



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

Notes to the Interim Financial Report

For the second quarter ended 30 September 2020

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 2020.

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 2020.

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 2020.

A2. Auditors’ Report

The auditors’ report for the Group’s annual financial statements for the financial year ended 31 March 2020 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 other 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 except the followings:-

- (a) Issuance of 204,162,850 ordinary shares at RM0.06 per share pursuant to the completion of private placement;
- (b) Issuance of 75,000,000 ordinary shares at RM0.08 per share pursuant to the Share Issuance Scheme (“SIS”); and
- (c) Issuance of 22,500,000 ordinary shares at RM0.12 per share pursuant to the SIS.

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.



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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 30 September 2020						
Revenue	4,730	3,807	703	81	(268)	9,053
Segment results	576	(2,277)	(271)	29,774	81	27,883
Interest expenses						(199)
Interest income						24
Impairment loss on goodwill						-
Profit before tax						27,708
Taxation						-
Profit after tax						27,708
Segment assets	49,164	26,760	31,106	140,356	(63,280)	184,106
Corresponding quarter ended 30 September 2019						
Revenue	2,380	4,470	1,267	81	(199)	7,999
Segment results	(690)	(566)	144	292	(118)	(938)
Interest expenses						(230)
Interest income						38
Loss before tax						(1,130)
Taxation						-
Loss after tax						(1,130)
Segment assets	38,533	29,278	20,912	82,244	(60,227)	110,740



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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

The wholly-owned subsidiary of the Company, Key Alliance Officeworks Sdn Bhd (“KAOW”) has been struck-off in September 2020. KAOW was a dormant company.

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 30 September 2020 are as follows:

	Group Level	
	As at 30 September 2020 RM'000	As at 31 March 2020 RM'000
Secured		
Fixed deposit pledged to banks for credit facilities granted to subsidiaries	4,207	4,102
Corporate guarantees issued to bank for facility granted to a subsidiary	9,600	9,600
	<u>13,807</u>	<u>13,702</u>
Unsecured		
Corporate guarantees issued to banks for finance lease facility granted to a subsidiary	781	891
Corporate guarantees issued to a leasing company for finance lease facility granted to a subsidiary	3,160	2,585
	<u>3,941</u>	<u>3,476</u>



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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 RM9.05 million, 13.13% higher than RM8.00 million recorded in the corresponding quarter last year.

The Group recorded a net profit after taxation of RM27.71 million as compared to the last year corresponding quarter's loss after taxation of RM1.13 million. This is due to the fair value gain on other investments during the current quarter under review amounting to RM31.75 million.

The performance of the respective business segments for the quarter ended 30 September 2020 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 RM4.73 million in the current financial quarter ended 30 September 2020 compared to RM2.38 million recorded in the last year corresponding quarter. This is due to the increase in customers subscribing of cloud services and co-location. The cloud and IT services segment recorded profit before taxation of RM0.53 million compared to loss before taxation of RM0.69 million which is in line with the increase in revenue.

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

The trading of kitchen appliance recorded revenue of RM0.62 million in the current financial quarter ended 30 September 2020 compared to RM0.23 million in the last year corresponding quarter. The revenue increased due to the project delivery during the current quarter under review. The kitchen appliances recorded profit before tax of RM24,000 for the current quarter ended 30 September 2020 compared to loss before tax of RM0.36 million in the last year corresponding quarter which is in line with the increase in revenue and the reversal of impairment loss on receivables amounting to RM0.12 million during the current quarter under review.

The trading of IT and office automation equipment recorded revenue of RM3.19 million for the current quarter under review as compared to RM4.24 million in the last year corresponding quarter. This is due to decrease in billing during the current quarter under review. The IT and office automation equipment recorded loss before taxation of RM2.43 million as compared to loss before taxation of RM0.43 million in the last year corresponding quarter. This is due to the impairment loss on inventories during the current quarter under review.



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B1. Review of Performance (Cont'd)

3) Property Construction

The Property Construction has recorded a revenue of RM0.70 million during the quarter compared to RM1.27 million in the last year corresponding quarter. This is due to the lower progress billing during the quarter under review.

