Financial Statements

DIRECTORS' REPORT

The Directors hereby present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activities of the Company consist of research and development, provision of management services and investment holding.

The principal activities of its subsidiary companies are disclosed in Note 7 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

FINANCIAL RESULTS

	Group RM	Company RM
Net loss for the financial year, representing attributable to owners of the parent	6,851,813	2,143,040

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

DIVIDEND

There was no dividend proposed, declared or paid by the Company since the end of the previous financial year. The Directors do not recommend any dividend in respect of the current financial year.

DIRECTORS' REPORT (Cont'd)

ISSUE OF SHARES AND DEBENTURES

During the financial year, the Company increased its issued and paid-up share capital from RM28,112,280 to RM28,372,280 by way of the issuance of 2,600,000 new ordinary shares of RM0.10 each through the exercise of Share Issuance Scheme ("SIS") Options at issuance price of RM0.183 per ordinary share for cash consideration of RM475,800.

The new ordinary shares issued during the financial year rank pari passu in all respects with the existing ordinary shares of the Company.

There was no issuance of debentures during the financial year.

WARRANT RESERVE

The Warrants were constituted under the Deed Poll dated 19 November 2014 as disclosed in the Note 16(b) to the financial statements.

As at 31 December 2016, the total numbers of Warrants that remain unexercised were 138,956,400.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year apart from the issue of options pursuant to the SIS.

At an extraordinary general meeting held on 15 November 2014, the Company's shareholders approved the establishment of SIS of not more than 30% of the issued and paid-up share capital of the Company at the point of time throughout the duration of the scheme to eligible Directors and employees of the Group. The salient features and other terms of the SIS are disclosed in the Note 28 to the financial statements.

As at 31 December 2016, the options offered to take up unissued ordinary shares of RM0.10 each and the exercise prices are as follows:

		Number of options over ordinary shares of RM0.10 each			
Date of offer	**Exercise price**	**At 1.1.2016**	**Exercised**	**Lapsed**	**At 31.12.2016**
24 March 2015	0.183	66,790,000	(2,600,000)	(11,124,000)	53,066,000

DIRECTORS

Directors who served during the financial year until the date of this report are:

Datuk Wira Rahadian Mahmud Bin Mohammad Khalil
Toh Hong Chye
Wong Ngai Peow
Low Kim Leng
Ng Kok Wah

DIRECTORS' REPORT (Cont'd)

DIRECTORS' INTERESTS

The interests and deemed interests in the shares, warrants and options over the shares of the Company or its related corporations (other than wholly-owned subsidiary companies) by the Directors in office at the end of the financial year according to the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM0.10 each			
	At 1.1.2016	**Acquired**	**Sold**	**At 31.12.2016**
Interests in the Company				
Direct interests				
Toh Hong Chye	30,002,900	–	–	30,002,900
Wong Ngai Peow	103,000	300,000	–	403,000
Low Kim Leng	450,000	550,000	–	1,000,000
Indirect interests				
Toh Hong Chye*	30,000,000	–	–	30,000,000

	Number of Warrants			
	At 1.1.2016	**Acquired**	**Sold**	**At 31.12.2016**
Interests in the Company				
Direct interests				
Toh Hong Chye	17,000,000	–	(17,000,000)	–
Wong Ngai Peow	1,500	–	–	1,500
Indirect interests				
Toh Hong Chye*	3,000,000	–	(3,000,000)	–

	Number of options over ordinary shares of RM0.10 each			
	At 1.1.2016	**Grant**	**Exercised**	**At 31.12.2016**
Interests in the Company				
Direct interests				
Datuk Wira Rahadian Mahmud Bin Mohammad Khalil	1,500,000	–	–	1,500,000
Toh Hong Chye	8,300,000	–	–	8,300,000
Wong Ngai Peow	7,000,000	–	–	7,000,000
Low Kim Leng	1,050,000	–	(450,000)	600,000
Ng Kok Wah	1,500,000	–	–	1,500,000

* *Deemed interest pursuant to Section 8 of the Companies Act, 2016 ("the Act") by virtue of his substantial shareholdings in Richmond Virginia Tobacco Sdn. Bhd.*

By virtue of their interest in the shares of the Company, Toh Hong Chye hold > 20% shares in the Company are also deemed interested in the shares of all the subsidiary companies during the financial year to the extent that the Company has an interest under Section 8 of the Companies Act, 2016.

DIRECTORS' REPORT (Cont'd)

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than certain Directors who have significant financial interests in companies which traded with certain companies in the Group in the ordinary course of business as disclosed in Note 29(b) to the financial statements.

Neither during nor at the end of the financial year, was the Company a party to any arrangement whose object was to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

OTHER STATUTORY INFORMATION

(a) Before the statements of financial position and statements of profit or loss and other comprehensive income of the Group and of the Company were made out, the Directors took reasonable steps:

   (i) to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that adequate allowance had been made for doubtful debts and there were no bad debts to be written off; and

   (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the Directors are not aware of any circumstances:

   (i) which would render it necessary to make any bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or

   (ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or

   (iii) not otherwise dealt with in this report or the financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading; or

   (iv) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(c) At the date of this report, there does not exist:

   (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liability of any other person; or

   (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.

DIRECTORS' REPORT (Cont'd)

OTHER STATUTORY INFORMATION (CONT'D)

(d) In the opinion of the Directors:

(i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Company to meet their obligations as and when they fall due;

(ii) the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, except as disclosed in the notes to the financial statements; and

(iii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

SIGNIFICANT AND SUBSEQUENT EVENTS

The significant and subsequent events are disclosed in Note 34 to the financial statements.

AUDITORS

The Auditors, Messrs UHY, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 13 April 2017.

TOH HONG CHYE	**WONG NGAI PEOW**

KUALA LUMPUR

STATEMENT BY DIRECTORS
Pursuant to Section 251(2) of the Companies Act, 2016

We, the undersigned, being two of the Directors of the Company, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 53 to 126 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and of their financial performance and cash flows for the financial year then ended.

The supplementary information set out in Note 37 to the financial statements on page 126 have been compiled in accordance with Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants and the directive of Bursa Malaysia Securities Berhad.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 13 April 2017.

TOH HONG CHYE

WONG NGAI PEOW

KUALA LUMPUR

STATUTORY DECLARATION
Pursuant to Section 251(1)(b) of the Companies Act, 2016

I, TOH HONG CHYE, being the Director primarily responsible for the financial management of AppAsia Berhad, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements set out on pages 53 to 126 are correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act 1960.

Subscribed and solemnly declared by the)
abovenamed at Kuala Lumpur in the state)
of Federal Territory on 13 April 2017)

TOH HONG CHYE

Before me,

NO. W710
MOHAN A.S. MANIAM
Commissioner for Oaths

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF APPASIA BERHAD

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of APPASIA BERHAD, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 53 to 126.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By- Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF APPASIA BERHAD (Cont'd)

Key Audit Matters (Cont'd)

Key audit matter	How our audit addressed the key audit matter
Recoverability of cost of investment in subsidiary companies Refer to Note 3(a)(i) (Significant Accounting Policies), Note 2(d) (Significant Accounting Judgements, Estimates and Assumptions) and Note 7 (Investment in Subsidiary Companies). The carrying value of cost of investment in subsidiary companies of the Company as at 31 December 2016 is RM18,406,504. The subsidiary companies recorded continued losses for two consecutive years, which is an impairment indicator. An impairment assessment was performed by management. The recoverable amounts of the investment are determined based on discounted future cash flows. No impairment was required as the recoverable amounts was in excess of their carrying amount. We focused on this area as the recoverable amounts of the investment are determined based on value-in-use method, which requires judgement on the part of management on the future financial performance of the subsidiary companies.	Our audit procedures included, amongst others: • Assessed the reliability of management's forecast through the review of past trends of actual financial performances against previous forecasted results; • Assessed the key assumptions on which the cash flow projections are based, by amongst others, comparing them against business plans, historical results and market data; • Performed sensitivity analysis on key assumptions to evaluate impact on the impairment assessment; and • Assessed the adequacy and reasonableness of the disclosures in the financial statements.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF APPASIA BERHAD (Cont'd)

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF APPASIA BERHAD (Cont'd)

Auditors' Responsibilities for the Audit of the Financial Statements (Cont'd)

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

(b) We have considered the accounts and the auditors' reports of all the subsidiary companies of which we have not acted as auditors, which are indicated in Note 7 to the financial statements, being accounts that have been included in the consolidated accounts.

(c) We are satisfied that the accounts of the subsidiary companies that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(d) The audit reports on the accounts of the subsidiary companies did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF APPASIA BERHAD (Cont'd)

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 37 to the financial statements on page 126 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on 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, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTER

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

UHY
Firm Number: AF 1411
Chartered Accountants

LAI WONG CHUNG
Approved Number: 3277/08/18 (J)
Chartered Accountant

KUALA LUMPUR

13 April 2017

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

		Group		Company	
		2016	2015	2016	2015
	Note	RM	RM	RM	RM
ASSETS					
Non-Current Assets					
Property, plant and equipment	4	1,150,000	1,289,728	811,206	726,532
Investment properties	5	3,698,967	1,287,440	2,452,167	–
Product development expenditure	6	400,000	–	400,000	–
Investment in subsidiary companies	7	–	–	18,406,504	11,506,504
Investment in associate company	8	51,582	–	60,000	–
		5,300,549	2,577,168	22,129,877	12,233,036
Current Assets					
Inventories	9	286,587	531,776	–	–
Trade receivables	10	153,421	517,353	–	–
Other receivables	11	693,771	1,877,096	234,936	1,634,331
Amount due from subsidiary companies	12	–	–	–	4,119,531
Tax recoverable		109,596	85,230	–	–
Fixed deposits with licensed banks	13	16,620	241,954	–	–
Cash and bank balances	14	5,176,527	11,475,892	3,809,715	8,574,091
		6,436,522	14,729,301	4,044,651	14,327,953
Total Assets		11,737,071	17,306,469	26,174,528	26,560,989

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016 (Cont'd)

		Group		Company	
	Note	2016 RM	2015 RM	2016 RM	2015 RM
EQUITY					
Share capital	15	28,372,280	28,112,280	28,372,280	28,112,280
Reserves	16	(18,329,217)	(12,934,667)	(3,528,083)	(2,848,747)
Total Equity		10,043,063	15,177,613	24,844,197	25,263,533
LIABILITIES					
Non-Current Liability					
Finance lease liabilities	17	141,253	47,682	141,253	47,682
		141,253	47,682	141,253	47,682
Current Liabilities					
Trade payables	18	42,236	468,549	–	–
Other payables	19	1,392,367	1,577,238	234,776	414,387
Amount due to subsidiary companies	12	–	–	838,929	800,000
Amount due to associate company	20	2,779	–	–	–
Finance lease liabilities	17	115,373	35,387	115,373	35,387
		1,552,755	2,081,174	1,189,078	1,249,774
Total Liabilities		1,694,008	2,128,856	1,330,331	1,297,456
Total Equity and Liabilities		11,737,071	17,306,469	26,174,528	26,560,989

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

		Group		Company	
	Note	2016 RM	2015 RM	2016 RM	2015 RM
Revenue	21	4,658,751	10,072,657	2,760,000	960,000
Cost of sales		(1,122,173)	(4,083,724)	-	–
Gross profit		3,536,578	5,988,933	2,760,000	960,000
Other income		490,843	651,216	200,566	369,822
Administrative expenses		(10,862,982)	(11,749,618)	(5,094,214)	(5,106,198)
Finance costs	22	(9,392)	(39,597)	(9,392)	(9,679)
Share of result of associate company		(8,418)	–	–	–
Loss before tax	23	(6,853,371)	(5,149,066)	(2,143,040)	(3,786,055)
Taxation	24	1,558	(29,088)	–	–
Net loss for the financial year		(6,851,813)	(5,178,154)	(2,143,040)	(3,786,055)
Other comprehensive loss					
Item that is or may be reclassified subsequently to profit or loss					
Exchange translation differences for foreign operation		(6,441)	(2,496)	–	–
Other comprehensive loss for the financial year		(6,441)	(2,496)	–	–
Total comprehensive loss for the financial year		(6,858,254)	(5,180,650)	(2,143,040)	(3,786,055)
Loss for the financial year attributable to owners of the parent		(6,851,813)	(5,178,154)	(2,143,040)	(3,786,055)
Total comprehensive loss attributable to owners of the parent		(6,858,254)	(5,180,650)	(2,143,040)	(3,786,055)
Loss per share					
Basic loss per share (sen)	25(a)	(2.43)	(1.85)		
Diluted loss per share (sen)	25(b)	(2.43)	(1.85)		

