



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

Notes to the Interim Financial Report

For the third quarter ended 31 December 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 31 December 2017					
Revenue	<u>6,600</u>	<u>222</u>	<u>466</u>	<u>-</u>	<u>7,286</u>
Segment results	(1,739)	(851)	2,786	39	235
Impairment loss on goodwill					-
Interest expenses					(137)
Interest income					158
Loss before tax					<u>256</u>
Segment assets	<u>7,964</u>	<u>(143)</u>	<u>83,576</u>	<u>3,256</u>	<u>94,653</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 31 December 2016					
Revenue	<u>5,538</u>	<u>2,194</u>	<u>304</u>	<u>-</u>	<u>8,036</u>
Segment results	748	403	(431)	51	771
Interest expenses					(156)
Interest income					45
					<u>660</u>
Loss on disposal of subsidiary					(320)
Loss before tax					<u>340</u>
Segment assets	<u>23,455</u>	<u>5,933</u>	<u>39,416</u>	<u>4,816</u>	<u>73,620</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.



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A12. Changes in Contingent Assets and Contingent Liabilities

Contingent liabilities of the Group as at 31 December 2017 are as follows:

	Group Level	
	As at 31 December 2017	As at 31 March 2017
Secured	RM'000	RM'000
Bank guarantees issued in favour of third parties for credit facility granted to subsidiaries	4,585	4,382

A13. 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.



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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 RM7.29 million, 9.32% lower than RM8.04 million recorded in the corresponding quarter last year.

The Group recorded a net profit after taxation of RM0.26 million as compared to the last year corresponding quarter's profit after taxation of RM0.34 million.

The performance of the respective business segments for the quarter ended 31 December 2017 as compared to the last year corresponding quarter is analysed as follows:-

1) *ICT Services*

The ICT services segment recorded revenue of RM6.60 million in the current financial quarter ended 31 December 2017 compared to RM5.54 million in the last year corresponding quarter. Digital Paper Solutions Sdn Bhd has recorded revenue of RM4.95 million for the quarter under review, representing a decrease of 9.17% as compared to revenue of RM5.45 million for the last year corresponding quarter. The newly acquired subsidiary, Progenet Sdn Bhd has contributed RM1.42 million revenue to the segment. The segment recorded loss before tax of RM1.78 million for the current quarter ended 31 December 2017 compared to profit before tax of RM0.76 million in the last year corresponding quarter. The result is due to the impairment loss on receivables during this quarter.

2) *Kitchen Appliances Services*

The kitchen appliance services segment recorded revenue of RM0.22 million in the current financial quarter ended 31 December 2017 compared to RM2.19 million in the last year corresponding quarter. This is due to the delivery of appliances to projects in the last year corresponding quarter.

The segment recorded loss before tax of RM0.87 million for the current quarter ended 31 December 2017 compared to profit before tax of RM0.38 million in the last year corresponding quarter. Other than the project delivery in the last year corresponding quarter, there is impairment of inventory and receivables during the current quarter.

3) *Property Business*

The Property Business segment is currently awaiting for final documentation to be provided by client.



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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 RM7.29 million represents a decrease of RM0.51 million as compared to immediate preceding corresponding quarter revenue of RM7.80 million.

Current quarter recorded a profit after tax of RM0.26 million as compared to the profit after tax of RM0.21 million for the immediate preceding corresponding quarter.

The performance of the respective business segments for the quarter ended 31 December 2017 as compared to the immediate preceding corresponding quarter is analysed as follows:-

1) *ICT Services*

The ICT services segment recorded revenue of RM6.60 million in the current financial quarter ended 31 December 2017 compared to RM6.87 million in the immediate preceding corresponding quarter.

2) *Kitchen Appliances Services*

The kitchen appliances services segment recorded revenue of RM0.22 million in the current financial quarter ended 31 December 2017 as compared to immediate preceding corresponding quarter revenue of RM0.28 million. This segment recorded a loss after taxation of RM0.87 million in the current quarter under review as compared to immediate preceding corresponding quarter loss after taxation of RM0.26 million. This is due to result of the impairment loss on inventory and receivables.

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

	9-months ended 31/12/2017 RM'000	15-months ended 31/3/2017 RM'000
Income tax		
- Current year provision	-	439
- Under/(over) provision in previous year	(13)	19
Deferred taxation	-	(149)
Total	<u>(13)</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

There were no corporate proposal announced but not completed for the quarter under review.

B9. Group Borrowings and Debt Securities

As at 31 December 2017	Short-term RM'000	Long-term RM'000	Total RM'000
Secured			
Finance Lease	1,019	2,145	3,164
Term loan	628	3,067	3,695
Bank overdraft	1,965	-	1,965
Total	<u>3,612</u>	<u>5,212</u>	<u>8,824</u>



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B9. Group Borrowings and Debt Securities (Cont'd)

As at 31 December 2016	Short-term RM'000	Long-term RM'000	Total RM'000
Secured			
Finance Lease	953	3,210	4,163
Term loan	423	3,692	4,115
Letter of credit	914	-	914
Bank overdraft	2,507	-	2,507
Total	4,797	6,902	11,699

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. Profit/(Loss) Before Tax

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

	Quarter Ended		Cumulative Year-To-Date Ended	
	31/12/2017 RM'000	31/12/2016 RM'000	31/12/2017 RM'000	31/12/2016 RM'000
Bad debts written off	-	-	(17)	N/A
Depreciation & amortization	(414)	(383)	(1,289)	N/A
Impairment loss on amount due from associated company	(14)	-	(21)	N/A
Impairment loss on goodwill	-	-	(3,642)	N/A
Impairment loss on inventory	(420)	-	(420)	N/A
Impairment loss on other investments	-	-	(370)	N/A
Impairment loss on trade and other receivables	(1,581)	(26)	(531)	N/A
Interest expense	(137)	(142)	(407)	N/A
Loss on disposal of plant and equipment	-	-	(35)	N/A
Plant and equipment written off	-	-	(610)	N/A
Share based payment	-	-	(2,475)	-
And crediting:-				
Bad debts written back	-	8	-	N/A
Dividend income	3,772	-	3,772	N/A
Interest income	158	45	510	N/A
Unrealised foreign gain/(loss)	2	28	17	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 31 December 2017 RM'000	As at 31 March 2017 RM'000
Total accumulated loss		
Realised	(50,045)	(34,140)
Unrealised	(485)	(485)
	<u>(50,530)</u>	<u>(34,625)</u>
Share of accumulated losses of an associate company	(253)	(253)
Consolidated adjustments	14,673	18,693
	<u><u>(36,110)</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

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 31 December 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	(4,767)	Up to 24 months
Estimated expenses for the Corporate Exercises	750	(750)	Immediate
	<u><u>35,000</u></u>	<u><u>(4,767)</u></u>	

**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.*



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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	
	31/12/2017 RM'000	31/12/2016 RM'000	31/12/2017 RM'000	31/12/2016 RM'000
Net profit/(loss) for the period attributable to ordinary equity holders of the Company (RM'000)	238	231	(8,552)	N/A
Weighted average number of ordinary shares in issue ('000)	1,070,574	704,424	1,070,574	N/A
Earnings per share (sen)	0.02	0.03	(0.80)	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.