



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

Notes to the Interim Financial Report

For the first quarter ended 30 June 2017

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 period ended 31 March 2017.

The significant accounting policies adopted by the Group are consistent with those adopted in the audited financial statements for the financial period ended 31 March 2017.

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 period ended 31 March 2017.

A2. Auditors’ Report

The auditors’ report for the Group’s annual financial statements for the financial period ended 31 March 2017 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
- 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 RM'000	Kitchen Appliances Services RM'000	Others RM'000	Elimination RM'000	Group RM'000
Current quarter ended 30 June 2017					
Revenue	<u>5,771</u>	<u>420</u>	<u>283</u>	<u>-</u>	<u>6,474</u>
Segment results	(1,884)	(262)	(2,908)	46	(5,008)
Impairment loss on goodwill					(3,642)
Interest expenses					(137)
Interest income					102
Loss before tax					<u>(8,685)</u>
Segment assets	<u>8,825</u>	<u>1,392</u>	<u>80,526</u>	<u>3,259</u>	<u>94,002</u>



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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 June 2016					
Revenue	<u>5,387</u>	<u>988</u>	<u>11</u>	<u>-</u>	<u>6,386</u>
Segment results	(1,136)	(419)	(525)	51	(2,029)
Interest expenses					(130)
Interest income					48
Loss before tax					<u>(2,111)</u>
Segment assets	<u>33,913</u>	<u>5,703</u>	<u>23,976</u>	<u>7,147</u>	<u>70,739</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

On 4 April 2017, the Group has acquired 100% equity interest in Key Alliance Officeworks Sdn Bhd ("KAOW") for a total consideration of RM2.00. The intended principal activity of KAOW is to carry on the business of shared office space.

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



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A12. Changes in Contingent Assets and Contingent Liabilities

Contingent liabilities of the Group as at 30 June 2017 are as follows:

	Group Level	
	As at 30 June 2017	As at 31 March 2017
Secured	RM'000	RM'000
Bank guarantees issued in favour of third parties for projects secured by subsidiaries	5,495	1,517
	<hr/>	<hr/>

A13. Capital Commitments

Capital commitments of the Group as at 30 June 2017 is as follow:

Instalments payable for properties	RM'000
	<hr/> <hr/> 458

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 RM6.48 million, 1.41% higher than RM6.39 million recorded in the corresponding quarter last year.

The Group recorded a gross profit of RM1.53 million and net loss after taxation of RM8.68 million as compared to the last year corresponding quarter's loss after taxation of RM2.11 million.

The performance of the respective business segments for the quarter ended 30 June 2017 as compared to the last year corresponding quarter is analysed as follows:-

1) *ICT Services*

The ICT services segment recorded revenue of RM5.77 million in the current financial quarter ended 30 June 2017 compared to RM5.39 million in the last year corresponding quarter. Digital Paper Solutions Sdn Bhd has recorded revenue of RM5.62 million for the quarter under review, representing an increase of 10.20% as compared to revenue of RM5.10 million for the last year corresponding quarter. The segment recorded loss before tax of RM1.88 million for the current quarter ended 30 June 2017 compared to loss before tax of RM1.14 million in the last year corresponding quarter. The increase in loss is mainly due to the impairment loss on the other investment, the impairment loss on trade and other receivables and the plant and equipment written off.

2) *Kitchen Appliances Services*

The kitchen appliance services segment recorded revenue of RM0.42 million in the current financial quarter ended 30 June 2017 compared to RM0.99 million in the last year corresponding quarter. The segment recorded loss before tax of RM263,000 for the current quarter ended 30 June 2017 compared to loss before tax of RM419,000 in the last year corresponding quarter. Despite the decrease in revenue, the kitchen appliance services has recorded lower loss before tax due to cost control.

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.



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

For the current quarter under review, the Group's revenue was RM6.48 million represents a decrease of RM0.39 million as compared to immediate preceding corresponding quarter revenue of RM6.87 million.

Current quarter recorded a loss after tax of RM8.68 million as compared to a profit after tax of RM44,000 for the immediate preceding corresponding quarter. The increase in loss is mainly due to the impairment loss on the other investment, the impairment loss on trade and other receivables, plant and equipment written off, the impairment loss on goodwill and the share based payments expenses.

The performance of the respective business segments for the quarter ended 30 June 2017 as compared to the immediate preceding corresponding quarter is analysed as follows:-

1) *ICT Services*

The ICT services segment recorded revenue of RM5.77 million in the current financial quarter ended 30 June 2017 compared to RM5.57 million in the immediate preceding corresponding quarter.

