

IRIS CORPORATION BERHAD

(Company No. 302232 – X)
(Incorporated in Malaysia)

Interim Financial Report for the Fourth quarter ended 31st March 2018

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Condensed Consolidated Statement of Comprehensive IncomeFor the Fourth quarter ended 31st March 2018

	Individual		Cumulative	
	3 months ended	3 months ended	12 months ended	12 months ended
	31st	31st	31st	31st
	March	March	March	March
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
<i>Continuing operations</i>				
Revenue	58,711	134,536	340,239	437,675
Cost of sales	(50,602)	(144,018)	(312,847)	(412,201)
Depreciation and amortisation	(10,485)	(1,999)	(14,841)	(9,283)
Gross (loss)/profit	(2,376)	(11,481)	12,551	16,191
Other income	31,881	5,823	44,072	31,106
Administrative, operating and other expenses	(97,263)	(275,480)	(176,054)	(324,645)
Depreciation and amortisation	(1,293)	(1,303)	(5,379)	(5,915)
Finance costs	(1,451)	(3,986)	(8,750)	(16,887)
Share of profits/(losses) of associates	706	(144)	2,529	(6,675)
Loss before taxation	(69,796)	(286,571)	(131,031)	(306,825)
Tax expense	10,728	(1,851)	10,747	(7,650)
Loss from continuing operations	(59,068)	(288,422)	(120,284)	(314,475)
<i>Discontinued operations</i>				
Loss from discontinued operations, net of tax	(10,814)	(5,083)	(11,373)	(9,207)
Loss for the period	(69,882)	(293,505)	(131,657)	(323,682)
Other comprehensive income/(loss), net of tax				
Foreign currency translation for foreign operations	2,414	(3,296)	(2,478)	5,550
Share of equity accounted reserve	-	-	-	(553)
Reclassification of equity accounted reserve to profit or loss on disposal of associated company	-	-	-	10,482
	2,414	(3,296)	(2,478)	15,479
Total comprehensive loss for the period	(67,468)	(296,801)	(134,135)	(308,203)

Condensed Consolidated Statement of Comprehensive IncomeFor the Fourth quarter ended 31st March 2018

(continued)

	Individual 3 months ended		Cumulative 12 months ended	
	31 st March 2018 RM'000	31 st March 2017 RM'000	31 st March 2018 RM'000	31 st March 2017 RM'000
Loss attributable to:				
Owners of the Company	(66,771)	(265,109)	(121,753)	(292,140)
Non-controlling interests	(3,111)	(28,396)	(9,904)	(31,542)
Loss for the period	(69,882)	(293,505)	(131,657)	(323,682)
Total comprehensive loss attributable to:				
Owners of the Company	(64,745)	(267,031)	(123,820)	(278,359)
Non-controlling interests	(2,723)	(29,770)	(10,315)	(29,844)
Total comprehensive loss for the period	(67,468)	(296,801)	(134,135)	(308,203)
Loss per share attributable to owners of the Company:				
Basic (Sen)				
- continuing operations	(2.32)	(11.57)	(4.58)	(12.59)
- discontinued operations	(0.45)	(0.23)	(0.47)	(0.41)
	(2.77)	(11.80)	(5.05)	(13.00)
Diluted (Sen)				
- continuing operations	(2.32)	(11.57)	(4.58)	(12.59)
- discontinued operations	(0.45)	(0.23)	(0.47)	(0.41)
	(2.77)	(11.80)	(5.05)	(13.00)

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements of the Group for the financial year ended 31st March 2017 and the accompanying explanatory notes attached to the interim financial report.

Condensed Consolidated Statement of Financial PositionAs at 31st March 2018

	31 st March 2018 RM'000	31 st March 2017 RM'000
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	97,681	115,282
Development costs	15	16
Goodwill on consolidation	128,268	128,268
Other intangible assets	28,095	35,436
Operating financial assets	11,557	9,354
Investment in associates	11,770	6,597
Available-for-sale financial assets	216	406
Deferred tax assets	1	21
	277,603	295,380
CURRENT ASSETS		
Inventories	25,368	72,481
Operating financial assets	3,626	2,750
Trade receivables	133,428	204,578
Other receivables, deposits & prepayments	54,645	55,263
Amount owing by associates	284	290
Amount owing by related parties	3,143	11,036
Amount owing by contract customers	9,375	52,368
Tax recoverables	9,624	7,715
Short-term deposits placed	11,044	11,538
Cash and bank balances	25,376	43,341
	275,913	461,360
Assets of a disposal group classified as held for sale	-	10,940
	275,913	472,300
TOTAL ASSETS	553,516	767,680
EQUITY AND LIABILITIES		
EQUITY		
Share capital	480,276	448,816
Foreign exchange translation reserve	5,255	7,322
Revaluation reserve	36,075	37,129
Accumulated losses	(325,808)	(205,109)
Total equity attributable to owners of the Company	195,798	288,158
Non-controlling interests	(42,263)	(31,659)
TOTAL EQUITY	153,535	256,499

