



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

Notes to the Interim Financial Report

For the third quarter ended 31 December 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 2019.

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 2019.

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 2019 except for the adoption of the following Malaysian Financial Report Standards (“MFRS”):

1. MFRS 16 Leases

The Group has adopted MFRS 16 using retrospective method and comparatives are not restated, as permitted under the specific transitional provisions in the standard. The adjustments arising from the new leasing rules are therefore recognised in the opening of financial position.

Impact of adoption of MFRS 16

In summary, the impact of adopting MFRS 16 to opening balances are as follows:

Statement of financial position as at 1 April 2019

	Impact of change in accounting policies		
	As previously reported	MFRS 16	After adjustments
	RM’000	RM’000	RM’000
Assets			
Property, plant and equipment	31,960	(916)	31,044
Right of use assets	-	4,280	4,280
Equity			
Accumulated loss	(40,128)	(185)	(40,313)
Non-Current Liabilities			
Lease liabilities	704	2,563	3,267
Current Liabilities			
Lease liabilities	422	986	1,408



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

Notes to the Interim Financial Report

For the third quarter ended 31 December 2019

A2. Auditors' Report

The auditors' report for the Group's annual financial statements for the financial year ended 31 March 2019 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.

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.



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

Notes to the Interim Financial Report

For the third quarter ended 31 December 2019

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 December 2019						
Revenue	2,304	3,800	5,226	81	(196)	11,215
Segment results	(849)	(1,123)	172	(1,721)	(24)	(3,545)
Interest expenses						(134)
Interest income						33
Impairment loss on goodwill						(1,571)
Loss before tax						(5,217)
Taxation						-
Loss after tax						(5,217)
Segment assets	48,262	30,464	28,448	81,830	(63,492)	125,512
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
Corresponding quarter ended 31 December 2018						
Revenue	2,835	5,262	3,016	81	(116)	11,078
Segment results	(905)	(126)	(59)	(145)	43	(1,192)
Interest expenses						(30)
Interest income						81
Loss before tax						(1,141)
Taxation						-
Loss after tax						(1,047)
Segment assets	33,154	27,044	20,792	84,734	(57,539)	108,185



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

Notes to the Interim Financial Report

For the third quarter ended 31 December 2019

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

Share Issuance Scheme

The Board of Director of the Group has on 11 February 2020 announced that the Company has offered 63,000,000 shares to eligible employees under share issuance scheme. 58,800,000 shares have been exercised at RM0.03 per share and the shares have been listed on the ACE Market of Bursa Securities on 25 February 2020.

There were no other 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 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 December 2019 are as follows:

	Group Level	
	As at 31 December 2019 RM'000	As at 31 March 2019 RM'000
Secured		
Fixed deposit pledged to bank for credit facilities granted to subsidiaries	4,134	3,982
Corporate guarantees issued to bank for facility granted to subsidiary	9,600	-
	<hr/>	<hr/>
	13,734	3,982
	<hr/>	<hr/>



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

Notes to the Interim Financial Report

For the third quarter ended 31 December 2019

A12. Changes in Contingent Assets and Contingent Liabilities (Cont'd)

Contingent liabilities of the Group as at 31 December 2019 are as follows: (cont'd)

Unsecured

Corporate guarantees issued to banks for finance lease facility granted to subsidiary	870	233
Corporate guarantees issued to a leasing company for finance lease facility granted to subsidiary	2,404	2,638
	<u>3,274</u>	<u>2,872</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.



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

Notes to the Interim Financial Report

For the third quarter ended 31 December 2019

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

B1. Review of Performance

The Group recorded revenue of RM11.22 million, 1.26% higher than RM11.08 million recorded in the corresponding quarter last year. This is due to higher progress claim for the construction segment.

The Group recorded a net loss after taxation of RM5.21 million as compared to the last year corresponding quarter's loss after taxation of RM1.14 million. This is due to the fair value adjustment on other investment and impairment loss on goodwill.