B2. Future Prospect

The Board is of the view that the increase in revenue for Cloud and IT segment during the Covid-19 pandemic, indicating more companies and enterprises realising the importance of cloud and subscribing for cloud and co-location services. The Group will continue to focus its energies on the Cloud and IT segment, to capitalize on the growing requirement of digitization. The Group will also pay close attention to the market trends that are impacted by the spread of Covid-19, and will respond accordingly to minimise the risks and maximise opportunities.

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

For the current quarter under review, the Group's revenue was RM9.05 million represents an increase of RM1.54 million as compared to immediate preceding corresponding quarter revenue of RM7.51 million. This is due to increase in revenue for all the segments after the MCO period.

Current quarter recorded profit after tax of RM27.71 million as compared to the profit after tax of RM9.79 million for the immediate preceding corresponding quarter. This is due to the fair value gain on the other investment for the current quarter under review.

The performance of the respective business segments for the quarter ended 30 September 2020 as compared to the immediate preceding corresponding quarter is analysed as follows:-

1) Cloud Services

The cloud services recorded revenue of RM4.73 million in the current financial quarter ended 30 September 2020 as compared to the RM4.41 million in the immediate preceding corresponding quarter. This is due to the increase in cloud and co-location services for the current quarter. This segment recorded a profit after taxation of RM0.53 million in the current quarter under review as compared to immediate preceding corresponding quarter profit after taxation of RM0.40 million. This is in line with the increase in revenue.



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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 RM0.62 million in the current financial quarter ended 30 September 2020 as compared to immediate preceding corresponding quarter revenue of RM0.19 million. This is due to a partial project delivery during current quarter under review. This segment recorded a profit after taxation of RM24,000 in the current quarter under review as compared to immediate preceding corresponding quarter loss after taxation of RM0.42 million. This is in line with the increase in revenue and the reversal of impairment loss on receivables.

The trading of IT and office automation equipment recorded revenue of RM3.19 million for the current quarter under review as compared to RM3.04 million in the immediate preceding corresponding quarter. The IT and office automation equipment recorded loss before taxation of RM2.42 million as compared to loss before taxation of RM0.99 million in the immediate preceding corresponding quarter. The expenses included the allowance on expected credit loss on trade receivables of RM14,000 (immediate preceding quarter: RM0.46 million) and impairment loss on inventories.

3) Property Construction

The construction segment recorded revenue of RM0.70 million in the current financial quarter ended 30 September 2020 as compared to immediate preceding corresponding quarter revenue of RM0.03 million. The construction segment recorded loss before taxation of RM0.27 million as compared to loss before taxation of RM0.24 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.



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B5. Taxation

	6-months ended 30/09/2020 RM'000	12-months ended 31/3/2020 RM'000
Income tax		
- Current year provision	-	-
- Under/(over) provision in previous year	-	(5)
Deferred taxation	-	(1,233)
Total	<u>-</u>	<u>(1,238)</u>

Income tax is calculated at the Malaysian statutory tax rate of 24% (2020:24%) 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

(a) The dealings of quoted securities for the current quarter and six months ended 30 September were as follows:-

	Current Quarter	9-months ended 30 September 2020
	RM'000	RM'000
Total purchases at cost	2,435	2,435
Total fair value gain recognised	1,737	1,737
Total sale proceeds	6,266	6,266
Gain on disposal	2,094	2,094

(b) The details of the investment in quoted shares as at 30 September 2020 are as below:

	As at 30 September 2020
	RM'000
At cost	18,382
At book value	54,195
At market value	54,195



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B8. Corporate Proposals

Private Placement up to 30% of the total number of shares

On 19 May 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 30% 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 Malaysia Securities Berhad (“Bursa”) on 1 June 2020.

Bursa had, vide its letter dated 16 March 2020, approved the listing and quotation of up to 204,303,205 placement shares to be issued pursuant to the Proposed Private Placement.

On 21 July 2020, 204,162,850 placement shares were listed and quoted on the ACE Market of Bursa which marks the completion of the Private Placement.

Multiple Proposals

On 6 August 2020, the Board of Directors has announced that the Company proposes to undertake the following:-

- (i) a proposed renounceable rights issue of up to 982,205,686 new ordinary shares in KAG (“Rights Shares”) on the basis of 1 Rights Share for every 1 existing KAG share held, together with up to 982,205,686 free detachable warrants in KAG (“Warrant(s)”) on the basis of 1 Warrant for every 1 Rights Share subscribed for on an entitlement date to be determined and announced later (“Proposed Rights Issue with Warrants”); and
- (ii) a proposed diversification of the Company’s existing principal activities to include the marketing, distribution and trading of equipment, devices, and related products and accessories (“Proposed Diversification”).

