

APPASIA BERHAD (Formerly known as Extol MSC Berhad)

Company No. 643683-U

(Incorporated in Malaysia)

QUARTERLY REPORT

Notes to the Quarterly Report for Year Ended 31 December 2014

(The figures have not been audited)

A. EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD (“FRS”) 134 INTERIM FINANCIAL REPORTING

A1. BASIS OF PREPARATION

The interim financial statements of AppAsia Berhad (“**AppAsia**” or “**Company**”) and its subsidiaries (“**AppAsia Group**” or “**Group**”) is unaudited and has been prepared in accordance with Malaysian Financial Reporting Standard (“**MFRS**”) 134 “Interim Financial Reporting” issued by the Malaysian Accounting Standards Board (“**MASB**”), Paragraph 9.22 and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) for the ACE Market.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the financial year ended (“**FYE**”) 30 September 2013 and the accompanying explanatory notes. These explanatory notes provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 30 September 2013.

The significant accounting policies adopted by the Group in this interim financial statements are consistent with those adopted in the annual audited financial statements for the FYE 30 September 2013.

The adoption of the following Malaysian Financial Reporting Standards (“**MFRSs**”), Amendments to MFRSs and Issues Committee (“**IC**”) Interpretations that come into effect on 1 October 2013 did not have any significant impact on the unaudited condensed consolidated financial statements of the Group upon their initial application.

Adoption of new and amended standards and interpretation

During the financial period, the Group have adopted the following Amendments to MFRSs and IC Interpretation which are effective and mandatory for the current financial period:

MFRS 10	Consolidated Financial Statements
MFRS 11	Joint Arrangements
MFRS 12	Disclosure of Interests in Other Entities
MFRS 13	Fair Value Measurement
MFRS 119	Employee Benefits (IAS 19 as amended by IASB in June 2011)
MFRS 127	Separate Financial Statements
MFRS 128	Investments in Associates and Joint Ventures
MFRS 3	Business Combinations (IFRS 3 issued by IASB in March 2004)
MFRS 127	Consolidated and Separate Financial Statements (IAS 27 revised by IASB in December 2003)
IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine
Amendments to MFRS 1	Government Loans
Amendments to MFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 10, MFRS 11 and MFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Order Entities: Transition Guidance
Improvements 2009 – 2011 Cycle	

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A1. BASIS OF PREPARATION (CONT'D)

Adoption of above amendments to MFRSs and IC Interpretation did not have any significant impact on the financial statements of the Group.

Standards issued but not yet effective

The Group have not applied the following MFRSs that have been issued by the Malaysian Accounting Standard Board but are not yet effective for the Group:

		Effective dates for financial periods beginning on or after
Amendments to MFRS 119	Defined Benefits Plans: Employee Contributions	1 July 2014
Annual Improvements to MFRSs 2010 – 2012 Cycle		1 July 2014
Annual Improvements to MFRSs 2011 – 2013 Cycle		1 July 2014
MFRS 14	Regulatory Deferral Accounts	1 January 2016
Amendments to MFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 116 and MFRS 138	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141	Agriculture: Bearer Plants	1 January 2016
Amendments to MFRS 127	Equity Method in Separate Financial Statements	1 January 2016
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Annual Improvements to MFRSs 2012–2014 Cycle		1 January 2016
MFRS 15	Revenue from Contracts with Customers	1 January 2017
MFRS 9	Financial Instruments (IMFRS 9 issued by IASB in July 2014)	1 January 2018

The Group intends to adopt the above MFRSs when they become effective.

The initial application of the abovementioned MFRSs is not expected to have any significant impacts on the financial statements of the Group.

A2. AUDIT REPORT ON THE PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report on the preceding annual financial statements for the FYE 30 September 2013 was not subject to any qualification.

A3. SEASONALLY OR CYCLICAL FACTORS OF INTERIM OPERATIONS

The Group's operations are not materially affected by any major seasonal or cyclical factors during the financial quarter under review and financial period-to-date.

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(The figures have not been audited)

A4. UNUSUAL ITEMS AFFECTING ASSETS, LIABILITIES, EQUITY, NET INCOME OR CASH FLOWS

During the current financial quarter under review and the current financial period-to-date, there are no unusual significant items or events that arose, which affected the assets, liabilities, equity, net income or cash flows.

A5. MATERIAL CHANGE IN ESTIMATES

There were no material changes in estimates that have had material effect on the current financial quarter under review and financial period-to-date.