Condensed Consolidated Statement of Financial PositionAs at 31st March 2018

(continued)

	31st March 2018	31st March 2017
	RM'000	RM'000
NON-CURRENT LIABILITIES		
Term loans	59,535	88,785
Hire purchase and lease payables	410	906
Deferred tax liabilities	-	14,940
	<u>59,945</u>	<u>104,631</u>
CURRENT LIABILITIES		
Trade payables	129,470	113,698
Other payables and accruals	158,345	191,091
Short-term loans and borrowings	44,250	90,056
Hire purchase and lease payables	326	1,848
Tax payables	2,166	4,637
	<u>334,557</u>	<u>401,330</u>
Liabilities of a disposal group classified as held for sales	5,479	5,220
	<u>340,036</u>	<u>406,550</u>
TOTAL LIABILITIES	<u>399,981</u>	<u>511,181</u>
TOTAL EQUITY AND LIABILITIES	<u>553,516</u>	<u>767,680</u>
Net assets per ordinary share attributable to owners of the Company (sen)	<u>7.92</u>	<u>12.82</u>

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements of the Group for the financial year ended 31st March 2017 and the accompanying explanatory notes attached to the interim financial report.

Condensed Consolidated Statement of Changes in Equity

For the Fourth quarter ended 31st March 2018

	← Non-Distributable →						Distributable			Total Equity RM'000
	Ordinary Share Capital RM'000	Share Premium RM'000	Warrants Reserve RM'000	Foreign Exchange Translation Reserve RM'000	Fair Value Reserve RM'000	Revaluation Reserve RM'000	Retained Earnings RM'000	Attributable to the owners of the Company RM'000	Non-controlling Interests RM'000	
At 1 st April 2016	311,561	105,068	8,773	3,470	(9,929)	38,184	92,902	550,029	(12,185)	537,844
Transactions with owners										
Issuance of new shares	7,500	1,432	-	-	-	-	-	8,932	-	8,932
Warrants exercised	18,017	5,238	(5,238)	-	-	-	-	18,017	-	18,017
Transfer of unexercised warrant reserve	-	-	(3,535)	-	-	-	3,535	-	-	-
Effect of change in equity interest in subsidiaries	-	-	-	-	-	-	(10,461)	(10,461)	10,370	(91)
Effect of adoption of Companies Act 2016	111,738	(111,738)	-	-	-	-	-	-	-	-
Total transactions with owners	137,255	(105,068)	(8,773)	-	-	-	(6,926)	16,488	10,370	26,858
Total comprehensive income/(loss) for the financial period										
Loss after taxation for the financial period	-	-	-	-	-	-	(292,140)	(292,140)	(31,542)	(323,682)
Other comprehensive income for the financial period, net of tax										
- foreign currency translation	-	-	-	3,852	-	-	-	3,852	1,698	5,550
- share of equity accounted reserves	-	-	-	-	(553)	-	-	(553)	-	(553)
- reclassification of equity accounted reserve to profit or loss upon disposal of associated company	-	-	-	-	10,482	-	-	10,482	-	10,482
Total comprehensive income/(loss)	-	-	-	3,852	9,929	-	(292,140)	(278,359)	(29,844)	(308,203)
Realisation on revaluation reserve	-	-	-	-	-	(1,055)	1,055	-	-	-
At 31st March 2017	448,816	-	-	7,322	-	37,129	(205,109)	288,158	(31,659)	256,499

Condensed Consolidated Statement of Changes in Equity

For the Fourth quarter ended 31st March 2018

(continued)

	← Non-Distributable →			Distributable		Non-controlling Interests RM'000	Total Equity RM'000
	Ordinary Share Capital RM'000	Foreign Exchange Translation Reserve RM'000	Revaluation Reserve RM'000	Retained Earnings / (Accumulated Losses) RM'000	Attributable to the owners of the Company RM'000		
At 1 st April 2017	448,816	7,322	37,129	(205,109)	288,158	(31,659)	256,499
Transactions with owners							
Issuance of new shares	31,460	-	-	-	31,460	-	31,460
Disposal of subsidiaries	-	-	-	-	-	(289)	(289)
Total transactions with owners	31,460	-	-	-	31,460	(289)	31,171
Total comprehensive loss for the financial period							
Loss after taxation for the financial period	-	-	-	(121,753)	(121,753)	(9,904)	(131,657)
Other comprehensive income for the financial period, net of tax - foreign currency translation	-	(2,067)	-	-	(2,067)	(411)	(2,478)
Total comprehensive loss	-	(2,067)	-	(121,753)	(123,820)	(10,315)	(134,135)
Realisation on revaluation reserve	-	-	(1,054)	1,054	-	-	-
At 31st March 2018	480,276	5,255	36,075	(325,808)	195,798	(42,263)	153,535

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements of the Group for the financial year ended 31st March 2017 and the accompanying explanatory notes attached to the interim financial report.