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

		Attributable to the Owners of the Parent							
		Non-Distributable						Distributable	
Group	Note	Share Capital RM	Share Premium RM	Warrant Reserve RM	Other Reserve RM	Share Issuance Scheme Option Reserve RM	Foreign Currency Translation Reserve RM	Accumulated Losses RM	Total Equity RM
At 1 January 2015		13,895,640	4,081,846	–	–	–	–	(13,053,374)	4,924,112
Net loss for the financial year		–	–	–	–	–	–	(5,178,154)	(5,178,154)
Other comprehensive loss for the financial year		–	–	–	–	–	(2,496)	–	(2,496)
Total comprehensive loss for the financial year		–	–	–	–	–	(2,496)	(5,178,154)	(5,180,650)
Transactions with owners:									
Issued of ordinary shares	15, 16	13,895,640	–	–	–	–	–	–	13,895,640
Shares issuance expenses	16	–	(567,219)	–	–	–	–	–	(567,219)
Issued of warrants	16	–	–	20,982,416	(20,982,416)	–	–	–	–
Shares options granted under SIS	16	–	–	–	–	1,518,300	–	–	1,518,300
Exercised of SIS	15, 16	321,000	498,513	–	–	(232,083)	–	–	587,430
		14,216,640	(68,706)	20,982,416	(20,982,416)	1,286,217	–	–	15,434,151
At 31 December 2015		28,112,280	4,013,140	20,982,416	(20,982,416)	1,286,217	(2,496)	(18,231,528)	15,177,613

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (Cont'd)

		Attributable to the Owners of the Parent							
		Non-Distributable						Distributable	
Group	Note	Share Capital RM	Share Premium RM	Warrant Reserve RM	Other Reserve RM	Share Issuance Scheme Option Reserve RM	Foreign Currency Translation Reserve RM	Accumulated Losses RM	Total Equity RM
At 1 January 2016		28,112,280	4,013,140	20,982,416	(20,982,416)	1,286,217	(2,496)	(18,231,528)	15,177,613
Net loss for the financial year		–	–	–	–	–	–	(6,851,813)	(6,851,813)
Other comprehensive loss for the financial year		–	–	–	–	–	(6,441)	–	(6,441)
Total comprehensive loss for the financial year		–	–	–	–	–	(6,441)	(6,851,813)	(6,858,254)
Transactions with owners:									
Shares options granted under SIS	16	–	–	–	–	1,247,904	–	–	1,247,904
Shares options lapsed	16	–	–	–	–	(611,302)	–	611,302	–
Exercised of SIS	15, 16	260,000	397,405	–	–	(181,605)	–	–	475,800
		260,000	397,405	–	–	454,997	–	611,302	1,723,704
At 31 December 2016		28,372,280	4,410,545	20,982,416	(20,982,416)	1,741,214	(8,937)	(24,472,039)	10,043,063

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (Cont'd)

		Attributable to the Owners of the Parent						
		Non-Distributable					Distributable	
Company	**Note**	**Share Capital RM**	**Share Premium RM**	**Warrant Reserve RM**	**Other Reserve RM**	**Share Issuance Scheme Option Reserve RM**	**Accumulated Losses RM**	**Total Equity RM**
At 1 January 2015		13,895,640	4,081,846	–	–	–	(4,362,049)	13,615,437
Net loss for the financial year, representing total comprehensive loss for the financial year		–	–	–	–	–	(3,786,055)	(3,786,055)
Transactions with owners:								
Issued of shares	15, 16	13,895,640	–	–	–	–	–	13,895,640
Shares issuance expenses	16	–	(567,219)	–	–	–	–	(567,219)
Issued of warrants	16	–	–	20,982,416	(20,982,416)			–
Shares options granted under SIS	16	–	–	–	–	1,518,300	–	1,518,300
Exercised of SIS	15, 16	321,000	498,513	–	–	(232,083)	–	587,430
		14,216,640	(68,706)	20,982,416	(20,982,416)	1,286,217	–	15,434,151
At 31 December 2015		28,112,280	4,013,140	20,982,416	(20,982,416)	1,286,217	(8,148,104)	25,263,533

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (Cont'd)

		Attributable to the Owners of the Parent						
		Non-Distributable					Distributable	
Company	**Note**	**Share Capital RM**	**Share Premium RM**	**Warrant Reserve RM**	**Other Reserve RM**	**Share Issuance Scheme Option Reserve RM**	**Accumulated Losses RM**	**Total Equity RM**
At 1 January 2016		28,112,280	4,013,140	20,982,416	(20,982,416)	1,286,217	(8,148,104)	25,263,533
Net loss for the financial year, representing total comprehensive loss for the financial year		–	–	–	–	–	(2,143,040)	(2,143,040)
Transactions with owners:								
Shares options granted under SIS	16	–	–	–	–	1,247,904	–	1,247,904
Shares options lapsed	16	–	–	–	–	(611,302)	611,302	–
Exercised of SIS	15, 16	260,000	397,405	–	–	(181,605)	–	475,800
		260,000	397,405	–	–	454,997	611,302	1,723,704
At 31 December 2016		28,372,280	4,410,545	20,982,416	(20,982,416)	1,741,214	(9,679,842)	24,844,197

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

		Group		Company	
	Note	2016 RM	2015 RM	2016 RM	2015 RM
Cash Flows From Operating Activities					
Loss before tax		(6,853,371)	(5,149,066)	(2,143,040)	(3,786,055)
Adjustments for:					
Bad debts written off		–	1,289	–	–
Depreciation of investment properties		88,473	40,640	47,833	–
Depreciation of property, plant and equipment		836,461	390,670	536,565	150,721
Share-based payment		1,247,904	1,518,300	1,247,904	1,518,300
Goodwill written off	7(b)	–	413,618	–	–
Impairment on trade receivables		145,459	–	–	–
Interest expense		9,392	39,597	9,392	9,679
Inventories written off		–	89,668	–	–
Property, plant and equipment:-					
- written off		30,422	–	–	–
- others		2,521	–	2,521	–
Reversal of inventories written off		(52,196)	–	–	–
Waiver of amount due to other payable		(534)	–	–	–
Share of result of associate company		8,418	–	–	–
(Gain)/Loss on disposal of property, plant and equipment		(21,489)	11,126	–	11,126
Unrealised gain on foreign exchange		(124,748)	(84,606)	(80,024)	(33,825)
Interest income		(136,520)	(228,977)	(117,342)	(213,923)
Operating loss before working capital changes carried forward		(4,819,808)	(2,957,741)	(496,191)	(2,343,977)

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (Cont'd)

		Group		Company	
	Note	2016 RM	2015 RM	2016 RM	2015 RM
Cash Flows From Operating Activities (Cont'd)					
Operating loss before working capital changes brought forward		(4,819,808)	(2,957,741)	(496,191)	(2,343,977)
Change in working capital:					
Inventories		297,385	14,939	–	–
Receivables		1,401,798	(135,300)	1,399,395	(1,196,311)
Payables		(610,650)	1,069,988	(179,611)	195,666
Associate company		2,779	–	–	–
Subsidiary companies		–	–	4,158,460	(101,305)
		1,091,312	949,627	5,378,244	(1,101,950)
Cash (used in)/from operations		(3,728,496)	(2,008,114)	4,882,053	(3,445,927)
Interest paid		(9,392)	(39,597)	(9,392)	(9,679)
Interest received		136,520	228,977	117,342	213,923
Tax paid		(60,008)	(59,588)	–	–
Tax refund		37,200	14,292	–	–
Net cash (used in)/from operating activities		(3,624,176)	(1,864,030)	4,990,003	(3,241,683)
Cash Flows From Investing Activities					
Addition of product development expediture		(400,000)	–	(400,000)	–
Net cash outflows from acquisition of business	7(b)	–	(1,059,593)	–	–
Purchase of property, plant and equipment	4(a)	(497,062)	(1,253,086)	(383,760)	(708,964)
Purchase of investment properties		(2,500,000)	–	(2,500,000)	–
Proceeds from disposal of property, plant and equipment		29,329	89,538	–	89,538
Investment in subsidiary companies		–	–	(6,900,000)	(2,000,000)
Investment in associate company		(60,000)	–	(60,000)	–
Net cash used in investing activities		(3,427,733)	(2,223,141)	(10,243,760)	(2,619,426)

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (Cont'd)

		Group		Company	
	Note	2016 RM	2015 RM	2016 RM	2015 RM
Cash Flows From Financing Activities					
Proceeds from issuance of shares	15	–	13,895,640	–	13,895,640
Proceeds from exercise of SIS options		475,800	587,430	475,800	587,430
Shares issuance expenses	16	–	(567,219)	–	(567,219)
Decrease in fixed deposits pledged		241,954	66,204	–	–
Repayment of finance lease liabilities		(66,443)	(138,750)	(66,443)	(138,750)
Repayment of term loan		–	(500,000)	–	–
Net cash from financing activities		651,311	13,343,305	409,357	13,777,101
Net (decrease)/increase in cash and cash equivalents		(6,400,598)	9,256,134	(4,844,400)	7,915,992
Effect of exchange translation differences on cash and cash equivalents		117,853	40,942	80,024	33,825
Cash and cash equivalents at the beginning of the financial year		11,475,892	2,178,816	8,574,091	624,274
Cash and cash equivalents at the end of the financial year		5,193,147	11,475,892	3,809,715	8,574,091
Cash and cash equivalents at the end of the financial year comprises:					
Fixed deposits with licensed banks		16,620	241,954	–	–
Cash and bank balances		5,176,527	11,475,892	3,809,715	8,574,091
		5,193,147	11,717,846	3,809,715	8,574,091
Less: Fixed deposits pledged with licensed banks		–	(241,954)	–	–
		5,193,147	11,475,892	3,809,715	8,574,091

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia and is listed on ACE Market of the Bursa Malaysia Securities Berhad.

The principal place of business of the Company is at 1-40-1, Menara Bangkok Bank, Laman Sentral Berjaya, No.105, Jalan Ampang, 50450 Kuala Lumpur.

The registered office of the Company is located at Suite 10.03, Level 10, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur.

The principal activities of the Company consist of research and development, provision of management services and investment holding. The principal activities of its subsidiary companies are disclosed in Note 7 to the financial statements. There have been no significant changes in the nature of these activities of the Company and its subsidiary companies during the financial year.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of the Group and the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Adoption of new and amended standards

During the financial year, the Group and the Company have adopted the following MFRSs and amendments to MFRSs issued by the Malaysian Accounting Standards Board ("MASB") that are mandatory for current financial year:

MFRS 14	Regulatory Deferral Accounts
Amendments to MFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to MFRS 10, MFRS 12 and MFRS 128	Investment Entities: Applying the Consolidation Exception
Amendments to MFRS 101	Disclosure Initiative
Amendments to MFRS 116 and MFRS 138	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 116 and MFRS 141	Agriculture: Bearer Plants
Amendments to MFRS 127	Equity Method in Separate Financial Statements
Annual Improvements to MFRSs 2012–2014 Cycle	

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

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

2. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (Cont'd)

Standards issued but not yet effective

The Group and the Company have not applied the following new MFRSs, Interpretation and amendments to MFRSs that have been issued by the MASB but are not yet effective for the Group and the Company:

		Effective dates for financial periods beginning on or after
Amendment to MFRS 107	Disclosure Initiative	1 January 2017
Amendments to MFRS 112	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Annual Improvements to MFRSs 2014 – 2016 Cycle:		
• Amendments to MFRS 12		1 January 2017
• Amendments to MFRS 1		1 January 2018
• Amendments to MFRS 128		1 January 2018
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 2	Classification and measurement of Share-based payment Transactions	1 January 2018
Amendments to MFRS 15	Clarifications to MFRS 15	1 January 2018
Amendments to MFRS 140	Transfers of Investment Property	1 January 2018
Amendments to MFRS 4	Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts	1 January 2018
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 16	Leases	1 January 2019
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred until further notice

The Group and the Company intend to adopt the above MFRSs and interpretation when they become effective.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

2. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (Cont'd)

Standards issued but not yet effective (Cont'd)

The initial application of the abovementioned MFRSs and interpretation are not expected to have any significant impacts on the financial statements of the Group and the Company except as mentioned below:

MFRS 9 Financial Instruments (IFRS 9 issued by IASB in July 2014)

MFRS 9 (IFRS 9 issued by IASB in July 2014) replaces earlier versions of MFRS 9 and introduces a package of improvements which includes a classification and measurement model, a single forward looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. MFRS 9 when effective will replace MFRS 139 *Financial Instruments: Recognition and Measurement.*

MFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income without subsequent recycling to profit or loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in MFRS 139. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. MFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under MFRS 139.

The Group is currently assessing the financial impact that may arise from the adopting MFRS 9.