2) *Kitchen Appliances Services*

The kitchen appliances services segment recorded revenue of RM0.42 million in the current financial quarter ended 30 June 2017 as compared to immediate preceding corresponding quarter revenue of RM0.40 million. This segment recorded a loss after taxation of RM0.26 million in the current quarter under review as compared to immediate preceding corresponding quarter loss after taxation of RM0.51 million. This is due to result of the cost control.

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.



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B5. Taxation

	3-months ended 30/6/2017 RM'000	15-months ended 31/3/2017 RM'000
Income tax		
- Current year provision	-	439
- Under/(over) provision in previous year	-	19
Deferred taxation	-	(149)
Total	<u>-</u>	<u>309</u>

Income tax is calculated at the Malaysian statutory tax rate of 24% (2017:24%) 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.

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 21 July 2017, the Company (“Company” or “KAG”) announced the following proposals:

- i) proposed consolidation of every 4 ordinary shares in KAG (“KAG Shares” or “Shares”) into 1 KAG Share (“Proposed Share Consolidation”); and
- ii) proposed amendments to the By-Laws governing the Company’s existing share issuance scheme (“By-Laws”) (“Proposed By-Laws Amendments”).

Bursa Securities had, vide its letter dated 27 July 2017, approved the Proposed Share Consolidation.

On 25 August 2017, the Company had obtained shareholders’ approval for Proposed Share Consolidation and Proposed By-Laws Amendments.



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B9. Group Borrowings and Debt Securities

As at 30 June 2017	Short-term RM'000	Long-term RM'000	Total RM'000
Secured			
Finance Lease	1,062	2,730	3,792
Term loan	628	3,266	3,894
Bank overdraft	1,985	-	1,985
Total	3,675	5,996	9,671
As at 30 June 2016	Short-term RM'000	Long-term RM'000	Total RM'000
Secured			
Finance Lease	953	3,548	4,501
Term loan	423	3,901	4,324
Letter of credit	522	-	522
Bank overdraft	1,980	-	1,980
Total	3,878	7,449	11,327

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 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.

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	
	30/6/2017 RM'000	30/6/2016 RM'000	30/6/2017 RM'000	30/6/2016 RM'000
Bad debts written off	(17)	(8)	(17)	N/A
Depreciation & amortization	(535)	(387)	(535)	N/A
Impairment loss on amount due from associated company	(7)	-	(7)	N/A
Impairment loss on goodwill	(3,642)	-	(3,642)	N/A
Impairment loss on other investments	(370)	-	(370)	N/A
Impairment loss on other receivables	(61)	-	(61)	N/A
Impairment loss on trade receivables	(466)	(44)	(466)	N/A
Interest expense	(137)	(130)	(137)	N/A
Plant and equipment written off	(610)	(98)	(610)	N/A
Share based payment	(2,475)	-	(2,475)	-
And crediting:-				
Interest income	102	48	102	N/A
Reversal of impairment loss on receivables	43	13	43	N/A
Unrealised foreign gain	28	21	28	N/A



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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 30 June 2017 RM'000	As at 31 March 2017 RM'000
Total accumulated loss		
Realised	(53,030)	(34,140)
Unrealised	(485)	(485)
	<u>(53,515)</u>	<u>(34,625)</u>
Share of accumulated losses of an associate company	(253)	(253)
Consolidated adjustments	14,773	18,693
	<u><u>(38,995)</u></u>	<u><u>(16,185)</u></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.

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 31 December 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	-



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B15. Status of utilization of proceeds

Rights issue

On 8 May 2017, 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 June 2017, the status utilisation of the proceeds raised is as follow:

Purpose	Proposed Utilisation RM'000	Actual Utilisation RM'000	Intended Timeframe for Utilisation
Construction works for the Pano Project*	35,000	-	Within 30 months
Working capital	5,203	(1,590)	Up to 24 months
Estimated expenses for the Corporate Exercises	750	(750)	Immediate

**Proceeds of up to RM25 million will be allocated for Construction Works. The Company would allocate up to an additional RM 10 million for the Construction Works to act as a buffer to cater for any delay in the project schedule/progress payments and related expense. Any unutilized balance from this RM 10 million will be allocated for working capital.*

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	
	30/6/2017 RM'000	30/6/2016 RM'000	30/6/2017 RM'000	30/6/2016 RM'000
Net loss for the period attributable to ordinary equity holders of the Company (RM'000)	(8,968)	(1,888)	(8,968)	N/A
Weighted average number of ordinary shares in issue ('000)	1,305,087	727,049	1,305,087	N/A
Earnings per share (sen)	(0.69)	(0.26)	(0.69)	N/A

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.