



KEY ALLIANCE GROUP BERHAD (*Company No. 609953-K*)
(Incorporated in Malaysia)

Notes to the Interim Financial Report

For the fourth quarter ended 31 December 2015

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 2014.

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 2014.

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 2014 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.



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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'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 and 3D interior design and image consultants' services.

| Business Segments | ICT Services | Kitchen Appliances Services | Others | Elimination | Group |
|--|---------------|-----------------------------|---------------|----------------|----------------|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Current quarter ended 31 December 2015 | | | | | |
| Revenue | <u>7,628</u> | <u>995</u> | <u>1,334</u> | <u>-</u> | <u>9,957</u> |
| Segment results | (1,550) | (639) | (1,002) | 61 | (3,130) |
| Interest expenses | | | | | (125) |
| Interest income | | | | | 63 |
| | | | | | <u>(3,192)</u> |
| Impairment of goodwill | | | | | (650) |
| Loss before tax | | | | | <u>(3,842)</u> |
| Segment assets | <u>19,020</u> | <u>730</u> | <u>50,125</u> | <u>(7,421)</u> | <u>62,454</u> |



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A9. Valuation of Property, Plant and Equipment

The valuation of property, plant and equipment were brought forward without any amendments from the preceding annual financial statements, except the followings:

During the quarter ended 31 December 2015, a revaluation exercise was carried on land and buildings, giving rise to RM0.5 million recognized in profit or loss. The valuation was carried out by professional independent valuer.

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.

A11. Changes in the Composition of the Group

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

A.12 Contingent Consideration

| | THE COMPANY | |
|-----------------|--|--|
| | As at 31 December 2015 RM'000 | As at 31 December 2014 RM'000 |
| Current portion | <u>5,008</u> | <u>5,008</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 year ended 31 December 2014. The outstanding is contingent based on the actual financial performance of the subsidiary for the year ended 31 December 2014 on earn-out basis, subject to adjustment upon final payment.



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A13. Changes in Contingent Assets and Contingent Liabilities

Contingent liabilities of the Group as at 31 December 2015 are as follows:

| | Group Level | |
|---|-------------------------------------|-------------------------------------|
| | As at 31 December 2015 RM'000 | As at 31 December 2014 RM'000 |
| Secured | | |
| Bank guarantees issued in favour of third parties by a licensed bank | 1,459 | 858 |
| Investment property pledged to a bank for bank facilities granted to subsidiary | 5,000 | 5,000 |
| Fixed deposit pledged to bank for credit facilities to subsidiary | 3,000 | 3,000 |
| | <u>9,459</u> | <u>8,858</u> |

A14. Capital Commitments

Capital commitments of the Group as at 31 December 2015 is as follow:

| | |
|------------------------------------|-------------------------------|
| Instalments payable for properties | <u>RM'000</u> <u>4,230</u> |
|------------------------------------|-------------------------------|

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.



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

B1. Review of Performance

The Group recorded revenue of RM9.96 million, 54.75% lower than RM22.01 million recorded in the corresponding quarter last year.

The Group recorded a net loss after taxation of RM3.74 million as compared to the last year corresponding quarter's loss after taxation of RM2.87 million. This performance is as a result of increased cost of sales due to the broad decline of value of the Ringgit versus the US dollar, impairment loss on receivable of RM0.35 million, impairment on goodwill of RM0.65 million, share issuance scheme expense of RM1.03 million and impairment on slow moving stocks of RM0.82 million for the quarter under review.

The performance of the respective business segments for the quarter ended 31 December 2015 as compared to the last year corresponding quarter is analysed as follows:-

1) *ICT Services*

The ICT services segment recorded revenue of RM7.63 million in the current financial quarter ended 31 December 2015 from RM19.09 million in the last year corresponding quarter. This was attributed to the decrease of billing in projects after completion. Digital Paper Solutions Sdn Bhd has recorded revenue of RM5.16 million for the quarter under review.

2) *Kitchen Appliances Services*

The kitchen appliance services segment recorded revenue of RM1.00 million in the current financial quarter ended 31 December 2015 compared to RM2.92 million in the last year corresponding quarter. This is due to uncertain economic environment arising from depreciation of Ringgit and loss of consumer confidence. In addition, the impact of Goods and Service Tax ("GST") is still being felt in the durable goods sector.