MFRS 15 Revenue from Contracts with Customers

MFRS 15 replaces MFRS 118 *Revenue*, MFRS 111 *Construction Contracts* and related IC Interpretations. The Standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group is currently assessing the financial impact that may arise from the adopting MFRS 15.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

2. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (Cont'd)

Standards issued but not yet effective (Cont'd)

MFRS 16 Leases

MFRS 16, which upon the effective date will supersede MFRS 117 Leases, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under MFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, MFRS 117.

In respect of the lessor accounting, MFRS 16 substantially carries forward the lessor accounting requirements in MFRS 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is currently assessing the financial impact that may arise from the adopting MFRS 16.

(b) Basis of measurement

The financial statements of the Group and of the Company have been prepared on the historical cost basis other than as disclosed in Note 3 to the financial statements.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM.

(d) Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

2. BASIS OF PREPARATION (CONT'D)

(d) Significant accounting judgments, estimates and assumptions (Cont'd)

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are set out below:

<u>Useful lives of property, plant and equipment and investment properties</u>

The Group regularly review the estimated useful lives of property, plant and equipment and investment properties based on factors such as business plan and strategies, expected level of usage and future technological developments. Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the estimated useful lives of property, plant and equipment and investment properties would increase the recorded depreciation and decrease the value of property, plant and equipment and investment properties. The carrying amount of the property, plant and equipment and investment properties are disclosed in Note 4 and 5 respectively to the financial statements.

<u>Inventories valuation</u>

Inventories are measured at the lower of cost and net realisable value. The Group estimates the net realisable value of inventories based on an assessment of expected sales prices. Demand levels and pricing competition could change from time to time. If such factors result in an adverse effect on the Group's products, the Group might be required to reduce the value of its inventories. Details of inventories are disclosed in Note 9 to the financial statements.

<u>Development costs</u>

The Group capitalises development costs for a project in accordance with the accounting policy. Initial capitalisation of development costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generations of the project, discount rates to be applied and the expected period of benefits. The carrying amount at the reporting date for development costs is disclosed in Note 6 to the financial statements.

<u>Recoverability of development costs</u>

During the year, the Directors considered the recoverability of the Group's development cost arising from its innovative secure chat messaging system development. The project continues to progress in a satisfactory manner, and customer reaction has reconfirmed the Directors' previous estimates of anticipated revenues from the project. However, increased competitor activity has caused the Directors to reconsider their assumptions regarding future market share and anticipated margins of this product. Detailed sensitivity analysis has been carried out and the Directors are confident that the carrying amount of the asset will be recovered in full, even if returns are reduced. This situation will be closely monitored, and adjustments made in future periods, if market activity indicates that such adjustments are appropriate. The carrying amount at the reporting date for development costs is disclosed in Note 6 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

2. BASIS OF PREPARATION (CONT'D)

(d) Significant accounting judgements, estimates and assumptions (Cont'd)

Impairment of loans and receivables

The Group assesses at end of each reporting period whether there is any objective evidence that a receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the receivable and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amounts at the reporting date for loans and receivables are disclosed in Note 10 and 11 respectively to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses, unabsorbed capital allowances and other deductible temporary differences to the extent that it is probable that taxable profit will be available against which the unused tax losses, unabsorbed capital allowances and other deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of unrecognised deferred tax assets are disclosed in Note 26 to financial statements.

Employee share options

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also require determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. Details of assumptions made in respect of the share-based payment scheme are disclosed in Note 16(d) and 28 respectively to the financial statements.

Income taxes

Judgment is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. As at 31 December 2016, the Group has tax recoverable of RM109,596 (2015: RM85,230).

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

2. BASIS OF PREPARATION (CONT'D)

(d) Significant accounting judgements, estimates and assumptions (Cont'd)

Contingent liabilities

Determination of the treatment of contingent liabilities is based on management's view of the expected outcome of the contingencies after consulting legal counsel for litigation cases and internal and external experts to the Group for matters in the ordinary course of business. Details of legal proceedings in which the Group is involved in as at 31 December 2016 is disclosed in Note 35 to the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The Group and the Company apply the significant accounting policies set out below, consistently throughout all periods presented in the financial statements unless otherwise stated.

(a) Basic of consolidation

(i) Subsidiary companies

Subsidiary companies are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiary companies are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary company is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed off in profit or loss as incurred.

If the business combination is achieved in stages, previously held equity interest in the acquiree is re-measured at its acquisition date fair value and the resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instruments and within the scope of MFRS 139 *Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basic of consolidation (Cont'd)

(i) Subsidiary companies (Cont'd)

Inter-company transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated. Unrealised losses are eliminated only if there is no indication of impairment. Where necessary, accounting policies of subsidiary companies have been changed to ensure consistency with the policies adopted by the Group.

In the Company's separate financial statements, investments in subsidiary companies are stated at cost less accumulated impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts are recognised in profit or loss. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. See accounting policy Note 3(m)(i) on impairment of non-financial assets.

(ii) Changes in ownership interests in subsidiary companies without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary company is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiary companies

If the Group lost control of a subsidiary company, the assets and liabilities of the subsidiary company, including any goodwill, and non-controlling interests are derecognised at their carrying value on the date that control is lost. Any remaining investment in the entity is recognised at fair value. The difference between the fair value of consideration received and the amounts derecognised and the remaining fair value of the investment is recognised as a gain or loss on disposal in profit or loss. Any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

(iv) Goodwill on consolidation

The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary company acquired (ie. a bargain purchase), the gain is recognised in profit or loss.

Following the initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment annually or more frequent when there is objective evidence that the carrying amount may be impaired. See accounting policy Note 3(m)(i) on impairment of non-financial asset.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Investments in associate company

An associate company is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

On acquisition of an investment in an associate company, any excess of the cost of investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill and included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities of the investee over the cost of investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of associate company's profit or loss for the period in which the investment is acquired.

An associate company is equity accounted for from the date on which the investee becomes an associate. Under the equity method, on initial recognition the investment in an associate company or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of profit or loss and other comprehensive income of the associate company after the date of acquisition. When the Group's share of losses in an associate company equals or exceeds its interest in the associate company, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate company.

Profits or losses resulting from upstream and downstream transactions between the Group and its associate company are recognised in the Group's consolidated financial statements only to the extent of unrelated investors' interests in the associate or joint venture. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred

The financial statements of the associate company and joint ventures are prepared as of the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group applies MFRS 139 to determine whether it is necessary to recognise any additional impairment loss with respect to its net investment in the associate company or joint venture. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with MFRS 136 *Impairment of Assets* as a single assets, by comparing its recoverable amount (higher of value-in-use and fair value less costs of disposal) with its carrying amount. Any impairment loss is recognised in profit or loss. Reversal of an impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Upon loss of significant influence over the associate company, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate company upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

In the Company's separate financial statements, investments in associate company is stated at cost less accumulated impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts are recognised in profit or loss. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. See accounting policy Note 3(m)(i) on impairment of non-financial assets.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Foreign currency translation

(i) Foreign currency transactions and balances

Transactions in foreign currency are recorded in the functional currency of the respective Group entities using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are included in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation. These are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in profit or loss. Exchange differences arising on monetary items that form part of the Company's net investment in foreign operation are recognised in profit or loss in the Company's financial statements or the individual financial statements of the foreign operation, as appropriate.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the reporting period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. Exchange differences arising from such non-monetary items are also recognised in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations denominated in functional currencies other than Ringgit Malaysia "RM", including goodwill and fair value adjustments arising on acquisition, are translated to RM at the rate of exchange prevailing at the reporting date, except for goodwill and fair value adjustments arising from business combinations before 1 January 2012 (the date of transition to MFRS) which are treated as assets and liabilities of the Company. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the exchange translation reserve ("ETR") in equity. However, if the operation is a non-wholly owned subsidiary company, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed off such that control, significant influence or joint control is lost, the cumulative amount in the ETR related that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary company that includes a foreign operation, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The policy of recognition and measurement of impairment losses is in accordance with Note 3(m)(i).

(i) Recognition and measurement

Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bringing the asset to working condition for its intended use, cost of replacing component parts of the assets, and the present value of the expected cost for the decommissioning of the assets after their use. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. All other repair and maintenance costs are recognised in profit or loss as incurred.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in the profit or loss on straight line basis to write off the cost of each asset to its residual value over its estimated useful life.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Property, plant and equipment (Cont'd)

(iii) Depreciation

Property, plant and equipment are depreciated based on the estimated useful lives of the assets as follows:

Furniture and fittings	20%
Office equipment	20%
Computers	20% - 50%
Motor vehicles	20%
Renovation	20% - 50%

The residual values, useful lives and depreciation method are reviewed at each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the property, plant and equipment.

(e) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or asset and the arrangement conveys a right to use the asset, even if that right is not explicitly specific in an arrangement.

<u>As lessee</u>

(i) Finance lease

Leases in terms of which the Group or the Company assume substantially all the risks and rewards of ownership are classified as finance lease. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as finance costs in the profit or loss. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as a property, plant and equipment.

(ii) Operating lease

Leases, where the Group or the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment properties and measured using fair value model.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Leases (Cont'd)

As lessee (Cont'd)

(ii) Operating lease (Cont'd)

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

Leasehold land which in substance is an operating lease is classified as prepaid land lease payments.

As lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(f) Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both. Investment properties are measured at cost, including transaction costs, less any accumulated depreciation and impairment losses.

The carrying amount includes the cost of replacing part of an existing investment properties at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment properties.

Freehold land and buildings under construction are not depreciated. Other investment properties are depreciated on a straight-line basis to write down the cost of each asset to their residual values over their estimated useful lives. The principal annual depreciation rates are:

Freehold land and buildings	2%

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount. See accounting policy Note 3(m)(i) to the financial statements on impairment of non-financial assets.

Investment properties are derecognised upon disposal or when they are permanently withdrawn from use and no future economic benefits are expected from their disposal. Upon disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Intangible assets

(i) Internally-generated intangible assets - research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability and intention to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete; and
- the ability to measure reliably the expenditure during development.

The amount initially recognised for internally–generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives and amortisation methods are reviewed at the end of each reporting date, with the effect of any changes in estimate being accounted for on a prospective basis.

(ii) Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

See accounting policy Note 3(m)(i) to the financial statements on impairment of non-financial assets for intangible assets.

(h) Financial assets

Financial assets are recognised on the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit or loss are recognised immediately in profit or loss.

The Group and the Company classify their financial assets depends on the purpose for which the financial assets were acquired at initial recognition, into loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those maturing later than 12 months after the end of the reporting period which are classified as non-current assets.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Financial assets (Cont'd)

After initial recognition, financial assets categorised as loans and receivables are measured at amortised cost using the effective interest method, less impairment losses. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Regular way purchase or sale of financial assets

Regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Derecognition

A financial asset is derecognised when the contractual rights to receive cash flows from the financial asset has expired or has been transferred and the Group and the Company have transferred substantially all risks and rewards of ownership. On derecognition of a financial asset, the difference between the carrying amount and the sum of consideration received and any cumulative gains or loss that had been recognised in equity is recognised in profit or loss.

(i) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definition of financial liabilities.

Financial liabilities are recognised on the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument.

The Group and the Company classify their financial liabilities at initial recognition into the following categories:

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading, contingent consideration in a business combination or financial liabilities designated into this category upon initial recognition.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivatives financial instruments that are not designated as effective hedging instruments. Separated embedded derivatives are also categorised as held for trading unless they are designated as effective hedging instruments.

Gains or losses on financial liabilities held for trading are recognised in profit or loss.

(ii) Other financial liabilities measured at amortised cost

The Group's and the Company's other financial liabilities comprise trade and other payables.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Gains and losses on financial liabilities measured at amortised cost are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Financial liabilities (Cont'd)

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specific payment to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Derecognition

A financial liability is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(j) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(k) Inventories

Inventories are stated at the lower of cost (determined on the first-in, first-out basis) and net realisable value.

Cost of raw material is determined on a first-in-first out basis. Cost of finished goods consists of direct material, direct labour and an appropriate proportion of production overheads (based on normal operating capacity).

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, bank overdraft and highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. For the purpose of statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Impairment of assets

(i) Non-financial assets

The carrying amounts of non-financial assets (except for inventories and deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives, or that are not yet available for use, the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Subject to operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a cash-generating unit or a group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value-in-use and its fair value less costs of disposal. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment loss is recognised in profit or loss, unless the asset is carried at a revalued amount, in which such impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (group of cash-generating units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for asset in prior years. Such reversal is recognised in the profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Impairment of assets (Cont'd)

(ii) Financial assets

All financial assets, other than those categorised as fair value through profit or loss, investments in subsidiary companies, associates and joint ventures, are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the receivable and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with defaults on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of impairment loss is recognised in profit or loss. Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised in profit or loss, the impairment loss is reversed, to the extent that the carrying amount of the asset does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of reversal is recognised in profit or loss.