The performance of the respective business segments for the quarter ended 31 December 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 RM2.30 million in the current financial quarter ended 31 December 2019 compared to RM2.83 million recorded in the last year corresponding quarter. This is due to the lower billing in the one-off project during the current quarter under review.

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

The trading of kitchen appliance recorded revenue of RM0.30 million in the current financial quarter ended 31 December 2019 compared to RM1.33 million in the last year corresponding quarter. This is due the project delivery in the last year corresponding quarter. The kitchen appliances recorded loss before tax of RM0.49 million for the current quarter ended 31 December 2019 compared to profit before tax of RM0.20 million in the last year corresponding quarter due to the decrease in revenue and the additional marketing cost incurred for the launch of Foodsmith Series, the new products.

The trading of IT and office automation equipment recorded revenue of RM3.50 million for the current quarter under review as compared to RM3.93 million in the last year corresponding quarter. This is due to expiry of the contracts with existing customers. The IT and office automation equipment recorded loss before taxation of RM0.86 million as compared to loss before taxation of RM0.31 million in the last year corresponding quarter. This is due to decrease revenue.



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

Notes to the Interim Financial Report

For the third quarter ended 31 December 2019

B1. Review of Performance (Cont'd)

3) Property Construction

The Property Construction has recorded a revenue of RM5.23 million during the quarter compared to RM3.02 million in the last year corresponding quarter. This is due to higher progress billing 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. In light of the current numbers, the Group has recognized that the property revenue has begun to decline in light of the current economic conditions, but at the same time the revenue of the Cloud and IT services division has been increasing. As such, the Group will focus its energies on the Cloud segment, to capitalize on the growing requirement of digitization.

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

For the current quarter under review, the Group's revenue was RM11.22 million represents an increase of RM3.22 million as compared to immediate preceding corresponding quarter revenue of RM8.00 million. This is due to higher progress billing for the construction segment during the current quarter under review.

Current quarter recorded loss after tax of RM5.21 million as compared to the loss after tax of RM1.13 million for the immediate preceding corresponding quarter. This is due to the fair value adjustment on the other investment and impairment loss on goodwill.

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

1) Cloud Services

The cloud services recorded revenue of RM2.30 million in the current financial quarter ended 31 December 2019 as compared to the RM2.38 million in the immediate preceding corresponding quarter. This segment recorded a loss after taxation of RM0.85 million in the current quarter under review as compared to immediate preceding corresponding quarter loss after taxation of RM0.69 million. This is due to increase in operation and administrative cost.



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

Notes to the Interim Financial Report

For the third quarter ended 31 December 2019

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

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

The kitchen appliances services segment recorded revenue of RM0.30 million in the current financial quarter ended 31 December 2019 as compared to immediate preceding corresponding quarter revenue of RM0.23 million. This is due to a partial project delivery during the current quarter under review. This segment recorded a loss after taxation of RM0.49 million in the current quarter under review as compared to immediate preceding corresponding quarter loss after taxation of RM0.36 million. This is due to additional marketing cost and testing report for launch of the new products.

The trading of IT and office automation equipment recorded revenue of RM3.50 million for the current quarter under review as compared to RM4.24 million in the immediate preceding corresponding quarter. This is due to expiry of the contracts with existing customers. The IT and office automation equipment recorded loss before taxation of RM0.86 million as compared to loss before taxation of RM0.44 million in the immediate preceding corresponding quarter in line with the lower revenue recorded during the current quarter.

3) Property Construction

The construction segment recorded revenue of RM5.23 million in the current financial quarter ended 31 December 2019 as compared to immediate preceding corresponding quarter revenue of RM1.27 million. The construction segment recorded profit before taxation of RM0.17 million as compared to profit before taxation of RM0.14 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.