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 RM9.96 million represents an increase of RM1.38 million as compared to immediate preceding corresponding quarter revenue of RM8.58 million.



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B3. Changes in Profit/Loss before Taxation against Immediate Preceding Quarter (Con't)

Current quarter recorded a loss after tax of RM3.74 million as compared to a loss after tax of RM1.49 million for the immediate preceding corresponding quarter.

The performance of the respective business segments for the quarter ended 31 December 2015 as compared to the immediate preceding corresponding quarter is analysed as follows:-

1) *ICT Services*

The ICT services segment recorded revenue of RM7.63 million in the current financial quarter ended 31 December 2015 compared to RM7.61 million in the immediate preceding corresponding quarter.

2) *Kitchen Appliances Services*

The kitchen appliances services segment recorded revenue of RM1.00 million in the current financial quarter ended 31 December 2015 as compared to immediate preceding corresponding quarter revenue of RM0.88 million. This segment recorded a loss after taxation of RM0.61 million in the current quarter under review as compared to immediate preceding corresponding quarter loss after taxation of RM0.98 million.

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 31/12/2015 RM'000 | 12-months ended 31/12/2014 RM'000 |
|---|--|--|
| Income tax | | |
| - Current year provision | 303 | 610 |
| - Under/(over) provision in previous year | (22) | 24 |
| Deferred taxation | (359) | (132) |
| Total | <u>78</u> | <u>502</u> |

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



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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. Bursa Securities Berhad, vide its letter dated 16 March 2015 granted the Company an extension of time until 19 September 2015 to complete the Proposed Private Placement. Bursa Securities Berhad, vide its letter dated 18 September 2015, granted the Company a further extension of time until 19 March 2016 to complete the implementation of the Proposed Private Placement.

The Private Placement was completed subsequent to the listing of the 58,080,000 new shares on the ACE Market of Bursa Securities on 18 January 2016.



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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 | 1,152 | 1,336 |
| Finance Lease | 232 | 1,403 | 1,635 |
| Term loan | 413 | 4,115 | 4,528 |
| Letter of credit | 345 | - | 345 |
| Bank overdraft | 1,963 | - | 1,963 |
| Total | <u>3,137</u> | <u>6,670</u> | <u>9,807</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 2014 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.



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B13. Loss Before Tax

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

| | Quarter Ended | | Cumulative Year-To-Date Ended | |
|--------------------------------------|---------------|------------|-------------------------------|------------|
| | 31/12/2015 | 31/12/2014 | 31/12/2015 | 31/12/2014 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Interest income | 63 | 114 | 258 | 434 |
| Interest expense | (125) | (123) | (489) | (145) |
| Depreciation & amortization | (534) | (560) | (2,510) | (1,999) |
| Impairment loss on receivables | (350) | (38) | (2,019) | (638) |
| Impairment on goodwill | (650) | (487) | (650) | (487) |
| Impairment on slowing moving stocks | (823) | - | (823) | - |
| Fair value adjustment for investment | - | (300) | - | (300) |
| Fair value adjustment for property | 500 | - | 500 | - |
| Gain on disposal of subsidiary | - | - | 1,952 | - |

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 | As at 31 December |
|---|-------------------|-------------------|
| | 2015 | 2014 |
| | RM'000 | RM'000 |
| Total accumulated loss | | |
| Realised | (12,887) | (49,814) |
| Unrealised | (658) | (658) |
| | <u>(13,545)</u> | <u>(50,472)</u> |
| Share of accumulated losses of an associate company | 277 | 231 |
| Consolidated adjustments | 2,968 | 19,421 |
| | <u>(10,300)</u> | <u>(30,820)</u> |

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by Malaysian Institute of Accountants on 20th December 2010.



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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 30 September 2015, 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 | 25,179 | Within 24 months |
| (b) Setting up of startup accelerator | 3,900 | 3,015 | 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 | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 31/12/2015 RM'000 | 31/12/2014 RM'000 | 31/12/2015 RM'000 | 31/12/2014 RM'000 |
| Net profit/(loss) for the period (RM'000) | (3,542) | (3,047) | (8,520) | (4,592) |
| Weighted average number of ordinary shares in issue ('000) | 580,800 | 580,800 | 580,800 | 580,800 |
| Earnings per share (sen) | (0.61) | (0.52) | (1.47) | (0.79) |

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.