



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

## **Notes to the Interim Financial Report**

For the third quarter ended 30 September 2016

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### **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 2015.

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 2015.

The explanatory notes provides an explanation of events and transactions that are significant for an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2015.

#### **A2. Auditors’ Report**

The auditors’ report for the Group’s annual financial statements for the financial year ended 31 December 2015 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.



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

## Notes to the Interim Financial Report

For the third quarter ended 30 September 2016

### 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
- Property Business – The business property development and property investment. This business has not commenced for the current quarter under review.

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 30 September 2016					
Revenue	<u>4,884</u>	<u>526</u>	<u>-</u>	<u>-</u>	<u>5,410</u>
Segment results	(512)	(639)	(454)	48	(1,557)
Interest expenses					(176)
Interest income					45
					<u>(1,688)</u>
Impairment of goodwill					-
Loss before tax					<u>(1,688)</u>
Segment assets	<u>21,771</u>	<u>5,490</u>	<u>34,037</u>	<u>7,145</u>	<u>68,443</u>



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

**Notes to the Interim Financial Report**

For the third quarter ended 30 September 2016

**A8. Segmental Reporting (Cont'd)**

Business Segments	ICT Services	Kitchen Appliances Services	Others	Elimination	Group
	RM'000	RM'000	RM'000	RM'000	RM'000
For the quarter ended 30 September 2015					
Revenue	<u>7,612</u>	<u>878</u>	<u>104</u>	<u>(18)</u>	<u>8,576</u>
Segment results	(100)	(967)	(419)	79	(1,407)
Interest expenses					(125)
Interest income					67
					<u>(1,465)</u>
Share of loss of associate					-
Loss before tax					<u>(1,465)</u>
Segment assets	<u>18,105</u>	<u>2,095</u>	<u>49,143</u>	<u>(6,817)</u>	<u>62,526</u>

**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.

**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.



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

**Notes to the Interim Financial Report**

For the third quarter ended 30 September 2016

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**A12. Changes in Contingent Assets and Contingent Liabilities**

Contingent liabilities of the Group as at 30 September 2016 are as follows:

	Group Level	
	As at 30 September 2016 RM'000	As at 31 December 2015 RM'000
Secured		
Bank guarantees issued in favour of third parties for projects secured by subsidiaries	<u>5,365</u>	<u>1,517</u>

**A13. Capital Commitments**

Capital commitments of the Group as at 30 September 2016 is as follow:

Instalments payable for properties	<u>RM'000</u> <u>1,039</u>
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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.



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

## **Notes to the Interim Financial Report**

For the third quarter ended 30 September 2016

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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 RM5.41 million, 36.95% lower than RM8.58 million recorded in the corresponding quarter last year.

The Group recorded a net loss after taxation of RM1.69 million as compared to the last year corresponding quarter's loss after taxation of RM1.49 million. This performance is as a result of lower revenue for the quarter under review.

The performance of the respective business segments for the quarter ended 30 September 2016 as compared to the last year corresponding quarter is analysed as follows:-

1) *ICT Services*

The ICT services segment recorded revenue of RM4.88 million in the current financial quarter ended 30 September 2016 compared to RM7.61 million in the last year corresponding quarter. This is due to the completion of the maintenance project. Digital Paper Solutions Sdn Bhd has recorded revenue of RM4.72 million for the quarter under review, representing a decrease of 27.27% as compared to revenue of RM6.49 million for the last year corresponding quarter.

2) *Kitchen Appliances Services*

The kitchen appliance services segment recorded revenue of RM0.53 million in the current financial quarter ended 30 September 2016 compared to RM0.88 million in the last year corresponding quarter.

3) *Property Business*

The Property Business segment has not commenced for the quarter under review.

#### **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 RM5.41 million represents a decrease of RM0.98 million as compared to immediate preceding corresponding quarter revenue of RM6.39 million.



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

## **Notes to the Interim Financial Report**

For the third quarter ended 30 September 2016

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

Current quarter recorded a loss after tax of RM1.69 million as compared to a loss after tax of RM2.11 million for the immediate preceding corresponding quarter.

The performance of the respective business segments for the quarter ended 30 September 2016 as compared to the immediate preceding corresponding quarter is analysed as follows:-

1) *ICT Services*

The ICT services segment recorded revenue of RM4.89 million in the current financial quarter ended 30 September 2016 compared to RM5.39 million in the immediate preceding corresponding quarter. This is due to the lower billing for the current quarter.