Condensed Consolidated Cash Flow StatementFor the Fourth quarter ended 31st March 2018

	Cumulative 31st March 2018 RM'000	Cumulative 31st March 2017 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation		
- continuing operations	(131,031)	(306,825)
- discontinued operations	(11,373)	(9,207)
	<u>(142,404)</u>	<u>(316,032)</u>
Adjustments for:		
Non-Cash Items	91,234	241,871
Interest income	(362)	(623)
Finance costs	8,750	16,887
	<u>(42,782)</u>	<u>(57,897)</u>
OPERATING LOSS BEFORE WORKING CAPITAL CHANGES	(42,782)	(57,897)
Changes in working capital:		
Net changes in current assets	68,237	94,205
Net changes in current liabilities	17,891	45,656
	<u>43,346</u>	<u>81,964</u>
NET CASH GENERATED FROM OPERATIONS	43,346	81,964
Interest received	362	623
Interest paid	(8,750)	(16,887)
Tax paid	(3,920)	(11,398)
	<u>31,038</u>	<u>54,302</u>
NET CASH FROM OPERATING ACTIVITIES	31,038	54,302
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition investments in subsidiaries	-	(91)
Acquisition investments in an associated company	-	(8,823)
Acquisition of financial operating assets	(3,623)	(12,816)
Dividend received	-	150
Purchase of plant and equipment	(316)	(2,377)
Proceeds from disposal of plant and equipment	-	1,553
Proceeds from disposal of shares of an associate	-	30,869
Proceeds from disposal of subsidiaries, net of cash	(51)	-
Net distribution from an associate in liquidation	-	11
	<u>(3,990)</u>	<u>8,476</u>
NET CASH (FOR)/FROM INVESTING ACTIVITIES	(3,990)	8,476

Condensed Consolidated Cash Flow StatementFor the Fourth quarter ended 31st March 2018

(continued)

	Cumulative 31st March 2018 RM'000	Cumulative 31st March 2017 RM'000
CASH FLOW FROM FINANCING ACTIVITIES		
Net proceeds from issuance of ordinary shares	31,461	26,949
Net repayment of hire purchase and lease payables	(1,770)	(2,590)
Net repayment of bankers' acceptances and revolving credit	(17,661)	(17,032)
Net repayment of trade loans	(19,399)	(33,514)
Repayment of term loans	(38,138)	(42,836)
Withdrawal of pledged deposits	57	14,416
NET CASH FOR FINANCING ACTIVITIES	(45,450)	(54,607)
Net changes in cash and cash equivalents	(18,402)	8,171
Effect of exchange rate changes on cash and cash equivalent	-	(905)
Cash and cash equivalents at beginning of the period	44,584	37,318
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	26,182	44,584

Cash and cash equivalents at end of the period comprise the following balance sheet amounts:

Cash and bank balances	25,376	43,341
Short-term deposits placed	11,044	11,538
	36,420	54,879
Less: Short-term deposits pledged to licensed banks	(10,238)	(10,295)
	26,182	44,584

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the audited financial statements of the Group for the financial year ended 31st March 2017 and the accompanying explanatory notes attached to the interim financial report.

Notes to the Interim Financial Report

For the Fourth quarter ended 31st March 2018

1. Basis of preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 31st March 2018 and has been prepared in compliance with Malaysian Financial Reporting Standards ("MFRS") 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB") and Rule 9.22 of the ACE Market Listing Requirements ("AMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities").

This interim financial report should be read in conjunction with the audited financial statements of the Group for the financial year ended 31st March 2017.

2. Changes in Accounting Policies

The accounting policies adopted for this interim financial statements are consistent with those adopted for the annual audited financial statements for the financial year ended 31st March 2017 except for adoption of the following new MFRSs and amendments, which is in effective for financial periods beginning on or after 1st January 2017:

Amendments to MFRS 107 - Disclosure Initiative

Amendments to MFRS 112 - Recognition of Deferred Tax Assets for Unrealised Losses

Amendments to MFRSs Classified as "Annual Improvements to MFRSs 2014 - 2016 Cycle":

- Amendments to MFRS 12, Disclosure of Interests in Other Entities

The adoption of the above amendments/improvements to MFRSs did not have any significant effect on the financial statements of the Group, and did not result in significant changes to the Group's existing accounting policies.

3. Audit report of preceding annual financial statement

The auditors' report on the financial statements for the preceding financial year ended 31st March 2017 was qualified due to the use of unaudited management accounts for five (5) subsidiary companies for the purpose of consolidation rendering the auditors being unable to determine adjustments, if any, that may have been necessary in respect of the consolidated financial statements. The details of the qualification had been announced on 31st July 2017.