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

Notes to the Interim Financial Report

For the third quarter ended 31 December 2019

B5. Taxation

	9-months ended 31/12/2019 RM'000	12-months ended 31/3/2019 RM'000
Income tax		
- Current year provision	-	6
- Under/(over) provision in previous year	-	-
Deferred taxation	-	422
Total	-	428

Income tax is calculated at the Malaysian statutory tax rate of 24% (2019:24%) 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

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

	As at 31 December 2019 RM'000
At cost	4,637
At book value	3,972
At market value	3,972

B8. Corporate Proposals

On 21 March 2020, the Board of Directors of KAG has announced that the Company proposes to undertake the private placement of new ordinary shares in KAG share of up to 10% of the total number of issued shares of the Company ("Proposed Private Placement").

The application pursuant to the Proposed Private Placement has been submitted to Bursa on 25 February 2020.

There were no corporate proposal announced but not completed for the 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 31 December 2019

B9. Group Borrowings and Debt Securities

As at 31 December 2019	Short-term RM'000	Long-term RM'000	Total RM'000
Secured			
Finance Lease	1,820	2,475	4,295
Term loan	1,014	8,734	9,748
Bank overdraft	1,953	-	1,953
Total	4,787	11,209	15,996

As at 31 March 2019	Short-term RM'000	Long-term RM'000	Total RM'000
Secured			
Finance Lease	569	778	1,347
Term loan	120	113	233
Bank overdraft	1,910	-	1,910
Total	2,599	891	3,490

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 Board of Directors of Key Alliance Group Berhad ("KAG" or "the Company") wishes to announce that the Company has received a sealed Writ of Summons ("the Writ") and Statement of Claim ("SOC") from Ocean W ICT Sdn Bhd ("the Plaintiff") through its solicitors on 24 September 2019.

The Plaintiff in their SOC has sought the following reliefs:-

- 1) A claim of RM 2,895,217.39;
- 2) A declaration that the Company acted in conspiracy with DVM Innovate Sdn Bhd (a former subsidiary of the Company), in carrying on the business of DVM Innovate Sdn Bhd to defraud the Plaintiff;
- 3) A declaration that the Company and former directors of DVM Innovate Sdn Bhd whether jointly or severally, be personally liable for sum of RM 2,895,217.39, pursuant to the Judgement in Default dated 8th of August 2018 obtained in the Kuala Lumpur High Court Suit No. WA-22MCVC - 331-06/2018 (Ocean W ICT Sdn Bhd versus DVM Innovate Sdn Bhd);



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

Notes to the Interim Financial Report

For the third quarter ended 31 December 2019

B11. Material Litigation (Cont'd)

- 4) Costs;
- 5) Interest amounting to 5% until full settlement of the judgement debt;
- 6) Any and/or further relief deemed fit and proper by the Court.

The matter is fixed for further case management by way of e-Review on 10 March 2020.

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	
	31/12/2019 RM'000	31/12/2018 RM'000	31/12/2019 RM'000	31/12/2018 RM'000
Bad debts written off	-	-	(8)	(26)
Depreciation & amortization	(1,238)	(881)	(3,808)	(1,845)
Reversal of/(Impairment loss) on inventory	-	-	(130)	(34)
Fair value adjustment on quoted shares	(993)	824	(993)	824
Impairment loss on goodwill	(1,571)	-	(1,571)	-
Reversal of/(Impairment loss) on trade and other receivables	-	-	37	101
Interest expense	(134)	(30)	(434)	(130)
Loss on disposal of subsidiary	-	(2,247)	-	(2,247)
Share based payment	-	(500)	-	(500)
And crediting:-				
Gain on disposal of plant and equipment	2	-	2	-
Interest income	33	81	104	165
Unrealised foreign gain/(loss)	19	(13)	8	(1)



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

Notes to the Interim Financial Report

For the third quarter ended 31 December 2019

B14. 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 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	(8,928)	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.*

B15. 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	
	31/12/2019 RM'000	31/12/2018 RM'000	31/12/2019 RM'000	31/12/2018 RM'000
Net loss for the period attributable to ordinary equity holders of the Company (RM'000)	(4,714)	(918)	(9,066)	(5,338)
Weighted average number of ordinary shares in issue ('000)	520,712	481,567	520,712	481,567
Earnings per share (sen)	(0.91)	(0.19)	(1.74)	(1.11)

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.