

QUARTERLY REPORT

Notes to the Quarterly Report for The Financial Year Ended 31 December 2015
(The figures have not been audited)

A. EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 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 period ended (“**FPE**”) 31 December 2014 and the accompanying explanatory notes. These explanatory notes attached to the interim financial statement 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 FPE 31 December 2014.

The significant accounting policies and presentations adopted by the Group in this quarterly report are consistent with those adopted in the annual audited financial statements for the FPE 31 December 2014.

The adoption of the following Malaysian Financial Reporting Standards (“**MFRSs**”) and Amendments to MFRSs that come into effect on 1 January 2015 did not have any significant impact on the unaudited condensed consolidated financial statements of the Group upon their initial application.

Adoption of Amendments to MFRSs

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

Amendments to MFRS 119	Defined Benefits Plans: Employee Contributions
Annual Improvements to MFRSs 2010 – 2012 Cycle	
Annual Improvements to MFRSs 2011 – 2013 Cycle	

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A1. BASIS OF PREPARATION (CONT'D)

Adoption of above Amendments to MFRSs 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 and Amendments to MFRSs that have been issued by MASB but are not yet effective for the Group:

		Effective dates for financial periods beginning on or after
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 101	Disclosure Initiative	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
Annual Improvements to MFRSs 2012–2014 Cycle		1 January 2016
Amendments to MFRS 10, MFRS12 and MFRS 128	Investments Entities: Applying the Consolidation Exception	1 January 2016
MFRS 9	Financial Instruments (IFRS 9 issued by IASB in July 2014)	1 January 2018
MFRS 15	Revenue from Contracts with Customers	1 January 2018
Amendments to MFRS 10 And MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be announced

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 of the Group for the FPE 31 December 2014 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 year-to-date.

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

During the current financial quarter under review and the current financial year-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 year-to-date.

A6. DEBT AND EQUITY SECURITIES

There were no issuance, cancellations, or repayments of debts and equity securities, share buy-backs, share cancellations, shares held as treasury shares, repurchase and resale of treasury shares for the current financial quarter under review, other than disclosed as follows:-

- a) On 02 January 2015, the Company had completed the issue of the Rights Issue of Shares with Warrants of 138,956,400 new ordinary shares of RM0.10 each (“Rights Share”), together with 138,956,400 free detachable new warrants (“Warrants”) on the basis of one (1) Rights Share together with one (1) Warrants for every one (1) existing share at an issue price of RM0.10 per Rights Share.
- b) On 19 May 2015 and 24 June 2015, the Company has issued additional 860,000 and 1,900,000 new ordinary shares of RM0.10 each respectively at the exercise price of RM0.183 pursuant to the Shares Issuance Scheme (“SIS”).
- c) On 15 July 2015, the Company has issued additional 450,000 new ordinary shares of RM0.10 each at the exercise price of RM0.183 pursuant to the Shares Issuance Scheme (“SIS”).

The detailed movement of the issued and paid up capital and share premium for the Company is as follows: -

	No. of shares issued and fully paid up ordinary shares of RM0.10 each ‘000	Share capital RM’000	Share premium RM’000	Total RM’000
As at 01 January 2015	138,956	13,896	4,082	17,978
Issuance of shares via Rights Issue	138,956	13,895	-	13,895
Issuance of shares expenses	-	-	(567)	(567)
Issuance of shares via SIS	3,210	321	266	587
Exercised of SIS	-	-	232	232
As at 31 December 2015	<u>281,122</u>	<u>28,112</u>	<u>4,013</u>	<u>32,125</u>

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A7. VALUATION OF PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

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

All property, plant and equipment and investment properties 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 year-to-date.

A9. SEGMENTAL INFORMATION

In line with the Group's strategy to penetrate into different IT consumers market, the management has currently segregate the Group into 2 core business units based on different products, services and market segments as follows:

1. ICT Security Business

The ICT Security Business provides the solutions, products and services in the information technology security sector. It includes the managed security services, security-enhanced enterprise solutions, managed infrastructure services, IT hardware and software trading, professional consultancy, system development, security penetration testing, forensic research and specialized training services.

2. E-Commerce Business

The E-Commerce Business mainly focuses in the research, development and operation of the e-commerce websites and mobile applications. The Group aims to further expand the existing online fashion wholesale mall into a global e-marketplace targeted for various consumer markets. The major revenue of the E-Commerce Business is mainly from the online merchandize transaction.