A6. ISSUANCES, CANCELLATIONS, REPURCHASE, RESALE AND REPAYMENTS OF DEBT AND EQUITY SECURITIES

There were no issuance, cancellations, repurchase, resale and repayments of debts and equity securities held as treasury shares or resale of treasury shares during the current financial quarter under review and financial period-to-date.

A7. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

There were no revaluation of property, plant and equipment during the financial quarter under review and financial period-to-date.

All property, plant and equipment were stated at cost less accumulated depreciation.

A8. DIVIDEND PAID

No dividend was declared, approved or paid during the financial quarter under review and financial period-to-date.

A9. SEGMENTAL INFORMATION

The Group is a one-stop Information and Communications Technology (“ICT”) security solutions provider offering a comprehensive spectrum of ICT security products and solutions to counter ICT security threats.

The Group offers ICT security products and solutions such as hardware and software security solutions and services, consultancy, forensic research and training known as Managed Security Solutions (“MSS”).

In addition, the Group also offers security-enhanced enterprise solutions known as Secured Enterprise Solutions (“SES”).

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 (The figures have not been audited)

A9. SEGMENTAL INFORMATION (CONT'D)

The segmental revenue and results of the Group are as follows:

	Individual Quarter		Cumulative Quarter	
	Three (3) months ended		Current Period	Preceding Year
	31 DEC 2014	31 DEC 2013	15 months 31 DEC 2014	12 months 30 SEP 2013
	RM'000	RM'000	RM'000	RM'000
Segment Revenue				
MSS	470	7,689	12,112	15,376
SES	1,806	68	12,204	719
	<u>2,276</u>	<u>7,757</u>	<u>24,316</u>	<u>16,095</u>
Inter-segment revenue	-	(2,516)	(9,389)	(2,586)
Total revenue	<u>2,276</u>	<u>5,241</u>	<u>14,927</u>	<u>13,509</u>
Segment Results				
MSS	(764)	(815)	(6,339)	(1,134)
SES	(1,667)	(11)	(6,647)	(248)
Loss from operations	<u>(2,431)</u>	<u>(826)</u>	<u>(12,986)</u>	<u>(1,382)</u>
Financial cost	(1)	-	(71)	(35)
Loss before taxation	<u>(2,432)</u>	<u>(826)</u>	<u>(13,057)</u>	<u>(1,417)</u>

A10. MATERIAL EVENTS SUBSEQUENT TO THE CURRENT FINANCIAL QUARTER

On 4 February 2015, the Board of Directors of AppAsia wishes to inform that the Company had on 29 January 2015 received the Kuala Lumpur Sessions Court sealed Order and Judgement both dated 14 January 2015 via a letter from Messrs Wong & Partners, the Plaintiff's lawyer dated 28 January 2014, ordered the Defendant to handover the PoP Equipments to the Plaintiff with damages to be assessed and cost of RM 3,000 to the Plaintiff.

The Company has no intention to appeal after having taken legal advice from the Company's solicitor. However, the Company shall be proceeding with its counter claim against Xconnect Global Networks Limited and Mohd Badaruddin Bin Masodi.

Save for the above, there was no material event to the end of the current financial quarter under review and financial period-to-date that has not been reflected in the interim financial statements.

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 (The figures have not been audited)

A11. CHANGES IN THE COMPOSITION OF THE GROUP

On 12 February 2015, the Company had made the following announcements:-

- (i) The Company had on 12 February 2015 acquired two (2) ordinary shares of RM1.00 each in AppAsia Mall Sdn Bhd (Company No. 1127299-V) (“AppAsia Mall”) from Mr Toh Hong Chye and Mr Wong Ngai Peow at a total consideration of RM 2.00 (Ringgit Malaysia: Two) only (“Acquisition”). Following the Acquisition, AppAsia would hold 100.0% of the total issued and paid up capital of AppAsia Mall and AppAsia Mall would become a wholly-owned subsidiary of the Company.
- (ii) The Company had on 12 February 2015 acquired two (2) ordinary shares of RM1.00 each in AppAsia International Sdn Bhd (Company No. 1124363-T) (“AppAsia International”) from Mr Toh Hong Chye and Mr Wong Ngai Peow at a total consideration of RM 2.00 (Ringgit Malaysia: Two) only (“Acquisition”). Following the Acquisition, AppAsia would hold 100.0% of the total issued and paid up capital of AppAsia International and AppAsia International would become a wholly-owned subsidiary of the Company.

The internal reorganisation would enable the Company to reorganise its subsidiary companies for better reporting and control.

