



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

Notes to the Interim Financial Report

For the fourth quarter ended 31 March 2019

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 March 2018.

The significant accounting policies adopted by the Group are consistent with those adopted in the audited financial statements for the financial year ended 31 March 2018.

The explanatory notes provide 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 March 2018.

A2. Auditors’ Report

The auditors’ report for the Group’s annual financial statements for the financial year ended 31 March 2018 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 business is wholly conducted in Malaysia and therefore there's no geographical segment. Following the Group's internal restructuring during the year, the Group's new reportable segments were identified as follows:

- Cloud and IT Services – Provision of cloud and disaster recovery services
- Trading of Kitchen Appliances, IT and office automation – Provision of distributing and reselling of kitchen appliances, IT-related product and office automation and services
- Property Construction – Provision of the business property development and interior design services. This construction business has commenced for the current quarter under review.



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A8. Segmental Reporting (Cont'd)

Other non-reportable comprise operations related to investment holding and other services.

Business Segments	Cloud and IT Services	Trading of Kitchen Appliances IT and Office Automation	Property Construction	Others	Elimination	Group
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Current quarter ended 31 March 2019						
Revenue	1,197	4,501	9,586	81	(1,186)	14179
Segment results	(1,444)	(673)	754	(889)	(2)	(2,254)
Interest expenses						(392)
Interest income						35
Loss before tax						(2,611)
Taxation						440
Loss after tax						(2,171)
Segment assets	6,322	9,992	5,629	82,436	2,569	106,948

The property construction has not commenced in the financial period ended 31 March 2018 and due to the internal restructuring plan during the year, the segment result for the quarter ended 31 March 2018 is not entirely comparable.

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.



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A11. Changes in the Composition of the Group

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

A12. Changes in Contingent Assets and Contingent Liabilities

Contingent liabilities of the Group as at 31 March 2019 are as follows:

	Group Level	
	As at 31 March 2019	As at 31 March 2018
	RM'000	RM'000
Secured		
Bank guarantees issued in favour of third parties for credit facility granted to subsidiaries	1,330	3,911
Unsecured		
Corporate guarantees issued to banks for finance lease facility granted to subsidiary	233	565
Corporate guarantees issued to a leasing company for finance lease facility granted to subsidiary	2,638	2,602
	<u>2,871</u>	<u>3,167</u>

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 RM14.18 million, 124.72% higher than RM6.31 million recorded in the corresponding quarter last year. This is due to the progress claim of the property construction business during the quarter under review.

The Group recorded a net loss after taxation of RM2.17 million as compared to the last year corresponding quarter's loss after taxation of RM1.24 million despite the increase in revenue. This is due to the increase in depreciation arising from the data centre and the fair value loss in other investment incurred during the quarter under review.

The performance of the respective business segments for the quarter ended 31 March 2019 as compared to the last year corresponding quarter is analysed as follows:-

1) *Cloud and IT Services*

The cloud and IT services segment recorded revenue of RM1.20 million in the current financial quarter ended 31 March 2019 compared to RM1.49 million recorded in the last year corresponding quarter.

2) *Trading of Kitchen Appliances, IT and Office Automation Equipment*

The trading of kitchen appliance recorded revenue of RM0.47 million in the current financial quarter ended 31 March 2019 compared to RM0.49 million in the last year corresponding quarter. The kitchen appliances recorded loss before tax of RM0.25 million for the current quarter ended 31 March 2019 compared to profit before tax of RM0.11 million in the last year corresponding quarter. This is due to the reversal of impairment loss incurred in the last year corresponding quarter.

The trading of IT and office automation equipment recorded revenue of RM4.03 million for the current quarter under review as compared to RM4.20 million in the last year corresponding quarter. The IT and office automation equipment recorded loss before taxation of RM0.81 million as compared to loss before taxation of RM0.16 million in the last year corresponding quarter. This is mainly due to the adjustment of interest expenses during the quarter under review and reduce in revenue.

3) *Property Construction*

The Property Construction has recorded a revenue of RM9.59 million during the quarter. The construction project has only commenced in the year 2018.



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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 RM14.18 million represents an increase of RM3.10 million as compared to immediate preceding corresponding quarter revenue of RM11.08 million.

Current quarter recorded loss after tax of RM2.17 million as compared to the loss after tax of RM1.14 million for the immediate preceding corresponding quarter.

The performance of the respective business segments for the quarter ended 31 March 2019 as compared to the immediate preceding corresponding quarter is analysed as follows:-

1) *Cloud Services*

The cloud services recorded revenue of RM1.20 million in the current financial quarter ended 31 March 2019 as compared to the RM2.83 million in the immediate preceding corresponding quarter. The decrease in revenue is due to billing of one-off projects secured during the immediate preceding corresponding quarter.