The Group management strategically dedicates the operation of each business units to the respective subsidiaries and monitors the operation separately for effective resource allocation and performance assessment. Each business unit's performance is evaluated based on the long term business value and profitability.

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A9. SEGMENTAL INFORMATION (CONT'D)

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

	<u>Individual Quarter</u>		<u>Cumulative Quarter</u>	
	Current Quarter 31 December 2015 RM'000	Preceding Year Corresponding Quarter 31 December 2014 RM'000	Current Year To Date 31 December 2015 RM'000	Preceding Year Corresponding Period 31 December 2014 RM'000
Segment Revenue				
ICT security business	379	2,276	5,803	14,927
E-commerce business	1,391	-	4,293	-
Total revenue	1,770	2,276	10,096	14,927
Segment Results				
ICT security business	(1,124)	(2,431)	1,063	(13,266)
E-commerce business	(881)	-	(6,082)	-
Loss from operations	(2,005)	(2,431)	(5,019)	(13,266)
Interest expense	(3)	(1)	(40)	(71)
Loss before taxation	(2,008)	(2,432)	(5,059)	(13,337)

A10. MATERIAL EVENTS SUBSEQUENT TO THE CURRENT FINANCIAL QUARTER

On 5 February 2016, the Board of Directors of AppAsia wishes to inform that the Company had on 4 February 2016 received a letter from the Company's Solicitors informing that the Learned Judge of the Sessions Court of Kuala Lumpur had allowed Extol Ventures Sdn. Bhd. ("EVSB") counterclaim against Mohd Badaruddin Bin Masodi for the sum of USD87,075.11, being monies paid to XConnect Global Networks Limited and exemplary damages in the sum of RM25,000.00 for breach of his fiduciary duties and costs according to scale.

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

A11. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the period under review.

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A12. CONTINGENT LIABILITIES OR CONTINGENT ASSETS

On 16 December 2015, the Board of Directors of AppAsia announced that the Company (“the Purchaser”) had on 15 December 2015 entered into a Sale and Purchase Agreements with Acreage Properties Sdn Bhd (Company No. 863213-U) of 1156, Suite 19.07, 19th Floor, Semua House, Jalan Masjid India, 50100 Kuala Lumpur (“APSB” or “the Vendor”) to purchase a unit of 4-storey intermediate shop/office premise bearing postal address of No. 101, 101A, 101B & 101C, Persiaran Pegaga, Taman Bayu Perdana, 41200 Klang, Selangor, measuring approximately 139 square metres for a total consideration of RM1,300,000.00 (“Purchase Price”) (“Proposed Acquisition”). The remaining balance of the Purchase Price amounting to RM 1,240,200.00 (including GST) will be made by end of February 2016.

A13. OPERATING LEASE COMMITMENTS

(a) Operating lease commitments as lessee

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

	As At 31 December 2015 RM'000	As At 30 September 2015 RM'000
Within one year	-	-
Later than one year but not later than two years	-	-
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(b) Leasing arrangements

The Group and the Lessor had concluded to end the lease agreement by 1 December 2015 with a total settlement sum of RM1,000,000.00 which had been paid to the Lessor.

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 year-to-date.

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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 YEAR-TO-DATE ENDED 31 DECEMBER 2015

The Group recorded revenue in the current quarter ended 31 December 2015 of RM 1.77 million, representing an decrease of approximately 22.37% as compared to the revenue of corresponding quarter of the preceding period ended 31 December 2014 of RM 2.28 million.

The Group recorded a loss after taxation of RM2.04 million for the current quarter under review as compared to a loss after taxation of RM 2.32 million recorded in the corresponding quarter of the preceding year.

B2. COMPARISON OF CURRENT QUARTER WITH THE IMMEDIATE PRECEDING QUARTER

	Current quarter 31 December 2015 RM'000	Preceding quarter 30 September 2015 RM'000
Revenue	1,770	2,935
Gross profits	641	1,738
Gross Margin	36.22%	59.22%
Loss before taxation	(2,008)	(1,127)

The Group recorded revenue in the current quarter ended 31 December 2015 of RM 1.77 million, representing an decrease of 39.80% as compared to the revenue of previous quarter ended 30 September 2015 of RM 2.94 million. The decrease was due to the decrease in revenue for ICT security segments during the financial quarter.