A12. CONTINGENT LIABILITIES OR CONTINGENT ASSETS

Pursuant to material litigation disclosed in Notes B9 disclosed in this quarterly report, the management is seeking legal advice to defend an action brought by XConnect against Extol Ventures Sdn. Bhd. Based on preliminary assessment of the case, Directors are of the opinion that provisions are not required in respect of this matter, as the Writ of Summons and Statement of Claim is not expected to have any material financial and operational impact on the Group. At this juncture, Directors are also of the opinion that the amount of claim is not capable of reliable measurement.

A13. OPERATING LEASE COMMITMENTS

- (a) Operating lease commitments as lessee

The future minimum lease payments payable under non-cancellable operating leases are:

	Group	
	31 DEC 2014	30 SEP 2013
	RM	RM
Within one year	723,941	-
Later than one year but not later than two years	904,926	-
	1,628,867	-

- (b) Leasing arrangements

The Group leases a number of computer equipment software under non-cancellable operating lease agreements. The lease term is 3 years. None of the leases includes contingent rentals.

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 (The figures have not been audited)

A14. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Directors of the Company are of the opinion that there are no related party transactions which would have a material impact on the financial position and the business of the Group during the current financial quarter under review and financial period-to-date.

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF THE BURSA SECURITIES FOR THE ACE MARKET

B1. REVIEW OF PERFORMANCE FOR THE CURRENT QUARTER AND FINANCIAL PERIOD-TO-DATE ENDED 31 DECEMBER 2013

The Group recorded revenue in the current quarter ended 31 December 2014 of RM 2.28 million, representing an decrease of approximately 56.49% as compared to the revenue of corresponding quarter of the preceding period ended 31 December 2013 of RM 5.24 million. The decrease in revenue was mainly attributed to the competitive and challenging industry feedback as compared to the corresponding quarter of the preceding period ended 31 December 2013.

The Group's incurred loss after taxation ("LAT") of RM 2.32 million for the current quarter under review as compared to LAT of RM 0.83 million recorded in the corresponding quarter of the preceding year.

B2. COMPARISON OF CURRENT QUARTER WITH THE IMMEDIATE PRECEDING QUARTER

	Current Quarter 31 DEC 2014 RM'000	Preceding Quarter 30 SEP 2014 RM'000
Revenue	2,276	3,999
Gross profits	23	809
Gross Margin	1.01%	20.20%
Loss before taxation ("LBT")	(2,432)	(797)

The Group recorded revenue in the current quarter ended 31 December 2014 of RM 2.28 million, representing an decrease of 43% as compared to the revenue of previous quarter ended 30 September 2014 of RM 4.00 million. The decrease in revenue and gross profit are mainly due to the lower revenue in MSS segment.

The Group incurred LBT of RM 2.43 million for the current quarter under review as compared to LBT of RM 0.80 million recorded in the previous quarter ended 30 September 2014.

B3. PROSPECTS FOR THE CURRENT FINANCIAL YEAR

Despite the challenging company performance in the recent quarters, our Group is optimistic about the company's future by implementing business reformation strategies. The Group is currently undergoing some business division restructuring in order to expand our market share in the IT security business while expanding our market reach in the various markets.

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 (The figures have not been audited)

B4. VARIANCE ON PROFIT FORECAST AND PROFIT GUARANTEE

Not applicable as no profit forecast or profit guarantee was provided.

B5. TAXATION

Income tax expense comprises the followings:

	Individual Quarter		Cumulative Quarter	
	Three (3) months ended		Current	Preceding
	31 DEC 2014	31 DEC 2013	31 DEC 2014	30 SEP 2013
	RM'000	RM'000	RM'000	RM'000
In respect of the current period				
Income Tax				
- Current period/year	-	-	-	(79)
- Overprovision in prior year	-	-	23	-
Deferred Tax	113	-	113	140
Total income tax income	113	-	136	61

The Group was granted Pioneer Status in principle under the Promotion of Investments (Amendment) Act, 1986 by the Ministry of International Trade and Industry. The approved pioneer status was granted for 5 years period commencing from 27 September 2004. The Company submitted an application to Multimedia Development Corporation (“MDEC”) for an extension of the pioneer status in August 2009 and approval was granted in 11 May 2010 for another 5 years. The Pioneer Status was expired on 26 September 2014. The company is still granted with MSC status since 8 September 2004.

The Group’s current effective tax rate is thus lower than the Malaysian Statutory tax rate of 25 %.

The deferred tax liabilities are provided on the temporary differences arising from the subsidiary company’s property, plant and equipment and product development expenditure.

B6. STATUS OF CORPORATE PROPOSALS

On behalf of the Board, TA Securities wishes to announce that the Rights Issue of Shares with Warrants has been completed with the listing of 138,956,400 Rights Shares together with 138,956,400 Warrants on the ACE Market of Bursa Securities on 2 January 2015.