As at reporting date of the quarter ended 31st March 2018, the audit of management accounts of these subsidiary companies have been finalised and completed.

4. Seasonal or cyclical factors

The business of the Group was not affected by any significant seasonal or cyclical factors in the Fourth quarter.

5. Segment information

The Group's operating segments information for the interim financial report to 31st March 2018 was as follows:-

	← Continuing operations →						Discontinued operations		
	Sustainable Development Division								
	Trusted Identification Division RM'000	Property development & construction sub-division RM'000	Food & Agro Technology sub-division RM'000	Environment & Renewable Energy sub-division RM'000	Education Division RM'000	Elimination RM'000	Total continuing operations RM'000	Property development & construction sub-division RM'000	Total RM'000
Revenue from external customers	327,346	5,425	2,070	-	5,398	-	340,239	-	340,239
Inter-segment revenue	-	-	-	-	413	(413)	-	-	-
Total Revenue	327,346	5,425	2,070	-	5,811	(413)	340,239	-	340,239
Segment results <i>(Note A)</i>	(40,100)	(24,811)	(46,234)	(543)	(2,833)	-	(114,521)	(11,373)	(125,894)
Unallocated corporate expenses							(19,039)	-	(19,039)
Operating loss							(133,560)	(11,373)	(144,933)
Share of profit of associates							2,529	-	2,529
Loss before taxation							(131,031)	(11,373)	(142,404)
Income tax expense							10,747	-	10,747
Loss after taxation							(120,284)	(11,373)	(131,657)

5. Segment information (cont'd)

Note A: The following are exceptional items included in Segment results:

	← Continuing operations →						Discontinued operations		Total RM'000
	Sustainable Development Division						Property development & construction sub-division RM'000	Total RM'000	
	Trusted Identification Division RM'000	Property development & construction sub-division RM'000	Food & Agro Technology sub-division RM'000	Environment & Renewable Energy sub-division RM'000	Education Division RM'000	Elimination RM'000			
Operating results	58,980	(14,887)	(15,322)	-	(1,379)	-	27,392	(12)	27,380
Add/(Less):									
- Depreciation and amortisation	(16,362)	(1,524)	(1,954)	-	(380)	-	(20,220)	(75)	(20,295)
- Interest income	324	-	37	-	1	-	362	-	362
- Other income	34,744	1,418	922	813	5,813	-	43,710	-	43,710
- Finance costs	(8,741)	-	(1)	-	(8)	-	(8,750)	-	(8,750)
- Forex exchange losses	(22,437)	-	-	-	-	-	(22,437)	-	(22,437)
- Allowance for impairment loss on plant and equipment	-	(1,947)	(3,733)	-	-	-	(5,680)	-	(5,680)
- Allowance for impairment loss on other assets	(3,693)	(1)	-	-	-	-	(3,694)	(10,814)	(14,508)
- Allowance for impairment loss on amount owing from contract customers	(23,723)	-	-	-	-	-	(23,723)	-	(23,723)
- Allowance for impairment loss on trade receivables	(8,546)	(507)	(411)	-	-	-	(9,464)	-	(9,464)
- Administrative, operating and other expenses	(50,646)	(7,363)	(25,772)	(1,356)	(6,880)	-	(92,017)	(472)	(92,489)
	(99,080)	(9,924)	(30,912)	(543)	(1,454)	-	(141,913)	(11,361)	(153,274)
Segment results	(40,100)	(24,811)	(46,234)	(543)	(2,833)	-	(114,521)	(11,373)	(125,894)

6. Capital Commitments

**As at
31st March
2018
RM'000**

Authorised and contracted for:-

Purchase of plant and equipment	5,496
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7. Debt and equity securities

There were no issuances, cancellations, repurchases, resale and repayments of debts and equity securities for this quarter.

8. Changes in the composition of the Group

There were no changes in the composition of the Group for this quarter except for the following:

Disposal of entire equity interests of Educational Division's subsidiaries

The Company had on 3rd May 2018 entered into a Shares Sale Agreement (“SSA”) on the disposal of entire equity interests of four (4) subsidiaries, which are (1) Seri Stamford College Sdn Bhd, (2) Stamford College (Malacca) Sdn Bhd, (3) Platinum Encoded Sdn Bhd and (4) Formula IRIS Racing Sdn Bhd (“collectively known as “Stamford Group”) to Regal Rotary Sdn Bhd (“the Buyer”) for a total cash consideration RM100,003. In accordance with the SSA, the effective disposal date is on 31st March 2018.

The gain on disposal of Stamford Group is as per below:

Descriptions	RM
Sales consideration	100,003.00
Add: Share of net liabilities of Stamford Group	33,339,138.00
Less: Waiver of Shareholders' Net advances	(28,059,748.76)
Gain on disposal of equity interests of Stamford Group	5,379,392.24

9. Material changes in estimates

There were no changes in estimates of amounts reported in prior financial years, which have a material effect in the current financial period.