2) *Trading of Kitchen Appliances, IT and Office Automation Equipment*

The kitchen appliances services segment recorded revenue of RM0.47 million in the current financial quarter ended 31 March 2019 as compared to immediate preceding corresponding quarter revenue of RM1.33 million. This segment recorded a loss after taxation of RM0.25 million in the current quarter under review as compared to immediate preceding corresponding quarter profit after taxation of RM0.20 million. This is due to the revenue arising from project delivery in the immediate preceding corresponding quarter.

The trading of IT and office automation equipment recorded revenue of RM4.03 million for the current quarter under review as compared to RM3.93 million in the immediate preceding corresponding quarter. The IT and office automation equipment recorded loss before taxation of RM0.81 million as compared to loss before taxation of RM0.31 million in the immediate preceding corresponding quarter. This is due to the increase in costs arising from the adjustment in interest expenses.



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B3. Changes in Profit/Loss before Taxation against Immediate Preceding Quarter (Cont'd)

3) *Property Construction*

The construction segment recorded revenue of RM9.59 million in the current financial quarter ended 31 March 2019 as compared to immediate preceding corresponding quarter revenue of RM2.84 million. This is due to the progress billing of the projects. The construction segment recorded profit before taxation of RM0.75 million as compared to loss before taxation of RM0.06 million in the immediate preceding corresponding quarter.

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 31/03/2019 RM'000	12-months ended 31/3/2018 RM'000
Income tax		
- Current year provision	9	130
- Under/(over) provision in previous year	(15)	(13)
Deferred taxation	(434)	(47)
Total	<u>(440)</u>	<u>164</u>

Income tax is calculated at the Malaysian statutory tax rate of 24% (2018:24%) 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.



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B7. Purchase and Disposal of Quoted Securities

The details of the investment in quoted shares as at 31 March 2019 are as below:

	As at 31 March 2019
	RM'000
At cost	4,637
At book value	4,965
At market value	4,965

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 March 2019	Short-term RM'000	Long-term RM'000	Total RM'000
Secured			
Finance Lease	418	1,161	1,579
Bank overdraft	1,910	-	1,910
Total	<u>2,328</u>	<u>1,161</u>	<u>3,489</u>

As at 31 March 2018	Short-term RM'000	Long-term RM'000	Total RM'000
Secured			
Finance Lease	1,319	1,265	2,584
Term loan	464	3,118	3,582
Bank overdraft	2,650	-	2,650
Total	<u>4,433</u>	<u>4,383</u>	<u>8,816</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.



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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.

B13. Profit/(Loss) Before Tax

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

	Quarter Ended		Cumulative Year-To-Date Ended	
	31/03/2019 RM'000	31/03/2018 RM'000	31/03/2019 RM'000	31/03/2018 RM'000
Bad debts written off	(9)	(2)	(35)	(19)
Depreciation & amortization	(871)	(514)	(2,716)	(1,803)
Impairment loss on amount due from associated company	-	-	-	(21)
Impairment loss on goodwill	-	-	-	(3,642)
Reversal of/(Impairment loss) on inventory	-	377	-	(43)
Impairment loss on other investments	-	-	-	(370)
Reversal of/(Impairment loss) on trade and other receivables	(226)	202	(125)	(329)
Interest expense	(392)	169	(522)	(238)
Loss on disposal of subsidiary	-	-	(2,247)	-
Gain/(Loss) on disposal of plant and equipment	-	65	-	30
Plant and equipment written off	-	-	-	(610)
Share based payment	250	-	(250)	(2,475)
And crediting:-				
Interest income	35	406	200	510
Dividend income	-	-	-	3,772
Fair value on other investment	(496)	-	328	916
Unrealised foreign gain/(loss)	-	12	(1)	29



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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 March 2019 RM'000	As at 31 March 2018 RM'000
Total accumulated loss		
Realised	(49,343)	(68,769)
Unrealised	(485)	(485)
	<u>(49,828)</u>	<u>(69,254)</u>
Share of accumulated losses of an associate company	(253)	(253)
Consolidated adjustments	9,932	32,332
	<u>(40,149)</u>	<u>(37,175)</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 March 2019, 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	(8,833)	Within 30 months
Working capital	5,203	(5,203)	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.*



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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	
	31/03/2019 RM'000	31/03/2018 RM'000	31/03/2019 RM'000	31/03/2018 RM'000
Net loss for the period attributable to ordinary equity holders of the Company (RM'000)	(1,661)	(1,066)	(6,999)	(9,601)
Weighted average number of ordinary shares in issue ('000)	491,219	912,107	491,219	912,107
Earnings per share (sen)	(0.34)	(0.12)	(1.42)	(1.05)

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.