(n) Share capital

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are equity instruments. Ordinary shares are recorded at the nominal value of shares issued. Ordinary shares are classified as equity.

Dividend distribution to the Company's shareholders is recognised as a liability in the period they are approved by the Board of Directors except for the final dividend which is subject to approval by the Company's shareholders.

(o) Employee benefits

(i) Short term employee benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the reporting period in which the associated services are rendered by employees of the Group and of the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick and medical leave are recognised when the absences occur.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(o) Employee benefits (Cont'd)

(i) Short term employee benefits (Cont'd)

The expected cost of accumulating compensated absences is measured as additional amount expected to be paid as a result of the unused entitlement that has accumulated at the end of the reporting period.

(ii) Defined contribution plans

As required by law, companies in Malaysia contribute to the state pension scheme, the Employee Provident Fund ("EPF"). Such contributions are recognised as an expense in the profit or loss as incurred. Once the contributions have been paid, the Group and the Company have no further payment obligations.

(iii) Share-based payment transactions

Equity-settled share-based payment transaction

The Group operates an equity-settled, share-based compensation plan for the employees of the Group. Employee services received in exchange for the grant of the share options is recognised as an expense in the profit or loss over the vesting periods of the grant with a corresponding increase in equity.

For options granted to the employees of the subsidiary companies, the fair value of the options granted is recognised as cost of investment in the subsidiary companies over the vesting period with a corresponding adjustment to equity in the Company's financial statements.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to be vested. At the end of each reporting date, the Group revises its estimates of the number of share options that are expected to be vested. It recognises the impact of the revision of original estimates, if any, in the profit or loss, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(p) Deferred income

Deferred income represents the cash received in advance from customer in respect of services which are yet to be provided. Such amounts are recorded as liabilities in the Statement of Financial Position and are only recognised in the Statement of Profit or Loss and Other Comprehensive Income upon the rendering of services to customers.

(q) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Revenue (Cont'd)

(i) Sale of goods

Revenue is recognised at the fair value of consideration received or receivable, net of returns and allowances, trade discount and volume rebates. Revenue from sale of goods is recognised when the transfer of significant risk and rewards of ownership of the goods to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(ii) Rendering of services

Revenue from services rendered is recognised in the profit or loss based on the value of services performed and invoiced to customers during the period.

(iii) Rental income

Rental income is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

(iv) Interest income

Interest income is recognised on accruals basis using the effective interest method.

(v) Management fee

Management fee is recognised on accrual basis when services are rendered.

(r) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the assets, which are assets that necessarily take a substantial period of time to get ready for theirs intended use or sale, are capitalised as part of the cost of those assets. All other borrowing costs are recognised in profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group and the Company incurred in connection with the borrowing of funds.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(s) Income taxes

Tax expense in profit or loss comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(s) Income taxes (Cont'd)

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method for all temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the temporary differences arising from the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction which is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, at the end of the reporting period, except for investment properties carried at fair value model. Where investment properties measured using fair value model, the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying amounts at the reporting date unless the property is depreciable and is held with the objective to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unutilised reinvestment allowance and investment tax allowance, being tax incentives that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against the unutilised tax incentive can be utilised.

(t) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-makers are responsible for allocating resources and assessing performance of the operating segments and make overall strategic decisions. The Group's operating segments are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

(u) Contingencies

Where it is not probable that an inflow or an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the asset or the obligation is disclosed as a contingent asset or contingent liability, unless the probability of inflow or outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent assets or contingent liabilities unless the probability of inflow or outflow of economic benefits is remote.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

4. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fittings RM	Office equipment RM	Computers RM	Motor vehicles RM	Renovation RM	Total RM
Group						
2016						
Cost						
At 1 January 2016	266,439	222,894	593,028	181,320	534,805	1,798,486
Additions	59,798	44,453	4,199	268,868	359,744	737,062
Disposals	–	(245)	(9,120)	(61,320)	–	(70,685)
Written off	(24,543)	(18,910)	–	–	(41,980)	(85,433)
Others	–	–	(6,724)	–	–	(6,724)
Foreign currency translation differences	–	547	–	–	–	547
At 31 December 2016	301,694	248,739	581,383	388,868	852,569	2,373,253
Accumulated depreciation						
At 1 January 2016	30,997	67,732	220,690	77,791	111,548	508,758
Charge for the financial year	63,183	43,850	238,287	47,198	443,943	836,461
Disposals	–	(82)	(4,180)	(58,583)	–	(62,845)
Written off	(6,243)	(13,785)	–	–	(34,983)	(55,011)
Others	–	–	(4,203)	–	–	(4,203)
Foreign currency translation differences	–	93	–	–	–	93
At 31 December 2016	87,937	97,808	450,594	66,406	520,508	1,223,253
Carrying amount						
At 31 December 2016	213,757	150,931	130,789	322,462	332,061	1,150,000

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Furniture and fittings RM	Office equipment RM	Computers RM	Motor vehicles RM	Renovation RM	Total RM
Group						
2015						
Cost						
At 1 January 2015	9,500	69,578	171,364	191,219	41,980	483,641
Additions	239,095	123,627	393,357	120,000	485,007	1,361,086
Arising from acquisition of business	17,844	29,689	28,307	4,320	7,818	87,978
Disposals	–	–	–	(134,219)	–	(134,219)
At 31 December 2015	266,439	222,894	593,028	181,320	534,805	1,798,486
Accumulated depreciation						
At 1 January 2015	158	40,300	34,255	68,184	8,746	151,643
Charge for the financial year	30,839	27,432	186,435	43,162	102,802	390,670
Disposals	–	–	–	(33,555)	–	(33,555)
At 31 December 2015	30,997	67,732	220,690	77,791	111,548	508,758
Carrying amount						
At 31 December 2015	235,442	155,162	372,338	103,529	423,257	1,289,728

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Furniture and fittings RM	Office equipment RM	Computers RM	Motor vehicles RM	Renovation RM	Total RM
Company						
2016						
At 1 January 2016	104,958	63,390	257,267	120,000	313,707	859,322
Additions	21,871	30,932	4,199	268,868	297,890	623,760
Others	–	–	(6,724)	–	–	(6,724)
At 31 December 2016	126,829	94,322	254,742	388,868	611,597	1,476,358
Accumulated depreciation						
At 1 January 2016	1,475	1,008	95,720	20,000	14,587	132,790
Charge for the financial year	26,840	19,283	123,059	46,406	320,977	536,565
Others	–	–	(4,203)	–	–	(4,203)
At 31 December 2016	28,315	20,291	214,576	66,406	335,564	665,152
Carrying amount						
At 31 December 2016	98,514	74,031	40,166	322,462	276,033	811,206

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Furniture and fittings RM	Office equipment RM	Computers RM	Motor vehicles RM	Renovation RM	Total RM
2015						
At 1 January 2015	–	–	42,358	134,219	–	176,577
Additions	104,958	63,390	214,909	120,000	313,707	816,964
Disposals	–	–	–	(134,219)	–	(134,219)
At 31 December 2015	104,958	63,390	257,267	120,000	313,707	859,322
Accumulated depreciation						
At 1 January 2015	–	–	4,439	11,185	–	15,624
Charge for the financial year	1,475	1,008	91,281	42,370	14,587	150,721
Disposals	–	–	–	(33,555)	–	(33,555)
At 31 December 2015	1,475	1,008	95,720	20,000	14,587	132,790
Carrying amount						
At 31 December 2015	103,483	62,382	161,547	100,000	299,120	726,532

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(a) The aggregate additional cost for the property, plant and equipment of the Group and of the Company during the financial year acquired under finance lease financing and cash payments are as follows:

	Group		Company	
	2016 RM	**2015 RM**	**2016 RM**	**2015 RM**
Aggregate costs	737,062	1,361,086	623,760	816,964
Less: Finance leases	(240,000)	(108,000)	(240,000)	(108,000)
Cash payments	497,062	1,253,086	383,760	708,964

(b) Assets held under finance leases

The carrying amount of property, plant and equipment of the Group and the Company held under finance leases are as follow:

	Group and Company	
	2016 RM	**2015 RM**
Motor vehicles	322,462	100,000

The leased assets are pledged as securities for the related finance lease liabilities as disclosed in Note 17 to the financial statements.

5. INVESTMENT PROPERTIES

	Group		Company	
	2016 RM	**2015 RM**	**2016 RM**	**2015 RM**
Freehold land and buildings:				
Cost				
At 1 January	2,032,000	2,032,000	–	–
Addition	2,500,000	–	2,500,000	–
At 31 December	4,532,000	2,032,000	2,500,000	–
Accumulated depreciation				
At 1 January	744,560	703,920	–	–
Charge for the financial year	88,473	40,640	47,833	–
At 31 December	833,033	744,560	47,833	–
Carrying amount				
At 31 December	3,698,967	1,287,440	2,452,167	–
Fair value of investment properties				
At 31 December	7,030,000	4,030,000	3,000,000	–

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

5. INVESTMENT PROPERTIES (CONT'D)

(a) Fair value basis of investment properties

Fair value of investment properties was estimated by the Directors based on internal appraisal of market values of comparable properties. The fair values are within Level 2 of the fair value hierarchy.

(b) Income and expenses recognised in profit or loss

The following are recognised in profit or loss in respect of investment properties:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Rental income	(150,100)	(146,400)	–	–
Direct operating expenses	52,658	34,022	5,380	–

6. PRODUCT DEVELOPMENT EXPENDITURE

	Group and Company	
	2016 RM	2015 RM
Cost		
At 1 January	–	–
Additions	400,000	–
At 31 December	400,000	–
Carrying amount		
At 31 December	400,000	–

Product development expenditure represents the costs incurred in relation to innovation of secure chat messaging system. The expenditure is under development are not amortised until the asset is ready for its intended use.

<u>Impairment testing for product development expenditure</u>

The product development expenditure of the Group and the Company was tested for impairment using the value-in-use ("VIU") method.

The recoverable amount of CGU in respect of the product development expenditure was determined based on VIU calculation. Cash flow projections used in these calculations were based on five-year financial budgets approved by management. Pre-tax discount rates of 4.75% (2015: Nil) have been applied to cash flow projections.

Based on the impairment test, no impairment is required for the product development expenditure.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (Cont'd)

7. INVESTMENT IN SUBSIDIARY COMPANIES

	Company 2016 RM	Company 2015 RM
In Malaysia		
Unquoted shares, at cost	18,406,504	11,506,504

Details of subsidiary companies are as follows:

Name of company	Country of incorporation	Equity interest 2016 %	Equity interest 2015 %	Principal activities
Extol Corporation Sdn. Bhd.	Malaysia	100	100	Sales, research and development of IT security technology, system maintenance, professional IT security services, training and other IT products and solutions.
Extol Ventures Sdn. Bhd.	Malaysia	100	100	Investment holding, application development, trading of computer hardware, software related equipment and software development.
AppAsia Cloud Sdn. Bhd. (Formerly known as Extol International Sdn. Bhd.)	Malaysia	100	100	To offer all kinds of services related to computer software including system support and maintenance, system integration, project coordination, management, implementation, consultation, training, seminars, exhibition, agency and representation.
AppAsia Tech Sdn. Bhd.	Malaysia	100	100	Information Technology Systems and applications development related business.
AppAsia Studio Sdn. Bhd.	Malaysia	100	100	Information Technology Systems, mobile applications and games development related business.
AppAsia Mall Sdn. Bhd.	Malaysia	100	100	E-commerce business mainly wholesale of apparel, accessories and any other products and services.
AppAsia International Sdn. Bhd.	Malaysia	100	100	Investment holding, online trading, e-commerce, mobile application solutions.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

7. INVESTMENT IN SUBSIDIARY COMPANIES (CONT'D)

Details of subsidiary companies are as follows: (Cont'd)

Name of company	Country of incorporation	Equity interest 2016 %	2015 %	Principal activities
AppAsia Online Sdn. Bhd.	Malaysia	100	–	Dormant
AppAsia Pay Sdn. Bhd.	Malaysia	100	–	Online payment gateways, e-commerce, electronic data interchange etc. and mobile application development related business.
Held through AppAsia International Sdn. Bhd.				
AppAsia International Pty. Ltd. *	Australia	100	100	Online trading, e-commerce, mobile application solutions.