10. Material events subsequent to the end of the interim period

There were no material events subsequent to the end of this quarter.

11. Items of an unusual nature

There were no items of unusual nature, which affects assets, liabilities, equity, net income or cash flows in the Fourth quarter.

12. Valuations of property, plant and equipment

There were no valuations made on property, plant and equipment for this quarter.

13. Changes in contingent liabilities and contingent assets

Contingent Liabilities

There are no contingent liabilities incurred or known to be incurred by the Company and/or the Group as at 31st March 2018, except as disclosed below:

- i) A wholly-owned subsidiary with its joint venture partner in Turkey (“both parties are henceforth known as “JVCO”) is defending an action brought by Security General Directorate of Ministry of Interior or Emniyet Genel Mudrlugu (“EGM”) in Turkey. If defence against the action is finally unsuccessful, then the estimated potential liability to the JVCO is limited to the total sum of RM9,093,982 which the Group will be liable for 75% of the amount with interest. Detailed information of this litigation case is disclosed in Note 25 of this report.

14. Taxation

	Individual		Cumulative	
	3 months ended		12 months ended	
	31st March	31st March	31st March	31st March
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
<u>Continuing operations</u>				
Income tax				
- Current financial year	(2,670)	(1,226)	(2,670)	(4,468)
- Under/(over) provision in prior years	(1,542)	(495)	(1,523)	(3,052)
	(4,212)	(1,721)	(4,193)	(7,520)
Deferred tax				
- Current financial year	14,940	(130)	14,940	(130)
	10,728	(1,851)	10,747	(7,650)

The Group's effective tax rate is lower than the statutory tax rate of 24% mainly due to anticipated unutilised tax losses and capital allowance to be utilised for this quarter.

15. Related Party Transactions

The significant transactions with related parties of the Group for the cumulative 12 months period ended 31st March 2018 were as follows:

	RM'000
Major shareholder of the Company	
The Federal Land Development Authority ("FELDA")	
- Sales of construction of sustainable development project and services	<u>1,116</u>

Additional information required by the AMLR

16.1 Review of Performance

Continuing operations

For the three (3) months financial period ended 31st March 2018, the Group recorded a revenue of RM58.7 million, representing a decrease of 56.4% from RM134.5 million recorded in the previous comparable quarter ended 31st March 2017. The Group also recorded a loss before taxation of RM69.8 million this quarter, which is RM216.8 million lower as compared to loss before taxation of RM286.6 million recorded in the previous comparable quarter ended 31st March 2017.

The loss before taxation of RM69.8 million this quarter was mainly due to lower sales recorded, the losses from the foreign exchange resulted from the strengthening of RM against USD and EURO and the charge out and recognition of projects related expenditure in relation to the completed projects.

The performance of the respective business segments for this 3-month financial quarter ended 31st March 2018 as compared to the previous comparable quarter is analysed as follows:-

Trusted Identification Division

Trusted Identification recorded a lower revenue of RM57.7 million in the current financial quarter ended 31st March 2018 from RM125.6 million in the previous comparable quarter, representing a decrease of 54.1%. The decrease was mainly attributed to lower delivery of Senegal eID cards and the banking cards in the current reporting quarter.

Sustainable Development Division

The revenue of Sustainable Development for this quarter is not significant to the Group due to the completion of most of its Rimbunan Kaseh and Sentuhan Kasih projects.

Education Division

The contribution for Education Division is not significant to the Group this quarter.

Discontinued operations

IRIS Land (PNG) Ltd (“ILPNG”), a wholly-owned subsidiary of the Company that incorporated in Papua New Guinea, has discontinued its business operations since January 2017. The Group has fully impaired the assets of ILPNG amounting to RM10.8 million in this quarter.

16.2 Comparison with Preceding Quarter

Continuing operations

For the current financial quarter which ended on 31st March 2018, the Group recorded revenue of RM58.7 million, representing a decrease of RM7.9 million, or 11.9% from RM66.6 million recorded in the preceding quarter ended 31st December 2017.

The Group reported a loss before tax of RM69.8 million, which is RM21.7 million or 45.1% higher as compared to loss before taxation of RM48.1 million recorded in the preceding quarter.

17. Prospects

The current business environment for financial year 2019 is expected to remain challenging for the Group.

For financial year 2019, the Group will strengthen its Trusted Identification division business and will also embark on costs optimisation exercises to ensure the Group remains competitive in the challenging business environment.

18. Variance between actual results and forecasted profit and shortfall in profit guarantee

The Group has not provided any profit forecast or profit guarantee in a public document.

19. Unquoted Securities and/or Properties

There were no purchases or disposals of unquoted securities and/or properties for the current quarter and financial period to date.

20. Quoted Securities

There were no purchases or disposals of quoted securities for the current quarter and financial period to date.