2) *Kitchen Appliances Services*

The kitchen appliances services segment recorded revenue of RM0.53 million in the current financial quarter ended 30 September 2016 as compared to immediate preceding corresponding quarter revenue of RM0.99 million. This segment recorded a loss after taxation of RM0.64 million in the current quarter under review as compared to immediate preceding corresponding quarter loss after taxation of RM0.45 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**

	<b>9-months ended 30/09/2016 RM'000</b>	<b>12-months ended 31/12/2015 RM'000</b>
<b>Income tax</b>		
- Current year provision	-	284
- Under/(over) provision in previous year	-	1
Deferred taxation	-	(59)
Total	<u>-</u>	<u>226</u>

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



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

## **Notes to the Interim Financial Report**

For the third quarter ended 30 September 2016

---

### **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**

#### **Multiple Proposals**

On 18 May 2016, the Company (“Company” or “KAG”) announced the following proposals:

- (I) proposed diversification of the business of KAG and its subsidiaries into the business of construction, property development and property investment (“**Proposed Diversification**”);
- (II) proposed renounceable rights issue of up to 1,251,171,308 new ordinary shares of RM0.05 each in KAG (“**KAG Shares**” or “**Shares**”) (“**Rights Shares**”) together with up to 625,585,654 free detachable warrants in KAG (“**Warrants B**”) on the basis of two (2) Rights Shares together with one (1) free Warrant B for every two (2) existing KAG Shares held by the entitled shareholders of KAG on an entitlement date to be determined later (“**Proposed Rights Issue with Warrants**”);
- (III) proposed increase in the authorised share capital of the Company from RM100,000,000 comprising 2,000,000,000 KAG Shares to RM300,000,000 comprising 6,000,000,000 KAG Shares (“**Proposed Increase in Authorised Share Capital**”); and
- (IV) proposed amendment to the Memorandum of Association of the Company (“**Proposed Amendment**”)

The above proposals have been approved by the shareholders at the extraordinary general meeting on 18<sup>th</sup> July 2016.



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(Incorporated in Malaysia)

**Notes to the Interim Financial Report**

For the third quarter ended 30 September 2016

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**B9. Group Borrowings and Debt Securities**

	<b>Short-term RM'000</b>	<b>Long-term RM'000</b>	<b>Total RM'000</b>
<b>Secured</b>			
Finance Lease	953	3,355	4,308
Term loan	423	3,795	4,218
Letter of credit	216	-	216
Bank overdraft	2,260	-	2,260
Total	<u>3,852</u>	<u>7,150</u>	<u>11,002</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**

Save as disclosed below, the Group is not aware of any other proceedings pending against the Group or of any facts likely to give rise to any proceedings which might materially affect the position or business of the Group.

*Shah Alam High Court Suit No: 21NCVC-65-12/2015 ("Court")*

The matter is now fixed for Trial on 9, 10, 11 and 12 January 2017.

**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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(Incorporated in Malaysia)

**Notes to the Interim Financial Report**

For the third quarter ended 30 September 2016

**B13. Loss Before Tax**

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

	Quarter Ended		Cumulative Year-To-Date Ended	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
	RM'000	RM'000	RM'000	RM'000
Interest income	45	67	147	187
Interest expense	(142)	(125)	(400)	(364)
Depreciation & amortization	(383)	(449)	(1,158)	(1,453)
Reversal of impairment loss on receivables	18	-	47	-
Gain on disposal of property, plant and equipment	-	-	21	-
Fixed assets written off	-	-	(98)	-
Impairment on trade receivable	-	(7)	(44)	(1,669)
Bad debts written (off)/back	8	-	-	-
Unrealised foreign gain/(loss)	28	-	(23)	-
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 30 September 2016 RM'000	As at 31 December 2015 RM'000
<b>Total accumulated loss</b>		
Realised	(34,308)	(29,180)
Unrealised	(599)	(599)
	<u>(34,907)</u>	<u>(29,779)</u>
Share of accumulated losses of an associate company	(253)	(253)
Consolidated adjustments	19,126	19,049
	<u>(16,034)</u>	<u>(10,983)</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 20<sup>th</sup> December 2010.



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

## Notes to the Interim Financial Report

For the third quarter ended 30 September 2016

### B15. Status of utilization of proceeds

#### *Private Placement*

On 18 January 2016, the Company had announced the completion of issuance of 58,080,000 new ordinary shares of RM0.05 each representing 10% of the issued and paid-up share capital of the Company on the ACE Market of Bursa Securities. The breakdown of the utilisation proceeds as at 30 September 2016 is as follows:

Purpose	Proposed Utilisation RM'000	Actual Utilisation RM'000	Intended Timeframe for Utilisation
Purchase of computer hardware	1,000	1,000	-
Data centre operations	1,704	-	Within 12 months
Expenses in relation to the private placement	200	200	-

### 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	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
Net profit/(loss) for the period (RM'000)	(1,724)	(1,752)	(5,051)	(4,978)
Weighted average number of ordinary shares in issue ('000)	690,753	580,800	690,753	580,800
Earnings per share (sen)	(0.25)	(0.30)	(0.73)	(0.86)

#### **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.