* *Subsidiary company not audited by UHY*

(a) Acquisition of subsidiary companies

During the financial year:

(i) On 20 September 2016, the Company had acquired two (2) ordinary shares of RM1.00 each in AppAsia Online Sdn. Bhd. from Toh Hong Chye and Wong Ngai Peow for a cash consideration of RM2.00. Consequently, AppAsia Online Sdn. Bhd. became a wholly-owned subsidiary company of the Company.

(ii) On 9 August 2016, the Company had acquired two (2) ordinary shares of RM1.00 each in AppAsia Pay Sdn. Bhd. from Toh Hong Chye and Wong Ngai Peow for a cash consideration of RM2.00. Consequently, AppAsia Pay Sdn. Bhd. became a wholly-owned subsidiary company of the Company.

In previous financial year:

(i) On 12 February 2015, the Company had acquired two (2) ordinary shares of RM1.00 each in AppAsia International Sdn. Bhd. from Toh Hong Chye and Wong Ngai Peow for a cash consideration of RM2.00. Consequently, AppAsia International Sdn. Bhd. became a wholly-owned subsidiary company of the Company.

(ii) On 12 February 2015, the Company had acquired two (2) ordinary shares of RM1.00 each in AppAsia Mall Sdn. Bhd. from Toh Hong Chye and Wong Ngai Peow for a cash consideration of RM2.00. Consequently, AppAsia Mall Sdn. Bhd. became a wholly-owned subsidiary company of the Company.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

7. INVESTMENT IN SUBSIDIARY COMPANIES (CONT'D)

(a) Acquisition of subsidiary companies (Cont'd)

Goodwill arising from business combination

Goodwill was recognised as a result of the acquisition as follows:

	2016 RM	2015 RM
Fair value consideration transferred	4	4
Fair value of identifiable assets acquired and liabilities assumed	(4)	(4)
Goodwill	–	–

Net cash outflow arising from acquisition of subsidiary companies

	2016 RM	2015 RM
Purchase consideration settled in cash	(4)	(4)
Cash and cash equivalents acquired	4	4
	–	–

The acquisition of subsidiary companies did not have a material impact on the financial statements of the Group.

(b) Acquisition of new business

In previous financial year:

(i) On 16 February 2015, AppAsia Mall Sdn. Bhd, a wholly-owned subsidiary company of the Company had entered into a Sale and Purchase Agreement ("SPA") to purchase entire business of Just Retro Enterprise at a total purchase consideration of RM1,500,000. The rationale to acquire the new business was to venture into mobile and electronic commerce. The acquisition has been completed on 16 February 2015.

Goodwill arising from acquisition of business

	2016 RM	2015 RM
Fair value consideration transferred - cash	–	1,500,000
Fair value of identifiable assets acquired and liabilities assumed	–	(1,086,382)
Goodwill	–	413,618

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (Cont'd)

7. INVESTMENT IN SUBSIDIARY COMPANIES (CONT'D)

(b) Acquisition of new business (Cont'd)

Fair value of identifiable assets acquired and liabilities assumed

	2016 RM	2015 RM
Property, plant and equipment	–	87,978
Inventories	–	636,383
Deposit	–	21,000
Cash and cash equivalents	–	440,407
Trade and other payables	–	(99,386)
Total identifiable assets and liabilities	–	1,086,382

The goodwill arising from acquisition of business has been written off in current financial year.

Net cash outflow arising from acquisition of business

	2016 RM	2015 RM
Fair value consideration transferred - cash	–	1,500,000
Fair value of identifiable assets acquired and liabilities assumed	–	(1,086,382)
Goodwill	–	413,618

Impact of the acquisition on the statements of profit or loss and other comprehensive income

From the date of acquisition, the new business acquired have contributed Nil and Nil (2015: RM3,456,761 and RM1,153,747) to the Group's revenue and loss for the financial year respectively. If the combination had taken place at the beginning of the financial year, the Group's revenue and loss for the financial year from their operations would have been increased by Nil and Nil (2015: RM3,456,761 and RM1,153,747) respectively.

8. INVESTMENT IN ASSOCIATE COMPANY

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
At Cost				
Unquoted shares in Malaysia	60,000	–	60,000	–
	60,000	–	60,000	–
Share of post-acquisition reserve	(8,418)	–	–	–
	51,582	–	60,000	–

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

8. INVESTMENT IN ASSOCIATE COMPANY (CONT'D)

Details of associate company as below:

Name of company	Country of incorporation	Equity interest 2016 %	Equity interest 2015 %	Principal activities
AppAsia Express Sdn. Bhd.	Malaysia	20	–	Courier services carry business as distributor

On 3 October 2016, the Company had acquired two (2) ordinary shares of RM1.00 each in AppAsia Express Sdn. Bhd. from Toh Hong Chye and Wong Ngai Peow for a cash consideration of RM2.00. Subsequently, the Company had acquired 59,998 new ordinary shares of RM1.00 each at par for cash consideration of RM59,998. Consequently, AppAsia Express Sdn. Bhd. became an associate company of the Company.

9. INVENTORIES

	Group 2016 RM	Group 2015 RM
Raw materials	38,065	55,510
Finished goods	248,522	476,266
	286,587	531,776
Recognised in profit or loss:		
Inventories recognised as cost of sales	377,590	2,476,928
Inventories written off	–	89,668
Reversal of inventories written off	52,196	–

The reversal of inventories written off was made during the financial year when the related inventories were sold above their carrying amounts.

10. TRADE RECEIVABLES

	Group 2016 RM	Group 2015 RM
Trade receivables	298,880	517,353
Less: Acccumulated impairment losses	(145,459)	–
	153,421	517,353

Trade receivables are non-interest bearing and are generally on 30 to 60 days (2015: 30 to 60 days) term. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

10. TRADE RECEIVABLES (CONT'D)

The Group's credit exposures are concentrated mainly on 5 (2015: 5) debtors, which accounted for 90% (2015: 90%) of the total trade receivables at the end of the reporting period.

Movements in allowance for impairment losses of trade receivables of the Group are as follows:

	Group	
	2016	**2015**
	RM	**RM**
At 1 January	–	91,170
Impairment losses recognised	145,459	–
Written off	–	(91,170)
At 31 December	145,459	–

Analysis of the trade receivables ageing as at the end of the reporting period is as follows:

	Group	
	2016	**2015**
	RM	**RM**
Neither past due nor impaired	132,554	210,468
Past due not impaired:		
Less than 30 days	20,655	66,426
31 to 60 days	212	38,000
More than 60 days	–	202,459
	20,867	306,885
	153,421	517,353
Impaired	145,459	–
	298,880	517,353

<u>Trade receivables that are neither past due nor impaired</u>

Trade receivables that neither past due nor impaired are debtors with good payment records with the Group.

<u>Trade receivables that are past due but not impaired</u>

As at 31 December 2016, trade receivables of RM20,867 (2015: RM306,885) were past due but not impaired. These relate to a number of independent customers from whom there is no recent history of default.

<u>Trade receivables that are impaired</u>

The trade receivables of the Group that are individually assessed to be impaired amounting to RM145,459 (2015: Nil), related to a customer that is in financial difficulties, has disputed on the billings. These balances are expected to be recovered through the debts recovery process.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

11. OTHER RECEIVABLES

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Other receivables	279,957	81,168	1,448	–
Deposits	245,506	1,679,001	146,766	1,554,811
Prepayments	168,308	116,927	86,722	79,520
	693,771	1,877,096	234,936	1,634,331

Included in deposits of the Group and the Company amounting to Nil (2015: RM1,409,800) was paid for the acquisition of investment properties amounted to RM2,500,000 as disclosed in Note 5 to the financial statements.

12. AMOUNT DUE FROM/(TO) SUBSIDIARY COMPANIES

The amounts due from/(to) subsidiary companies are unsecured, non-interest bearing and repayable on demand. The amounts arose from trade and non-trade transactions.

13. FIXED DEPOSITS WITH LICENSED BANKS

The fixed deposits with licensed banks of the Group are amounted to RM16,620 (2015: RM241,954) of which Nil (2015: RM241,954) is pledged to licensed banks as security for credit facility granted to the subsidiary company.

The interest rate and maturities of deposits of the Group at the end of the reporting period are 1.00% (2015: 3.12%) and 30 days (2015: 365 days) respectively.

14. CASH AND BANK BALANCES

The currency exposure profiles of cash and bank balances are as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
United States Dollar	17,318	785,249	2,416	574,347
Australian Dollar	101,720	2,146	1,653	2,146
Singapore Dollar	596	32,994	–	–
Myanmar Kyat	475	–	–	–
Chinese Renminbi	1,174	2,062	–	–

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

15. SHARE CAPITAL

	Group and Company			
	Number of Shares		Amount	
	2016 Units	2015 Units	2016 RM	2015 RM
Ordinary shares of RM0.10 each				
Authorised				
At 1 January/ 31 December	1,000,000,000	1,000,000,000	1,000,000,000	1,000,000,000
Issued and fully paid				
At 1 January	281,122,800	138,956,400	28,112,280	13,895,640
Right issue with free warrants	–	138,956,400	–	13,895,640
Exercised of SIS options	2,600,000	3,210,000	260,000	321,000
At 31 December	283,722,800	281,122,800	28,372,280	28,112,280

During the financial year, the Company increased its issued and paid-up share capital from RM28,112,280 to RM28,372,280 by way of the issuance of 2,600,000 new ordinary shares of RM0.10 each through the exercise of Share Issuance Scheme ("SIS") Options at issuance price of RM0.183 per ordinary share for cash consideration of RM475,800.

The new ordinary shares issued during the financial year rank pari passu in all respects with the existing ordinary shares of the Company.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Company's residual assets.

16. RESERVES

		Group and Company			
		Number of Shares		Amount	
	Note	2016 Units	2015 Units	2016 RM	2015 RM
Share premium	(a)	4,410,545	4,013,140	4,410,545	4,013,140
Warrant reserve	(b)	20,982,416	20,982,416	20,982,416	20,982,416
Other reserve	(c)	(20,982,416)	(20,982,416)	(20,982,416)	(20,982,416)
Share Issuance Scheme Option reserve	(d)	1,741,214	1,286,217	1,741,214	1,286,217
Foreign currency translation reserve	(e)	(8,937)	(2,496)	–	–
Accumulated losses		(24,472,039)	(18,231,528)	(9,679,842)	(8,148,104)
		(18,329,217)	(12,934,667)	(3,528,083)	(2,848,747)

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

16. RESERVES (CONT'D)

(a) Share premium

	Group and Company	
	2016	2015
	RM	RM
At 1 January	4,013,140	4,081,846
Add: Shares options granted under SIS	397,405	498,513
Less: Share issuance expenses	–	(567,219)
At 31 December	4,410,545	4,013,140

Share premium comprises the premium paid on subscription of shares in the Company over and above the par value of the shares.

The share premium is not distributable by way of cash dividends and may be utilised in the manner set out in Section 60(3) of the Companies Act, 1965.

(b) Warrant reserve

Warrants reserve represents reserve allocated to free detachable warrants issued with rights issue.

During the previous financial year, the Company issued renounceable rights issue of up to 138,956,400 new ordinary shares of RM0.10 each in the Company ("AppAsia Shares" or "Shares") ("Rights Shares") together with up to 138,956,400 free detachable warrants ("Warrants") on the basis of one (1) Rights Share together with one (1) Warrant for every one (1) existing AppAsia Share held.

The Company executed a Deed Poll constituting the Warrants and the exercise price of the Warrants have been fixed at RM0.10 each. The Warrants may be exercised at any time within 10 years commencing on and including the date of issuance and expiring on 23 December 2024. Any Warrants which have not been exercised at date of maturity will lapse and cease to be valid for any purpose.

The new ordinary shares allotted and issued upon exercise of the Warrants shall rank pari passu in all respects with the then existing ordinary shares of the Company, save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the date of allotment of the new ordinary shares arising from exercise of the Warrants.

As at 31 December 2016, the total number of Warrants that remain unexercised were 138,956,400 (2015: 138,956,400).

(c) Other reserve

This represents fair value allocated to the detachable warrants issued in conjunction with rights issue refer to Note 16(b).

(d) Share Issuance Scheme Option reserve

Share Issuance Scheme option reserve represents the equity-settled share options granted to employees. The reserve is made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled share options, and is reduced by the expiry or exercise of the share options. Share Issuance Scheme option is disclosed in Note 28.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

16. RESERVES (CONT'D)

(e) Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

17. FINANCE LEASE LIABILITIES

	Group and Company	
	2016 RM	2015 RM
Minimum lease payments		
Within one year	126,312	39,780
Later than one year and not later than two years	96,477	39,780
Later than two years and not later than five years	50,465	9,945
	273,254	89,505
Less: Future finance charges	(16,628)	(6,436)
Present value of minimum lease payments	256,626	83,069
Present value of minimum lease payments		
Within one year	115,373	35,387
Later than one year and not later than two years	91,611	37,839
Later than two years and not later than five years	49,642	9,843
	256,626	83,069
Analysed as:		
Repayable within twelve months	115,373	35,387
Repayable after twelve months	141,253	47,682
	256,626	83,069

The finance lease liabilities are secured by a charge over the leased assets as disclosed in Note 4(b) to the financial statements. The interest rate for the leases is ranging from 2.72% to 3.50% (2015: 3.50%) per annum.