21. Available-for-sale financial assets

Available-for-sale financial assets represent investment and deposits paid in respect of:

	At 31st March 2018 RM'000
Investment in an unquoted shares in Malaysia	7,500
Investment in an unquoted shares in Singapore	2,378
Investment in an unquoted shares in Hong Kong	981
Investment in an unquoted shares in Republic of Palau	7,055
Golf Club Membership	406
(Less): Allowance for diminution in value	(18,104)
	<u>216</u>

22. Status of Corporate Proposals and Utilisation of Proceeds

There were no corporate proposals announced but not completed as at 21st May 2018, being the latest practicable date which is not earlier than seven (7) days from the date of issue of this quarterly report except as disclosed below:

A) Private Placement (2013)

On 13th September 2013, the Company served a Circular to shareholders in relation to a proposed private placement of up to 394,098,381 new ordinary shares of IRIS Corporation Berhad (“ICB”) to be issued to Federal Land Development Authority (“FELDA”) or its wholly-owned subsidiary at an issue price of RM0.28 (“Private Placement”) and subsequently on 30th September 2013, the Private Placement was approved by the shareholders of the Company.

22. Status of Corporate Proposals and Utilisation of Proceeds (cont'd)

On 6th November 2013, the Private Placement funds amounting to RM110,347,547 has been raised by issuing of 394,098,381 new ordinary shares of ICB at an issue price of RM0.28 each to Felda Investment Corporation Sdn Bhd, a wholly-owned subsidiary of Federal Land Development Authority (“FELDA”).

The details of the utilisation of the proceeds from the Private Placement up to 21st May 2018 are as follows:

Description	Proposed utilisation (RM'000)	Actual utilisation (RM'000)	Balance to be utilised (RM'000)	Intended Timeframe for Utilisation
Partial repayment of short term borrowings	30,000	(30,000)	-	Within 12 months
Capital expenditure of ICB Group	25,000	(11,477)	13,523	Within 12 months
Working capital of ICB Group	47,000	(47,000)	-	Within 12 months
Estimated expenses in relation to the Proposed Private Placement	8,348	(8,348)	-	Within 6 months
Total	110,348	(96,825)	13,523	

The Board noted that the balance of RM13,523,000 had been utilized for working capital.

23. Group Borrowings and Debt Securities

The Group’s bank borrowings (exclude hire purchase and finance lease) from financial institutions at the end of the current quarter were:

	Short Term RM'000	Long Term RM'000	Total RM'000
Secured	44,250	59,535	103,785
Unsecured	-	-	-
	<u>44,250</u>	<u>59,535</u>	<u>103,785</u>

All of the above borrowings are denominated in Ringgit Malaysia.

24. Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risk as at 21st May 2018 being the latest practicable date which is not earlier than seven (7) days from date of issue of this quarterly report.

25. Material Litigation

Save for the material litigations as disclosed below, there are no other material litigations involving the Group as at 21st May 2018:

(i) IRIS Corporation Berhad (“ICB”) v. The Government of the United States

The lawsuit was commenced on February 24, 2015. The gravamen of the lawsuit is a claim for patent infringement of IRIS’ U.S. Patent No. 6,111,506, “Method of Making an Improved Security Identification Document Including Contactless Communication Insert Unit”. It is alleged that U.S. electronic passports manufactured for the U.S. Government, as well as use of foreign and U.S. Passports by the U.S. Government and by entities acting on behalf of the U.S. Government constitute infringements of that aforementioned IRIS patent, for which infringements IRIS is claiming just compensation.

The Government has filed their answer, and the litigation is in the discovery phase. In February 2016 the Government filed a petition with the United States Patent and Appeals Board, (the PTAB), to have the aforementioned IRIS patent declared invalid. While the PTAB proceedings are pending, the litigation in the United States Court of Federal Claims is on hold. At the time the litigation was put on hold, we were still in the discovery phase. As of this date, the PTAB proceedings are pending, and therefore it is too early to give an opinion as to the likelihood of success and/or as the quantity of compensation if IRIS is successful. Until a decision is rendered by the PTAB on the patent validity issues, it is also impossible to know how long the litigation will last. If IRIS is successful in defeating the validity challenge to any of the claims in issue before the PTAB, the Government will probably appeal, and if IRIS is not successful in defending validity of any of the patent claims, IRIS will have the right to appeal. During the PTAB process and appeals (if any), the Court of Federal Claims litigation remains stayed. With that in mind it is impossible to estimate future costs and disbursements, although there will be no further billing for legal services prior to the PTAB decision and the filing of a notice of appeal by either party thereafter. Any appeals will be heard by the United States Court of Appeals for the Federal Circuit in Washington.

The U.S. Department of Justice’s (DOJ) petition with the US Patent Trial and Appeal Board was dismissed on grounds that the DOJ’s petition was time barred. Under the America Invents Act, a petitioner must file a request for review within one year of being sued for infringement. With the dismissal of the petition, the trial for the infringement of Iris’ e-passport patent against the US Government will go on.