B7. STATUS OF UTILISATION OF PROCEEDS

The Company’s Private Placement of 12,632,400 new ordinary share was completed on 28 January 2014.

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B7. STATUS OF UTILISATION OF PROCEEDS (CONT'D)

The Status of utilization of the proceeds from Private Placement as follows:

Purpose	Proceeds Raise RM'000	Amount Utilised RM'000	Amount Unutilised RM'000	Intended Timeframe for utilization (from the date of list of the placement shares i.e 28 January 2014)
Working Capital	1,177	1,177	-	Within 12 months
Listing Expenses	149	149	-	Within 1 month
Total	1,326	1,326	-	

B8. GROUP BORROWINGS AND DEBT SECURITIES

Particulars of the Group's borrowings denominated in Ringgit Malaysia as at current FPE 31 December 2014 and previous FYE 30 September 2013 are as follows:

		As at 31 DEC 2014 RM'000	As at 30 SEP 2013 RM'000
Short term borrowings	- secured	500	500
Long term borrowings	- secured	-	500
Total term borrowings		<u>500</u>	<u>1,000</u>

B9. MATERIAL LITIGATION

As at the reporting date, the following are the material litigation against the Group.

The Company announced that on 20 August 2014, a sealed copy of Writ of Summons and Statement of Claim dated 19 August 2014 was served to Extol Ventures Sdn Bhd ("EVSB" or "the Defendant"), a wholly owned subsidiary, by Messrs Wong & Partners, the Advocates & Solicitors for Xconnect Global Networks Limited ("XConnect" or "the Plaintiff").

The Writ of Summons and Statement of Claim dated 19 August 2014 was filed to the Sessions Court at Kuala Lumpur in Wilayah Persekutuan with Kuala Lumpur Sessions Court Suit No: B52NCvC-246-08/2014 and have been fixed for hearing on 22 September 2014 at Jalan Duta Court Complex, Kuala Lumpur for case management.

APPASIA BERHAD (Formerly known as Extol MSC Berhad)

Company No. 643683-U
(Incorporated in Malaysia)

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(The figures have not been audited)

B9. MATERIAL LITIGATION (CONT'D)

Details of claims by The Plaintiff from the Defendant are as follow:-

- i. An order for the delivery up of the PoP Equipment as stated in the Statement of Claim and damage to be assessed;
- ii. Alternatively, judgment in the sum of US\$171,071.58 to be paid by Defendant;
- iii. Damages for detention of the PoP Equipment as stated in the Statement of Claim;
- iv. Alternatively, damages for conversion of the PoP Equipment as stated in the Statement of Claim;
- v. Interest on all sums found due and payable by the Defendant under Section 11 of the Civil Law Act, 1965 at the rate of 5% per annum from 19.08.2014 until full payment;
- vi. Costs; and
- vii. Such further and other relief as the Court deems fit and proper

On 15 September 2014, EVSB had filed a Defence and Counterclaim against Xconnect & Mohd Badaruddin Bin Masodi (“Badaruddin”). EVSB denies certain contents in the earlier Statement of Claim. Badaruddin had entered into the Malaysia Interconnection Exchange (“MIE Agreement”) for EVSB, on 3 October 2013 without any approval and/or ratification from the Board and/or shareholders of EVSB.

By the MIE Agreement, Xconnect had appointed EVSB as the exclusive Channel Partner for the delivery of Xconnect Global Networks Limited’s Products and Services to the customers in the territories of Malaysia and Indonesia.

Notwithstanding the terms of the MIE Agreement, Xconnect entered into an agreement with a third party, TG AGAS Technology Sdn Bhd (“TG AGAS”), on 4 October 2013 which is known as the Malaysian Federation Agreement (“MFA Agreement”) where all the provisions therein are identical to those found in the MIE Agreement.

Without the knowledge and/or the approval of the Board members and/or shareholders of EVSB, Badaruddin, as the Executive Deputy Chairman of TG AGAS, had on 4 October 2013 entered into the MFA Agreement with Xconnect.

EVSB avers that Xconnect had breached the MIE Agreement as the right of EVSB as the exclusive Channel Partner to supply Xconnect’s Products and Services in Malaysia was denied by Xconnect entering into the MFA Agreement with TG AGAS on 4 October 2013. EVSB avers that Xconnect has failed and/or refused to fulfil their obligations in the MIE Agreement. By reason of the matters aforesaid, EVSB denies being indebted to Xconnect as alleged in the Statement of Claim.