18. TRADE PAYABLES

Credit terms of trade payables of the Group and Company ranged from 30 to 60 days (2015: 30 to 60 days) depending on the terms of the contracts.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

19. OTHER PAYABLES

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Other payables	259,491	204,508	146,854	112,373
Accruals	308,494	665,304	87,922	302,014
Deposits received	34,500	34,500	–	–
Deferred revenue	789,882	672,926	–	–
	1,392,367	1,577,238	234,776	414,387

Deferred revenue represents the amount received in advance from customers for which services have yet to be performed.

20. AMOUNT DUE TO ASSOCIATE COMPANY

The amount due to associate company is unsecured, non-interest bearing and repayable on demand. The amount arose from non-trade transactions.

21. REVENUE

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Rendering of services	4,052,037	6,614,279	–	–
Sales of goods	606,714	3,458,378	–	–
Management fees	–	–	2,760,000	960,000
	4,658,751	10,072,657	2,760,000	960,000

22. FINANCE COSTS

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Interest expenses on:				
Finance leases	9,392	9,473	9,392	9,473
Term loan	–	29,918	–	–
Others	–	206	–	206
	9,392	39,597	9,392	9,679

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (Cont'd)

23. LOSS BEFORE TAX

Loss before tax is derived after charging/(crediting):

	Group		Company	
	2016 RM	**2015 RM**	**2016 RM**	**2015 RM**
Auditors' remuneration:				
- statutory	49,800	42,000	20,000	17,000
- others	–	3,000	–	3,000
Bad debts written off	–	1,289	–	–
Non-Executive Directors remuneration:				
- Fees	162,000	221,194	162,000	221,194
- Others	300	–	300	–
Depreciation of investment properties	88,473	40,640	47,833	–
Depreciation of property, plant and equipment	836,461	390,670	536,565	150,721
Goodwill written off	–	413,618	–	–
Impairment on trade receivables	145,459	–	–	–
Inventories written off	–	89,668	–	–
Property, plant and equipment written off	30,422	–	–	–
Rental of equipment	4,258	1,001,125	2,400	–
Rental of premises	698,559	387,800	276,975	65,629
Rental of car park	–	5,400	–	–
Reversal of property, plant and equipment	2,521	–	2,521	–
Share-based payment	1,247,904	–	1,247,904	–
Bad debts recovered	–	(20,216)	–	(3,216)
(Gain)/Loss on disposal of property, plant and equipment	(21,489)	11,126	–	11,126
(Gain)/Loss in foreign exchange:				
- realised	(7,664)	18,018	–	–
- unrealised	(124,748)	(84,606)	(80,024)	(33,825)
Interest income	(136,520)	(228,977)	(117,342)	(213,923)
Reversal of inventories written off	(52,196)	–	–	–
Waiver of amount due to other payables	(534)	–	–	–

24. TAXATION

	Group		Company	
	2016 RM	**2015 RM**	**2016 RM**	**2015 RM**
Tax expenses recognised in profit or loss				
Current tax provision	–	29,000	–	–
(Over)/Under provision in prior years	(1,558)	88	–	–
	(1,558)	29,088	–	–

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

24. TAXATION (CONT'D)

Malaysian income tax is calculated at the statutory tax rate of 24% (2015: 25%) of the estimated assessable profits for the financial year. Taxation for other jurisdiction is calculated at the rates prevailing in the respective jurisdictions.

A reconciliation of income tax expense applicable to loss before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Loss before tax	(6,853,371)	(5,149,066)	(2,143,040)	(3,786,055)
At Malaysian statutory tax rate of 24% (2015: 25%)	(1,644,809)	(1,287,270)	(514,330)	(946,510)
Effect of different tax rate in other jurisdiction	(49,221)	–	–	–
Income not subject to tax	(20,118)	(3,330)	(19,206)	–
Expenses not deductible for tax purposes	867,066	656,290	467,010	490,860
Deferred tax assets not recognised	847,082	1,035,190	66,526	509,130
Utilisation of previously unrecognised deferred tax assets	–	(371,880)	–	(53,480)
(Over)/Under provision of taxation in prior years	(1,558)	88	–	–
Tax expense for the financial year	(1,558)	29,088	–	–

Tax savings during the financial year arising from:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Utilisation of previously unrecognised tax losses	–	332,780	–	53,480

The Group and the Company have the following estimated unutilised capital allowances and unutilised tax losses available for carry forward to set-off against future taxable profits. The said amounts are subject to approval by the tax authorities.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

24. TAXATION (CONT'D)

	Group		Company	
	2016 RM	**2015 RM**	**2016 RM**	**2015 RM**
Unutilised capital allowances	816,669	418,656	412,278	151,200
Unutilised tax losses	12,289,030	9,776,039	6,444,771	6,352,100
	13,105,699	10,194,695	6,857,049	6,503,300

25. LOSS PER SHARE

(a) Basic loss per share

The basic loss per share are calculated based on the consolidated loss for the financial year attributable to the owners of the parent and the weighted average number of ordinary shares in issue during the financial year as follows:

	Group	
	2016 RM	**2015 RM**
Loss attributable to owners of the parent	(6,851,813)	(5,178,154)
Weighted average number of ordinary shares in issue		
Issued ordinary shares at 1 January	279,270,782	138,956,400
Effect of ordinary shares issued during the financial year	2,206,936	140,314,382
Weighted average number of ordinary shares at 31 December	281,477,718	279,270,782
Basic loss per share (in sen)	(2.43)	(1.85)

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

25. LOSS PER SHARE (CONT'D)

(b) Diluted loss per share

Diluted loss per share are calculated based on the adjusted consolidated loss for the financial year attributable to the owners of the parent and the weighted average number of ordinary shares in issue during the financial year have been adjusted for the dilutive effects of all potential ordinary shares as follows:

	Group	
	2016 RM	**2015 RM**
Loss attributable to ordinary shareholders	(6,851,813)	(5,178,154)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	281,477,718	279,270,782
Effect of share options on issue	–	–
Effect of conversion of warrants	–	–
Weighted average number of ordinary shares at 31 December (diluted)	281,477,718	279,270,782
Diluted loss per share (in sen)	(2.43)	(1.85)

26. DEFERRED TAX

The net deferred tax assets and liability shown on the statements of financial position after appropriate offsetting are as follows:

	Group		Company	
	2016 RM	**2015 RM**	**2016 RM**	**2015 RM**
Deferred tax liability	34,960	98,080	18,350	49,300
Deferred tax assets	(34,960)	(98,080)	(18,350)	(49,300)
	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

26. DEFERRED TAX (CONT'D)

The components of deferred tax liability and assets are as follows:

	Group		Company	
	2016 RM	**2015 RM**	**2016 RM**	**2015 RM**
Deferred tax liability:				
Accelerated capital allowances				
At 1 January	98,080	29,410	49,300	7,400
Recognised in profit or loss	(63,120)	68,670	(30,950)	41,900
At 31 December	34,960	98,080	18,350	49,300
Deferred tax assets:				
Unutilised capital allowances				
At 1 January	91,410	29,410	49,300	7,400
Recognised in profit or loss	(58,942)	62,000	(30,950)	41,900
At 31 December	32,468	91,410	18,350	49,300
Unutilised tax losses				
At 1 January	6,670	6,670	–	–
Recognised in profit or loss	(4,178)	–	–	–
At 31 December	2,492	6,670	–	–
	34,960	98,080	18,350	49,300

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2016 RM	**2015 RM**	**2016 RM**	**2015 RM**
Unutilised capital allowances	701,736	226,560	335,821	–
Unutilised tax losses	12,713,953	9,878,580	6,444,771	6,503,399
Deductible temporary difference	219,000	–	–	–
	13,634,689	10,105,140	6,780,592	6,503,399

Deferred tax assets have not been recognised in respect of these items as they may not have sufficient taxable profits to be used to offset or they have arisen in subsidiary companies that have a recent history of losses.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

27. STAFF COSTS

	Group		Company	
	2016 RM	**2015 RM**	**2016 RM**	**2015 RM**
Fee	283,158	23,657	–	–
Salaries and allowances	4,402,991	5,040,029	1,643,285	2,078,987
Defined contribution plans	476,982	555,588	193,339	243,713
Social security costs	37,582	40,543	11,170	12,047
Share-based payment	1,247,904	1,518,300	1,247,904	1,518,300
Other benefits	168,749	174,308	111,837	117,176
	6,617,366	7,352,425	3,207,535	3,970,223

Included in staff costs is aggregate amount of remuneration received and receivable by the Executive Directors of the Company and of the subsidiary companies during the financial year as below:

	Group		Company	
	2016 RM	**2015 RM**	**2016 RM**	**2015 RM**
Executive Directors				
Fee	283,158	23,657	–	–
Salaries and allowances	752,100	720,000	527,100	720,000
Defined contribution plans	86,400	86,400	59,400	86,400
Social security costs	1,484	1,240	897	1,240
	1,123,142	831,297	587,397	807,640

28. SHARE ISSUANCE SCHEME ("SIS")

At an extraordinary general meeting held on 15 November 2014, the Company's shareholders approved the establishment of SIS for eligible Directors and employees of the Group.

The salient features of the SIS Options are as follows:

(a) any employee of the Group shall be eligible if as at the date of offer, the employee:

(i) has attained at least eighteen (18) years of age;
(ii) is an employee in a company within the Group, which is not dormant belonging to such categories of employment as determined by the Option Committee; and
(iii) who falls under such categories and criteria that the Option Committee may decide at its absolute discretion from time to time.

(b) any Director of the Group shall be eligible if as at the date of offer, the Director:

(i) is at least eighteen (18) years of age; and
(ii) has been appointed as a Director of a company within the Group, which is not dormant.

(c) The maximum number of new shares to be issued pursuant to the exercise of the SIS Options which may be granted under the SIS Shares shall not exceed thirty percent (30%) of the total issued and paid-up share capital (excluding treasury shares, if any) of the Company at any point of time throughout the duration of the SIS;

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

28. SHARE ISSUANCE SCHEME ("SIS") (CONT'D)

The salient features of the SIS Options are as follows: (Cont'd)

(d) The options granted may be exercised any time upon the satisfaction of vesting conditions of each offer.

(e) The SIS shall be in force for a period of five (5) years and the last day to exercise SIS Options is on 12 March 2020.

(f) The options granted may be exercised in full or in lesser number of ordinary shares provided that the number shall be in multiples of and not less than 100 shares.

Movement in the number of share options and the weighted average exercise prices are as follows:

		Number of options over ordinary shares of RM0.10 each			
Date of offer	**Exercise price**	**At 1.1.2016**	**Exercised**	**Lapsed**	**At 31.12.2016**
24 March 2015	0.183	66,790,000	(2,600,000)	(11,124,000)	53,066,000

Number of share options exercisable as at 31 December 2016 is 25,066,000 (2015: 17,790,000). The weighted average share price at the date of exercise for the financial year was RM0.183 (2015: RM0.24) per ordinary share.

Details of SIS Options outstanding at end of the financial year are as follows:

SIS Options	**Weighted average exercise price**		**Exercise period**
	2016 RM	**2015 RM**	
24 March 2015	0.183	0.183	24.03.2015 - 12.03.2020

The fair value of services received in return for share options granted during the financial year is based on the fair value of share options granted, estimated by the management using Black-Scholes-Merton model, taking into account the terms and conditions upon which the options were granted. The weighted average fair value of share options measured at grant date and the assumptions are as follows:

	2016 RM	**2015 RM**
Fair value at grant date:		
24 March 2015	0.1553	0.1553
Weighted average share price	0.212	0.212
Weighted average exercise price	0.183	0.183
Expected volatility (%)	89.84	89.84
Expected life (years)	5 years	5 years
Risk free rate (%)	3.625	3.625
Expected dividend yield (%)	Nil	Nil

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

28. SHARE ISSUANCE SCHEME ("SIS") (CONT'D)

The expected life of the share options is based on historical data, has been adjusted according to management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting the market conditions attached to the option), and behavioural considerations. The expected volatility is based on the historical share price volatility, adjusted for unusual or extraordinary volatility arising from certain economic or business occurrences which is not reflective of its long term average level. While the expected volatility is assumed to be indicative of future trends, it may not necessarily be the actual outcome. No other features of the option grant were incorporated into the measurement of fair value.