Appeal filed by DOJ on 17th August 2017 requesting for rehearing to the Patent Trial and Appeal Board (PTAB) against the dismissal of their Petition earlier was dismissed by PTAB on 22nd January 2018. As such, main proceedings which is the infringement proceeding itself will commence soon.

25. Material Litigation (cont'd)

(ii) (1) IRIS Technologies (M) Sdn Bhd, (2) Kunt Electronic Sanayii ve Ticaret A.S (both parties are henceforth known as “JVCO”) vs Security General Directorate of Ministry of Interior or Emniyet Genel Mudurlugu (Turkey)

The Company received the update on the court proceedings of the consolidated Ankara 12th Civil Court of First Instance (2009/343) and 23rd Civil Court of First Instance Ankara (2010/347) and several merged cases relating thereto from its solicitors in Turkey.

The Company was informed that a decision was declared on 16th September 2014 and was duly served on the JVCO on 28th January 2015. The Company makes this announcement as soon as the facts and figures in the Judgment which is in the Turkish language is accurately verified and endorsed by its solicitors.

The Judgment declared the following:-

1. The JVCO's claim for unlawful termination by EGM and payment for the balance amount of (Turkish Lira) TL6.195.000 (equivalent to RM9,014,221) due to the JVCO for works completed was rejected.
2. EGM's claim for the refund of monies paid to the JVCO for the completion of Phase 1 (delivery of hardware and equipment) of the Project to the amount of TL6.195.000 (equivalent to RM9,014,221) was allowed and declared that the JVCO had to return the said amount to EGM with interest.
3. The JVCO to pay TL5.053,84 (equivalent to RM7,354) as compensation for loss suffered by EGM ; and
4. EGM's claim of TL49.761,53 (equivalent to RM72,407) as expenses arising from their performance of the contract and loss due to the termination was allowed and the JVCO was ordered to pay the said amount as compensation.

The judgment is pending enforcement against the JVCO.

(iii) IRIS Corporation Berhad vs Tan Chin Hwang (High Court of Pulau Pinang Saman Pemula No: 24FC-230-04/2015)

ICB entered into an Equipment Lease Agreement (“Agreement”) with IQPR Sdn, Bhd (“the Defendant”) on 3rd May 2011 where a security was given by Mr Tan Chin Hwang to ICB in respect of this Agreement. The Security in question was a charge registered on a piece of land known as GRN 56247 Lot 3635, Bandar Tanjong Bungah, Daerah Timur Laut, Negeri Pulau Pinang (“the Security”) The Charge over the Security was registered on 10th June 2011 and no other charges exist on the said Security. Due to the Defendant committing several defaults in its obligations under the Agreement, ICB had sent out letters of demand and intent dated 13th December 2013 and 6th March 2014 stating its intent to enforce its rights over the Security in view of the Defendant's continued breaches. By the same letter ICB terminated the Agreement.

25. Material Litigation (cont'd)

ICB via its solicitors had on 28th January 2015 issued a letter enclosing the Form 16D Notice under the National Land Act and the Certificate of Indebtedness on the Defendant which was duly acknowledged receipt by the Defendant personally on 31st January 2015. On 2nd April ICB's solicitors filed an Originating Motion pursuant to Seksyen 256 and 257 of the National Land Code 1965 and Orders 31 and 83 of Court Rules 2012. (Enclosure 1) The case was fixed for case management on 11th May 2015 and on this date the Defendant's lawyers attended court and requested for additional time to see further instructions from their client in respect of the suit. The case was fixed for further case management on 19th August 2015.

The Defendant had made an application for Stay and Reference to Arbitration (Encl 8). Hence there were 2 proceedings before the High Court, namely the Plaintiff's foreclosure proceedings (Enclosure 1) and the Defendant's application to obtain a stay of Enclosure 1 and to refer the proceedings to arbitration (Enclosure 8). The cases were adjourned several times for case management pending parties filing of their respective written submissions until the matter was fixed for hearing both Enclosures 1 and 8 on 21st January 2016. The High Court then dismissed the Defendant's application in Enclosure 8 and had granted Order in Terms in respect of the Plaintiff's originating summons for foreclosure in Enclosure 1. ICB has obtained the Order for Sale on the Security from the High Court of Penang. The Auction was scheduled to be on 23rd August 2016 at the Court premises.

However, on 18th August 2016, the Defendant obtained a stay for the Auction, challenging the Valuation Report obtained by the Plaintiff. The Court fixed 13th March 2017 for hearing to fix the auction price. The first auction was scheduled to take place on 17th May 2017. As there were no bidders, the relevant applications have been made to reduce 10% of the reserve price. The Court has set 7th September 2017 for second auction with 10% reduction in the reserved price of the Security.

At the latest auction date fixed on 6th June 2018, where the reserve price was fixed at RM3,888,000,00 and the auctioneer appointed is Eng Sitt Tatt of M/S Landmarks Auctioneers Sdn Bhd.

