM'000	12-months ended 31/12/2013 RM'000
Income tax		
- Current year provision	558	-
- Under/(over) provision in previous year	18	223
Deferred taxation	(261)	47,517
Total	315	47,740

Income tax is calculated at the Malaysian statutory tax rate of 25% of the estimated assessable profit for the year.

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.

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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.

Multiple Proposals

On 11 February 2015, the Company (“Company” or “KGROUP”) announced the following proposals:

(i) Proposed Par Value Reduction

Proposed reduction of the issued and paid-up share capital of the Company pursuant to Section 64(1) of the Companies Act, 1965 involving the cancellation of RM0.05 of the par value of the ordinary share of RM0.10 each in KAG to RM0.05 each in KAG.

(ii) Proposed Share Issuance Scheme

Proposed establishment and implementation of a share issuance scheme of up to thirty percent (30%) of the Company’s issued and paid-up share capital (excluding treasury shares, if any) at any one time during the duration of the scheme, for the Directors and employees of KAG and its subsidiaries.

(iii) Proposed Amendment to the Memorandum of Association of the Company

Proposed amendment to the Memorandum of Association of the Company to facilitate the Proposed Par Value Reduction.

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B9. Group Borrowings and Debt Securities

	Short-term RM'000	Long-term RM'000	Total RM'000
Secured			
Hire purchase payable	184	1,469	1,653
Finance Lease	126	546	672
Term loan	394	4,511	4,905
Bank overdraft	1,979	-	1,979
Total	<u>2,683</u>	<u>6,526</u>	<u>9,209</u>

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. Loss Before Tax

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

	Quarter Ended		Cumulative Year-To- Date Ended	
	31/12/2014 RM'000	31/12/2013 RM'000	31/12/2014 RM'000	31/12/2013 RM'000
Interest income	114	162	434	382
Interest expense	(123)	-	(145)	(421)
Depreciation & amortization	(560)	(264)	(1,999)	(1,418)
Impairment loss on receivables	(38)	-	(638)	-
Impairment on goodwill	(487)	-	(487)	-
Fair value adjustment for investment	(300)	-	(300)	-
	<u>(300)</u>	<u>-</u>	<u>(300)</u>	<u>-</u>

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B14. Realised and Unrealised Profits/(Losses)

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

	As at 31 December 2014 RM'000	As at 31 December 2013 RM'000
Total accumulated loss		
Realised	(35,013)	(31,259)
Unrealised	2,056	2,405
	<u>(32,957)</u>	<u>(28,854)</u>
Share of accumulated losses of an associate company	(229)	(115)
Consolidated adjustments	2,056	2,407
	<u><u>(31,130)</u></u>	<u><u>(26,562)</u></u>

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	19,979	Within 24 months
(b) Setting up of startup accelerator	3,900	1,269	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

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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	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
	RM'000	RM'000	RM'000	RM'000
Net profit/(loss) for the period (RM'000)	(2,870)	(645)	(4,249)	(2,512)
Weighted average number of ordinary shares in issue ('000)	580,800	580,800	580,800	580,800
Earnings per share (sen)	(0.52)	(0.11)	(0.79)	(0.43)

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.