The Group recorded a loss before taxation of RM 2.01 million for the current quarter under review as compared to a loss before taxation of RM 1.13 million recorded in the previous quarter ended 30 September 2015.

B3. PROSPECTS FOR THE CURRENT FINANCIAL YEAR

The Board is of the view that, barring any unforeseen circumstances, the ICT security segment is expected to remain challenging given the competitive market. Our Group will continue and try our best to improve in meeting better result in ICT security segment.

Besides, our Group is optimistic about the company's future by expanding into the e-commerce business. The Group had recorded an increase in revenue in current quarter review as compared with previous quarter in the e-commerce segment.

B4. VARIANCE ON PROFIT FORECAST AND PROFIT GUARANTEE

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

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B5. TAXATION

Income tax income comprises the followings:

	Individual Quarter Ended		Cumulative Quarter Ended	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
	RM'000	RM'000	RM'000	RM'000
In respect of the current period				
Taxation				
- Current year	(29)	-	(29)	-
- Overprovision in prior year	-	-	-	23
Deferred taxation	-	113	-	113
Total income tax income	(29)	113	(29)	136

B6. STATUS OF CORPORATE PROPOSALS

There were no corporate proposals announced but not completed as at the date of this report.

B7. STATUS OF UTILISATION OF PROCEEDS

The Status of utilization of the proceeds from Rights Issue of Shares with Warrants as follows:

Purpose	Proceeds Raise RM'000	Amount Utilised RM'000	Amount Unutilised RM'000	Intended Timeframe for utilisation (from the date of listing i.e 2 January 2015)
Research and development for new product	3,882	1,478	2,404	Within 24 months
Purchase of production and operation equipment	1,151	667	484	Within 24 months
Working Capital	8,296	7,429	867	Within 24 months
Listing Expenses	567	567	-	Within 2 weeks
Total	13,896	10,141	3,755	

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B8. GROUP BORROWINGS AND DEBT SECURITIES

The Group's borrowings denominated in Ringgit Malaysia as at the end of the current quarter under review are as follows:

	31 December 2015 RM'000
Secured – short term	
Finance lease payables	35
Secured – long term	
Finance lease payables	48
Total Borrowings	<u>83</u>

B9. MATERIAL LITIGATION

Save as disclosed in Note A10, there was no material event to the end of the current financial quarter under review.

B10. LOSS PER SHARE

(a) Basic loss per share

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

	Current quarter ended 31 December 2015	Cumulative quarter ended 31 December 2015
Net loss attributed to equity holders of the Company (RM'000)	(2,037)	(5,088)
Weighted average number of ordinary shares of RM0.10 in issue ('000)	281,123	279,271
Basic loss per share (sen)	(0.73)	(1.82)

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B10. LOSS PER SHARE (CONT'D)

(b) Diluted loss per share

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

	Current quarter ended 31 December 2015	Cumulative quarter ended 31 December 2015
Net loss attributed to equity holders of the Company (RM'000)	(2,037)	(5,088)
Weighted average number of ordinary shares of RM0.10 in issue ('000)	304,775	328,972
Diluted loss per shares (sen)	(0.67)	(1.55)

B11. REALISED AND UNREALISED LOSSES DISCLOSURE

Total accumulated losses may be analyzed as follows:

	As at 31 December 2015 RM'000	As at 31 December 2014 RM'000
Total accumulated losses of the group		
Realised	(14,076)	(8,988)
Unrealised	-	-
	(14,076)	(8,988)
Less: Consolidation adjustments	(4,065)	(4,065)
Total accumulated losses as per condensed consolidated statement of financial position	(18,141)	(13,053)

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B12. NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

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

	Current quarter ended	Cumulative quarter ended
	31 December 2015	31 December 2015
	RM'000	RM'000
Bad debts recovery	(1)	(20)
Bad debts written-off	-	1
Depreciation	126	431
Realised loss on foreign exchange	1	18
Unrealised loss/(gain) on foreign exchange	18	(85)
Goodwill written off	414	414
Interest expense	3	40
Interest income	(61)	(229)
Rental income	(37)	(146)
Loss on disposal of property, plant and equipment	11	11