As such, EVSB claims that Xconnect through John Wilkinson and Badaruddin who is a director and shareholder of both EVSB and TG AGAS have acted to benefit TG AGAS and to cause EVSB to suffer financial loss.

EVSB avers that Badaruddin had breached his fiduciary duty under the Companies Act, 1965 where he shall at all times exercise his power for a proper purpose and in good faith in the best interest of EVSB.

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B9. MATERIAL LITIGATION (CONT'D)

Wherefore, EVSB counter claims against Xconnect and Badaruddin as follows:-

Against Xconnect: -

- a) The sum of US\$87,075.11;
- b) General Damages;
- c) Interest;
- d) Costs;
- e) Further or other relief as may be just.

Against Badaruddin: -

- a) If Xconnect succeeds in its claim against EVSB, an Order that Badaruddin do indemnify EVSB against all losses suffered and that he pay directly to Xconnect all of the judgement sum, including interest and costs, which EVSB is ordered to pay to Xconnect.
- b) The sum of US\$87,075.11.
- c) General Damages.
- d) Exemplary Damages.
- e) Interest.
- f) Costs.
- g) Further or other relief as may be just.

The application for security costs has been fixed for hearing on 17 November 2014 pending filing of the Affidavit in Reply by the Plaintiff.

The Sessions Court had on 26 November 2014, granted the Company the Order directing Xconnect Global Networks Limited to deposit the sum of RM100,000.00 (Ringgit Malaysia One Hundred Thousand) only as security for costs with the Court within Thirty (30) days from 26 November 2014, failing which their claim can be struck out on the Company's application.

Subsequently on 4 February 2015, the Board of Directors of AppAsia announced that the Company had on 29 January 2015 received the Kuala Lumpur Sessions Court sealed Order and Judgement both dated 14 January 2015 via a letter from Messrs Wong & Partners, the Plaintiff's lawyer dated 28 January 2014, ordered Extol Ventures Sdn Bhd to handover the PoP Equipments to Xconnect with damages to be assessed and cost of RM3,000 to Xconnect. The Company has no intention to appeal after having taken legal advice from the Company's solicitor. However, the Company shall be proceeding with its counter claim against Xconnect and Badaruddin.

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B10. LOSS PER SHARE

(a) Basic loss per share

The basic loss per share for the current financial quarter and financial period to-date are computed as follows:

	Current Quarter ended 31 DEC 2014	Period To-date ended 31 DEC 2014
Net loss attributed to equity holders of the company (RM'000)	(2,319)	(12,921)
Weighted average number of ordinary shares of RM0.10 in issue ('000)	135,695	135,695
Basic loss per ordinary shares (sen)	(1.71)	(9.52)

(b) Fully diluted loss per share

The diluted loss per share for current financial quarter and financial period to-date are computed as follows:

	Current Quarter ended 31 DEC 2014	Period To-date-ended 31 DEC 2014
Net loss attributed to equity holders of the company (RM'000)	(2,319)	(12,921)
Weighted average number of ordinary shares of RM0.10 in issue ('000)	135,695	135,695
Diluted loss per ordinary shares (sen)	(1.71)	(9.52)

B11. REALISED AND UNREALISED PROFITS DISCLOSURE

Total (accumulated loss)/retained profits may be analysed as follows:

	As at 31 DEC 2014 RM'000	As at 30 SEP 2013 RM'000
Total (accumulated loss)/retained profits of the Group		
- Realised	(11,705)	1,329
- Unrealised	-	(113)
	<u>(11,705)</u>	<u>1,216</u>
Less: Consolidation adjustments	(1,068)	(1,068)
Total (accumulated loss)/retained profit as per condensed consolidated statement of financial position	<u>(12,773)</u>	<u>148</u>

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 (The figures have not been audited)

B12. NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Total comprehensive income for the period was derived after charging / (crediting) the following items:

	Current Period Quarter 31 DEC 2014 RM'000	Current Period to Date 31 DEC 2014 RM'000
Interest income	(3)	(102)
Rental Income	(34)	(139)
Interest expenses	1	71
Depreciation and amortisation	56	860
Impairment of receivables	91	91
Bad debts written-off	(10)	111
Inventories written-off	529	663
Property, plant and equipment written-off	47	419
Amortisation of product development expenditure	-	2,525
Gain on disposal of property, plant and equipment	-	(33)
Goodwill written off	-	3,541
Gain on foreign exchange	41	12

B13. AUTHORISATION FOR ISSUE

The interim financial statements were authorized for issue on 16 February 2015 in accordance with resolution of the board of directors.