29. RELATED PARTY DISCLOSURES

(a) Identifying related parties

For the purposes of these financial statements, parties are considered to be related to the Group or to the Company if the Group and the Company have the ability, directly or indirectly, to control or joint control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel comprise the Directors and management personnel of the Group, having authority and responsibility for planning, directing and controlling the activities of the Group entities directly or indirectly.

(b) Significant related party transactions

Related party transactions have been entered into in the normal course of business under negotiated terms. In addition to related party balances disclosed elsewhere in the financial statements, the significant related party transactions of the Group and of the Company are as follows:

	2016 RM	2015 RM
Group		
Transaction with a Director		
Rental of premises paid/payable	–	22,615
Transactions with a company in which a Directors has substantial financial interests		
Rental income received/recoverable	48,000	44,000
Rental of premises paid/payable	464,883	195,214
Company		
Transactions with subsidiary companies		
Management fee	2,760,000	960,000
Outsource fee	31,387	–
Transactions with a company in which a Director of the Company has substantial financial interests		
Rental of premises paid/payable	276,975	42,544

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

29. RELATED PARTY DISCLOSURES (CONT'D)

(c) Compensation of key management personnel

Remuneration of Directors and other members of key management personnel are as follows:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	RM	**RM**	**RM**	**RM**
Salaries, fees and other emoluments	1,606,955	1,676,791	1,078,797	1,495,673
Share-based payment	9,250	155,445	9,250	155,445
Social security costs	3,437	–	2,712	–
Defined contributions plan	135,539	167,136	106,089	152,640
	1,755,181	1,999,372	1,196,848	1,803,758

30. SEGMENT INFORMATION

For management purposes, the Group is organised into business unit based on their products and services provided, as follows:

ICT Security Business	Provides the solutions, products and services in the information technology security sector. It includes 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 specialised training services.
E-Commerce Business	Research, development and operation of the e-commerce websites and mobile applications.
Management Services	Investment holding and provision of management services

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

Transactions between segments are carried out on agreed terms between both parties. The effects of such inter-segment transactions are eliminated on consolidation. The measurement basis and classification are consistent with those adopted in the previous financial year.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (Cont'd)

30. SEGMENT INFORMATION (CONT'D)

Information about segment assets and liabilities are neither included in the internal management reports nor provided regularly to the management. Hence, no disclosures are made on segment assets and liabilities.

	ICT Securities Business RM	E-Commerce Business RM	Management Services RM	Eliminations RM	Per consolidated financial statements RM
2016					
Revenue					
External customers	2,452,542	2,206,209	–	–	4,658,751
Inter segment	40,280	33	2,760,000	(2,800,313)	–
Total revenue	2,492,822	2,206,242	2,760,000	(2,800,313)	4,658,751
Segment results					
Interest income	9,649	9,529	117,342	–	136,520
Finance costs	–	–	(9,392)	–	(9,392)
Depreciation	(94,461)	(246,075)	(584,398)	–	(924,934)
Other non-cash item	(127,102)	17,968	(1,115,684)	–	(1,224,818)
Segments loss before tax	(709,093)	(3,992,820)	(2,143,040)	(8,418)	(6,853,371)
Assets					
Addition to property, plant and equipment	66,888	46,414	623,760	–	737,062
2015					
Revenue					
External customers	5,779,920	4,292,737	–	–	10,072,657
Inter segment	23,443	–	960,000	(983,443)	–
Total revenue	5,803,363	4,292,737	960,000	(983,443)	10,072,657
Segment results					
Interest income	10,249	4,805	213,923	–	228,977
Finance costs	(29,918)	–	(9,679)	–	(39,597)
Depreciation	(113,987)	(166,602)	(150,721)	–	(431,310)
Other non-cash item	27,531	(492,451)	(1,484,475)	–	(1,949,395)
Segments profit/(loss) before tax	1,033,008	(2,396,019)	(3,786,055)	–	(5,149,066)
Assets					
Addition to property, plant and equipment	1,198	542,924	816,964	–	1,361,086

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (Cont'd)

30. SEGMENT INFORMATION (CONT'D)

(a) Eliminations

Inter-segment revenues are eliminated on consolidation.

(b) Other non-cash income/(expense) consist of the following items as presented in the respective notes to financial statements:

	Group 2016 RM	Group 2015 RM
Bad debts written off	–	(1,289)
Gain/(Loss) on disposal of property, plant and equipment	21,489	(11,126)
Goodwill written off	–	(413,618)
Impairment on trade receivables	(145,459)	–
Inventories written off	–	(89,668)
Property, plant and equipment written off	(30,422)	–
Reversal of inventories written off	52,196	–
Share-base payment	(1,247,904)	(1,518,300)
Unrealised gain on foreign exchange	124,748	84,606
Waiver of amount due to other payable	534	–
	(1,224,818)	(1,949,395)

(c) Geographic information

Revenue information based on the geographical location of customers is as follow:

	Group 2016 RM	Group 2015 RM
Malaysia	2,444,017	7,788,138
Cambodia	677,610	552,702
USA	562,050	544,899
People Republic of China	274,924	387,306
Others	700,150	799,612
	4,658,751	10,072,657

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

31. FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies in Note 3 describe how the classes of financial instruments are measured, and how income and expense, including fair value gains and losses, are recognised.

The following table analyses the financial assets and liabilities in the statements of financial position by the class of financial instruments to which they are assigned, and therefore by the measurement basis:

	Loans and receivables RM	Other financial liabilities meaured at amortised cost RM	Total RM
Group			
2016			
Financial assets			
Trade receivables	153,421	–	153,421
Other receivables	525,463	–	525,463
Fixed deposits with licensed banks	16,620	–	16,620
Cash and bank balances	5,176,527	–	5,176,527
	5,872,031	–	5,872,031
Financial liabilities			
Trade payables	–	42,236	42,236
Other payables	–	567,985	567,985
Amount due to associate company	–	2,779	2,779
Finance lease liabilities	–	256,626	256,626
	–	869,626	869,626
2015			
Financial assets			
Trade receivables	517,353	–	517,353
Other receivables	1,760,169	–	1,760,169
Fixed deposits with licensed banks	241,954	–	241,954
Cash and bank balances	11,475,892	–	11,475,892
	13,995,368	–	13,995,368
Financial liabilities			
Trade payables	–	468,549	468,549
Other payables	–	904,312	904,312
Finance lease liabilities	–	83,069	83,069
	–	1,455,930	1,455,930

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

31. FINANCIAL INSTRUMENTS (CONT'D)

(a) Classification of financial instruments (Cont'd)

	Loans and receivables RM	Other financial liabilities meaured at amortised cost RM	Total RM
Company			
2016			
Financial assets			
Other receivables	148,214	–	148,214
Cash and bank balances	3,809,715	–	3,809,715
	3,957,929	–	3,957,929
Financial liabilities			
Other payables	–	234,776	234,776
Amount due to subsidiary companies	–	838,929	838,929
Finance lease liabilities	–	256,626	256,626
	–	1,330,331	1,330,331
2015			
Financial assets			
Other receivables	1,554,811	–	1,554,811
Amount due from subsidiary companies	4,119,531	–	4,119,531
Cash and bank balances	8,574,091	–	8,574,091
	14,248,433	–	14,248,433
Financial liabilities			
Other payables	–	414,387	414,387
Amount due to subsidiary companies	–	800,000	800,000
Finance lease liabilities	–	83,069	83,069
	–	1,297,456	1,297,456

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

31. FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial risk management objectives and policies

The Group's financial risk management policy is to ensure that adequate financial resources are available for the development of the Group's operations whilst managing its financial risks, including credit, liquidity, foreign currency and interest rate risks. The Group operates within clearly defined guidelines that are approved by the Board and the Group's policy is not to engage in speculative transactions.

The following sections provide details regarding the Group and the Company's exposure to the abovementioned financial risks and the objectives, policies and processes for the management of these risks.

(i) Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers and deposits with banks and financial institutions. The Company's exposure to credit risk arises principally from advances to subsidiary companies and financial guarantees given to a non-financial institution for credit facilities granted to a subsidiary company.

The Group has adopted a policy of only dealing with creditworthy counterparties. Management has a credit policy in place to control credit risk by dealing with creditworthy counterparties and deposit with banks and financial institutions with good credit rating. The exposure to credit risk is monitored on an ongoing basis and action will be taken for long outstanding debts.

The Company provides unsecured advances to subsidiary companies. It also provides unsecured financial guarantees to a non-financial institution for credit facilities granted to a subsidiary company.

The carrying amounts of the financial assets recorded on the statements of financial position at the end of the financial year represent the Group's and the Company's maximum exposure to credit risk.

The Group's has no significant concentration to credit risk except as disclosed in Note 10 to the financial statement. The Company has no significant concentration of credits risks except for advances to its subsidiary companies where risks of default have been assessed to be low.

(ii) Liquidity risk

Liquidity risk refers to the risk that the Group or the Company will encounter difficulty in meeting its financial obligations as they fall due. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

The Group's and the Company's funding requirements and liquidity risk are managed with the objective of meeting business obligations on a timely basis. The Group finances its liquidity through internally generated cash flows and minimises liquidity risk by keeping committed credit lines available.

The following table analyses the remaining contractual maturity for financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

31. FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial risk management objectives and policies (Cont'd)

(ii) Liquidity risk (Cont'd)

	On demand or within 1 year RM	1 to 2 years RM	2 to 5 years RM	Total contractual cash flows RM	Total carrying amount RM
Group					
2016					
Non-derivative financial liabilities					
Trade payables	42,236	–	–	42,236	42,236
Other payables	567,985	–	–	567,985	1,392,367
Amount due to associate company	2,779	–	–	2,779	2,779
Finance lease liabilities	126,312	96,477	50,465	273,254	256,626
	739,312	96,477	50,465	886,254	1,694,008
2015					
Non-derivative financial liabilities					
Trade payables	468,549	–	–	468,549	468,549
Other payables	904,312	–	–	904,312	1,577,238
Finance lease liabilities	39,780	39,780	9,945	89,505	83,069
	1,412,641	39,780	9,945	1,462,366	2,128,856

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

31. FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial risk management objectives and policies (Cont'd)

(ii) Liquidity risk (Cont'd)

	On demand or within 1 year RM	1 to 2 years RM	2 to 5 years RM	Total contractual cash flows RM	Total carrying amount RM
Company					
2016					
Non-derivative financial liabilities					
Other payables	234,776	–	–	234,776	234,776
Amount due to subsidiary companies	838,929	–	–	838,929	838,929
Finance lease liabilities	126,312	96,477	50,465	273,254	256,626
	1,200,017	96,477	50,465	1,346,959	1,330,331
2015					
Non-derivative financial liabilities					
Other payables	414,387	–	–	414,387	414,387
Amount due to subsidiary companies	800,000	–	–	800,000	800,000
Finance lease liabilities	39,780	39,780	9,945	89,505	83,069
	1,254,167	39,780	9,945	1,303,892	1,297,456

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

31. FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial risk management objectives and policies (Cont'd)

(iii) Market risks

(a) Foreign currency risk

The Group is exposed to foreign currency risk on transactions that are denominated in currencies other than the respective functional currencies of the Group entities. The currencies giving rise to this risk are primarily United States Dollar (USD), Australian Dollar (AUD), Singapore Dollar (SGD), Myanmar Dollar (KYAT) and Chinese Renminbi (RMB).

The Group has not entered into any derivative instruments for hedging or trading purposes. Where possible, the Group will apply natural hedging by selling and purchasing in the same currency. However, the exposure to foreign currency risk is monitored from time to time by management.

The carrying amounts of the Group's foreign currency denominated financial assets and financial liabilities at the end of the reporting period are as follows:

	USD RM	AUD RM	SGD RM	KYAT RM	RMB RM	Total RM
Group						
2016						
Cash and bank balances	17,318	101,720	596	475	1,174	121,283
Trade receivables	13,050	–	–	–	–	13,050
	30,368	101,720	596	475	1,174	134,333
2015						
Cash and bank balances	785,249	2,146	32,994	–	2,062	822,451
Trade receivables	106,634	–	–	–	–	106,634
	891,883	2,146	32,994	–	2,062	929,085
Company						
2016						
Cash and bank balances	2,416	1,653	–	–	–	4,069
2015						
Cash and bank balances	574,347	2,146	–	–	–	576,493

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

31. FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial risk management objectives and policies (Cont'd)

(iii) Market risks (Cont'd)

(a) Foreign currency risk (Cont'd)

Foreign currency sensitivity analysis

Foreign currency risk arises from Group entities which have a RM functional currency. The exposure to currency risk of Group entities which do not have a RM functional currency is not material and hence, sensitivity analysis is not presented.