(Collectively referred to as the “Proposals”)

The Proposals has been submitted to Bursa Malaysia Securities Berhad on 12 August 2020.

Bursa had, vide its letter dated 4 September 2020, approved the following:-

- (i) listing and quotation of up to 982,205,686 Rights Shares to be issued pursuant to the Proposed Rights Issue with Warrants; and
- (ii) listing and quotation of up to 982,205,686 new KAG shares to be issued arising from the exercise of the warrants.



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B8. Corporate Proposals (Cont'd)

Multiple Proposals (Cont'd)

The circular was issued to shareholders on 11 September 2020 and the Company had obtained shareholders' approval for the multiple proposals on 28 September 2020.

On 20 November 2020, 982,103,848 Rights Shares and 982,103,848 Warrants issued pursuant to the Rights Issue with Warrants were listed and quoted on the ACE Market of Bursa Malaysia Securities Berhad, marking the completion of the Rights Issue with Warrants.

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

B9. Group Borrowings and Debt Securities

As at 30 September 2020	Short-term RM'000	Long-term RM'000	Total RM'000
Secured			
Finance lease	226	8	234
Lease liability due to non-financial institutions	2,401	4,487	6,888
Hire purchase	472	372	844
Term loan	893	8,707	9,600
Bank overdraft	1,524	-	1,524
Total	5,516	13,574	19,090

As at 31 March 2020	Short-term RM'000	Long-term RM'000	Total RM'000
Secured			
Finance lease	459	35	494
Lease liability due to non-financial institutions	2,410	5,090	7,500
Hire purchase	410	443	853
Term loan	829	8,771	9,600
Bank overdraft	1,991	-	1,991
Total	6,099	14,339	20,438

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 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);
- 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 Plaintiff has discontinued the case against the Company without liberty to file afresh and without cost.

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	
	30/09/2020 RM'000	30/09/2019 RM'000	30/09/2020 RM'000	30/08/2019 RM'000
Bad debts written off	(78)	-	(78)	(8)
Depreciation & amortization	(1,634)	(1,511)	(3,262)	(2,570)
Fair value adjustment on quoted shares	31,745	993	45,682	-
Allowance for expected credit losses of trade and other receivables	104	-	(456)	-
Impairment loss on goodwill	-	-	(1,972)	-
Impairment loss on inventories	(2,000)	(130)	(2,000)	(130)
Interest expense	(199)	(230)	(413)	(300)
Share-based payment	(3,254)	-	(3,371)	-
And crediting:-				
Interest income	24	38	47	71
Gain on disposal of other investment	2,094	-	2,094	-
Gain on disposal of subsidiary	7	-	7	-
Reversal of impairment loss on receivables	25	-	25	37

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 September 2020, 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	(9,758)	Within 30 months
Working capital	5,203	(5,203)	Up to 24 months
Estimated expenses for the Corporate Exercises	750	(750)	Immediate



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B14. Status of utilization of proceeds (Cont'd)

Rights issue (Cont'd)

**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.*

30% Private Placement

On 21 July 2020, the 30% Private Placement has been completed with the listing of 204,162,850 placement shares on the ACE Market of Bursa Malaysia Securities Berhad. As at 30 September 2020, the status of the utilization of the proceeds raised is as follow:

Purpose	Proposed Utilisation RM'000	Actual Utilisation RM'000	Intended Timeframe for Utilisation
Business expansion	12,140	(1,770)	Within 12 months from completion
Estimated expenses for the Corporate Exercises	110	(110)	Upon completion

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	
	30/09/2020 RM'000	30/09/2019 RM'000	30/09/2020 RM'000	30/09/2019 RM'000
Net profit/(loss) for the period attributable to ordinary equity holders of the Company (RM'000)	28,921	(854)	39,203	(4,352)
Weighted average number of ordinary shares in issue ('000)	773,501	520,712	773,501	520,712
Earnings per share (sen)	3.74	(0.16)	5.07	(0.84)