The following table demonstrates the sensitivity of the Group's loss before tax to a reasonably possible change in the USD, AUD, SGD, KYAT and RMB exchange rates against RM, with all other variables held constant.

	Change in currency rate RM	2016 Effect on loss before tax RM	Change in currency rate RM	2015 Effect on loss before tax RM
Group				
USD	Strengthened 1%	304	Strengthened 1%	8,919
	Weakened 1%	(304)	Weakened 1%	(8,919)
AUD	Strengthened 1%	1,017	Strengthened 1%	21
	Weakened 1%	(1,017)	Weakened 1%	(21)
SGD	Strengthened 1%	6	Strengthened 1%	330
	Weakened 1%	(6)	Weakened 1%	(330)
KYAT	Strengthened 1%	5	Strengthened 1%	-
	Weakened 1%	(5)	Weakened 1%	-
RMB	Strengthened 1%	12	Strengthened 1%	21
	Weakened 1%	(12)	Weakened 1%	(21)
Company				
USD	Strengthened 1%	24	Strengthened 1%	5,743
	Weakened 1%	(24)	Weakened 1%	(5,743)
AUD	Strengthened 1%	17	Strengthened 1%	21
	Weakened 1%	(17)	Weakened 1%	(21)

(b) Interest rate risk

The Group's and the Company's fixed rate deposits placed with licensed banks and borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Group's and the Company's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates.

The Group manages the interest rate risk of its deposits with licensed banks by placing them at the most competitive interest rates obtainable, which yield better returns than cash at bank and maintaining a prudent mix of short and long term deposits.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

31. FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial risk management objectives and policies (Cont'd)

(iii) Market risks (Cont'd)

(b) Interest rate risk (Cont'd)

The Group manages its interest rate risk exposure from interest bearing borrowings by obtaining financing with the most favourable interest rates in the market. The Group constantly monitors its interest rate risk by reviewing its debts portfolio to ensure favourable rates are obtained. The Group does not utilise interest swap contracts or other derivative instruments for trading or speculative purposes.

The interest rate profile of the Group's and of the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	Group		**Company**	
	2016 RM	**2015 RM**	**2016 RM**	**2015 RM**
Fixed rate instruments				
Financial assets	16,620	241,954	–	–
Financial liabilities	(256,626)	(83,069)	(256,626)	(83,069)

Interest rate risk sensitivity analysis

<u>Fair value sensitivity analysis for fixed rate instruments</u>

The Group and the Company do not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

(c) Fair value of financial instruments

The carrying amounts of short term receivables and payables, cash and cash equivalents and short term borrowings approximate their fair value due to the relatively short term nature of these financial instruments and insignificant impact of discounting.

It was not practicable to estimate the fair value due of investment in unquoted equity due to the lack of comparable quoted prices in an active market and the fair value cannot be reliably measured.

31. FINANCIAL INSTRUMENTS (CONT'D)

(c) Fair value of financial instruments

The table below analyses financial instruments those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statements of financial position.

	Fair value of financial instruments not carried at fair value			
	Level 1 RM	**Level 2 RM**	**Level 3 RM**	**Carrying amount RM**
Group and Company				
2016				
Financial liabilities (Non-current)				
Finance lease liabilities	–	132,485	–	141,253
Group and Company				
2015				
Financial liabilities (Non-current)				
Finance lease liabilities	–	46,105	–	47,682

(i) Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

There were no transfers between levels during current and previous financial years.

(ii) Level 1 fair value

Level 1 fair value is derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

(iii) Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

<u>Non-derivative financial instruments</u>

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

(iv) Level 3 fair value

Level 3 fair values for the financial assets and liabilities are estimated using unobservable inputs.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

32. COMMITMENT

	Group and Company	
	2016	**2015**
	RM	**RM**
Capital expenditure		
Authorised and contracted for		
- Properties	–	1,240,200

33. CAPITAL MANAGEMENT

The Group's and the Company's objectives when managing capital are to safeguard the Group's and the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group and the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group and the Company monitors capital using a gearing ratio. The Group's and the Company's policy is to maintain a prudent level of gearing ratio that complies with debt covenants and regulatory requirements. The gearing ratios at the end of the reporting period are as follows:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	RM	**RM**	**RM**	**RM**
Total loans and borrowings	256,626	83,069	256,626	83,069
Less: Cash and cash equivalents	(5,193,147)	(11,475,892)	(3,809,715)	(8,574,091)
Excess funds	(4,936,521)	(11,392,823)	(3,553,089)	(8,491,022)
Shareholders' equity	10,043,063	15,177,613	24,844,197	25,263,533
Gearing ratio	*	*	*	*

* Gearing ratio not applicable to the Group and the Company as the cash and cash equivalents as at 31 December 2016 and 31 December 2015 is sufficient to cover the entire borrowing obligation.

There were no changes in the Group's and the Company's approach to capital management during the financial year.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

34. SIGNIFICANT AND SUBSEQUENT EVENTS

(a) Proposed listing of several subsidiaries of the holding company, AppAsia Berhad on the Australian Stock Exchange ("ASX")

On 23 November 2016, the Company, AppAsia Berhad ("AppAsia") had announced to propose listing the Company together with three fellow wholly-owned subsidiary companies ,namely AppAsia Studio Sdn Bhd "ASSB", AppAsia Mall Sdn Bhd ("AMSB"), AppAsia International Sdn Bhd ("ALSB") (collectively referred to as "**Subsidiaries**") on the Australian Securities Exchange ("ASX") via an investment holding company to be incorporated in Australia.

On 13 March 2017, AppAsia entered into Share Purchase Agreement ("SPA 1") with AppAsia Limited ("AL") to dispose the subsidiary companies ASSB, AMSB and AISB to AL for a sale consideration of AUD204,478 (equivalent to RM695,225), AUD225,388 (equivalent to RM766,319) and AUD 113,749 (equivalent to RM386,747) respectively, to be satisfied via the issuance of new ordinary shares in AL to AppAsia ("Proposed Disposal").

On the same date, the ALSB entered into a share purchase agreement ("SPA 2") with AL to dispose of its wholly-owned subsidiary company, AppAsia International Pty Ltd ("AIPL") to AL for a sale consideration of AUD115,331 (equivalent to RM392,125) to be satisfied via the issuance of new ordinary shares in AL to AppAsia ("Proposed AIPL Disposal").

After the Proposals, the subsidiary companies and AIPL will become a wholly-owned subsidiary company of AL while AppAsia becomes holding company of AL.

The Proposal are subject to the following approvals being obtained:

(i) the shareholders of AppAsia for the Proposed Listing at an extraordinary general meeting to be convened;

(ii) ASX; and

(iii) any other relevant authorities or parties, if required.

The Company is currently in the midst of procuring all the other approvals required for the Proposal from the relevant parties/ regulatory authorities.

(b) Conversion of Warrants to ordinary shares

On 14 February 2017, the total of 110,000 units of Warrants have been converted to ordinary shares at exercise price of RM0.13 each.

On 21 February 2017, the total of 176,000 units of Warrants have been converted to ordinary shares at exercise price of RM0.13 each.

On 23 February 2017, the total of 115,000 units of Warrants have been converted to ordinary shares at exercise price of RM0.13 each.

On 1 March 2017, the total of 444,000 units of Warrants have been converted to ordinary shares at exercise price of RM0.13 each.

On 9 March 2017, the total of 286,000 units of Warrants have been converted to ordinary shares at exercise price of RM0.13 each.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

34. SIGNIFICANT AND SUBSEQUENT EVENTS (CONT'D)

(b) Conversion of Warrants to ordinary shares (Cont'd)

On 14 March 2017, the total of 295,000 units of Warrants have been converted to ordinary shares at exercise price of RM0.13 each.

On 21 March 2017, the total of 1,290,000 units of Warrants have been converted to ordinary shares at exercise price of RM0.13 each.

On 23 March 2017, the total of 550,000 units of Warrants have been converted to ordinary shares at exercise price of RM0.13 each.

35. MATERIAL LITIGATION

The Group and the Company have not engaged in any litigation which will have a material effect on the business or financial position of the Group and of the Company except for the following:

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.

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

(a) An order for the delivery up of the PoP Equipment as stated in the Statement of Claim and damage to be assessed;
(b) Alternatively, judgment in the sum of US$171,071.58 to be paid by Defendant;
(c) Damages for detention of the PoP Equipment as stated in the Statement of Claim;
(d) Alternatively, damages for conversion of the PoP Equipment as stated in the Statement of Claim;
(e) 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;
(f) Costs; and
(g) 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.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

35. MATERIAL LITIGATION (CONT'D)

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.

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

<u>Against Xconnect:</u>

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

<u>Against Badaruddin:</u>

(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 EVSB 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.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

35. MATERIAL LITIGATION (CONT'D)

The Company had on 10 April 2015 received a letter from the Company's Solicitors informed that a consent order of settlement has been recorded on the 7 April 2015 where upon Xconnect had withdrawn all its claim against EVSB while the counter claim by EVSB against Xconnect had also been withdrawn, both with no order as to cost.

The Company had on 7 May 2015 received a letter from the Company's Solicitors informing that the Sessions Court of Kuala Lumpur has ruled against the application of Badaruddin to strike out EVSB's counter claim and awarded cost to RM3,000.00 to be paid by Badaruddin to the EVSB.

Badaruddin had filed an appeal to the High Court of Kuala Lumpur against the dismissal of his striking out application. On 9 October 2015, his appeal was argued before the High Court Judge and it was adjourned to 5 November 2015 for decision. On 5 November 2015, the High Court dismissed Badaruddin's appeal with costs and agreed with the Session Court that the counter claim by EVSB should go for trial.

The Sessions Court of Kuala Lumpur had allowed EVSB counterclaim against Badaruddin for the sum of USD87,075.11, being monies paid to XConnect and exemplary damages in the sum of RM25,000.00 for breach of his fiduciary duties and costs according to scale.

The Appellant's appeal has been fixed for case management on 29 April 2016, pending filing of the additional record of appeal.

The Company had on 6 May 2016 received a letter from the Company's Solicitors informing that the Appellant's appeal has been fixed for hearing on 28 July 2016.

The Company had on 22 August 2016 received a letter from the Company's Solicitors informing that the Appellant's appeal has been fixed for decision on 5 September 2016.

On the 5 September 2016, the appeal of Badaruddin has been dismissed by the High Court. The Company shall proceed to enforce the judgment by issuing a Bankruptcy Notice against Badaruddin to demand for payment of the judgment sum.

The Company had on 13 October 2016 received a letter from the Company's Solicitors informing that bankruptcy proceedings has been fixed for case management on 28 February 2017 pending service of the bankruptcy notice on Judgment Debtor.

The Company had on 20 February 2017 received a letter from the Company's Solicitors informing that the hearing has been fixed 22 March 2017 pending service of the Creditor's Petition on the Judgment Debtor.

The Company had on 22 March 2017 received a letter from the Company's Solicitors informing that the hearing of the Creditor's Petition at the Kuala Lumpur High Court has been postponed to 24 April 2017 to enable the Company's Solicitors to attend to the Creditors' Petition by way of substituted service at the last known address of the Judgment Debtor.

EVSB's financial exposure in the event of the dismissal of the bankruptcy proceeding which in the opinion of the solicitors is unlikely, will be up to the limit of cost of the proceedings and solicitors' cost and accordingly, no provision for any liability has been made in these financial statements.

36. DATE OF AUTHORISATION FOR ISSUE

The financial statements of the Group and of the Company for the financial year ended 31 December 2016 were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 13 April 2017.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016 (Cont'd)

37. SUPPLEMENTARY INFORMATION ON DISCLOSURE OF REALISED AND UNREALISED PROFITS OR LOSSES

The following analysis of realised and unrealised accumulated losses of the Group and of the Company as at the reporting date is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad and prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Total accumulated losses of the Company and its subsidiary companies:				
- realised	(20,509,953)	(14,246,136)	(9,759,866)	(8,181,929)
- unrealised	124,748	84,606	80,024	33,825
	(20,385,205)	(14,161,530)	(9,679,842)	(8,148,104)
Total accumulated losses from associate company				
- realised	(8,418)	–	–	–
	(8,418)	–	–	–
	(20,393,623)	(14,161,530)	(9,679,842)	(8,148,104)
Less: Consolidation adjustments	(4,078,416)	(4,069,998)	–	–
Total accumulated losses	(24,472,039)	(18,231,528)	(9,679,842)	(8,148,104)

The disclosure of realised and unrealised profits or losses above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia Securities Berhad and should not be applied for any other purposes.