(iv) **Saudi Arabia Quad Communication & Security Solutions v IRIS Corporation Berhad**

The Plaintiff filed its claim against the Defendant for the alleged non-payment of goods and service rendered arose from an agreement and contractual relationship to implement a project with the Ministry of Interiors, Department of Passports and Immigration, People's Republic of Bangladesh for the Enrolment of Bangladeshi Citizens in Kingdom of Saudi Arabia for Machine Readable Passports (MRP) (the "Project") for the amount of USD3,477,522.

The next hearing date is fixed on 28th May 2018 and the court will make a primary judgment on this matter.

25. Material Litigation (cont'd)

- (v) **In the High Court of Malaya at Kuala Lumpur Suit No. WA-22NCVC-126-03/2017; Roxwell Group Sdn Bhd (755819-U) against (1) IRIS Corporation Berhad (302232-X) (“ICB”), (2) Tan Say Jim (“D2”), (3) Su Thai Ping (“D3”), (4) Hamdan Bin Mohd Hassan (“D4”) & (5) Sylla Ibrahima Sory (“D5”)**

The Plaintiff and D1 entered into a Cooperation Agreement (“Agreement”) on 17th November 2011 and among the salient terms of the Agreement was for the Plaintiff to identify for ICB for potential projects in the Republic of Guinea and Guinea Bissau (“Territory”) for a period of three (3) years from the date of the Agreement. In consideration of any and all services in respect of the Agreement involving the sale of plant, equipment, machinery or asset arranged by the Plaintiff, ICB agreed to pay the Plaintiff a commission of 15% on the value or price of the plant, equipment, machinery or asset sold.

The Plaintiff is claiming for an alleged commission payment in the amount of RM169,480,350.00 (together with interest deemed appropriate by the court) under the Agreement calculated based on the formula of 15% on the reported value of the BOT Passport Contract awarded by the Government of the Republic of Guinea to ICB in 2013 (“Project”). The Plaintiff is also alleging that ICB has colluded with D2, D3, D4 and D5 to deprive of its contractual rights under the Agreement.

It is relevant to note that the Project does not involve the sale of plant and equipment and no deposit was received from the Republic of Guinea. There was also no commission payment agreed between the Plaintiff and ICB as to the securement of the Project. ICB denies it has breached the Agreement and wishes to reiterate that the Plaintiff had never in any way facilitated to secure any contract whatsoever in favour of ICB within the two years from the execution of the Agreement. By virtue of clause 7.1 of the Agreement, the same in effect became redundant and was never pursued.

In addition to the above claims, the Plaintiff also alleges that ICB interfered with the contractual relations between the Plaintiff and its employee, Sylla (who is also the 5th defendant) by recruiting Sylla to assist ICB directly in dealing with the Government of the Republic of Guinea. The Plaintiff does not make a specific claim for damages for this allegation which arises out of the same facts as the Conspiracy Claim.

The Plaintiff via its solicitors served ICB a letter of demand in relation to the alleged commission payable for the securement of the Project in 21st July 2014 which was categorically denied and refuted by ICB’s solicitors via letter dated 19th September 2014. ICB therefore deems the Plaintiff’s action as nothing but retaliatory in nature.

ICB appointed Messrs Raslan Loong to act on behalf and the memorandum of appearance was filed on 28th March 2017. ICB has filed in its defence and an application for security for cost which will be heard on 18th September 2017.

On 18th September 2017, the Court allowed ICB’s application for security for costs where the Plaintiff was ordered to deposit the sum of RM25,000.00 into court as security for costs. Currently, the parties are in the midst of exchanging documents.

25. Material Litigation (cont'd)

The Court also dismissed the applications by the 2nd to 4th Defendants' to strike out the Plaintiff's claim. The claim by the Plaintiff against all four Defendants will now proceed to trial.

Both parties have filed Bundle of Pleadings, Issues to be triad, Plaintiff and Defendants' Summary of Case, Common Bundle of Documents and List of Witnesses. The matter is now fixed for Case Management on 9th July 2018 and full trial fixed on 16th October 2018 to 19th October 2018.

26. Realised and Unrealised Accumulated Losses

Breakdown of accumulated losses of the Group is as follows:

	As at 31st March 2018 RM'000	As at 31st March 2017 RM'000
Total accumulated losses:		
i) The Company and its subsidiaries		
- Realised losses	(374,206)	(260,866)
- Unrealised losses	(12,685)	(5,326)
	(386,891)	(266,192)
ii) Associates		
- Realised losses	(2,053)	(7,226)
	(2,053)	(7,226)
	(388,944)	(273,418)
iii) Group consolidated adjustments	63,136	68,309
Total accumulated losses of the Group	(325,808)	(205,109)

27. Dividend

The Company did not pay any dividend in the current financial quarter.

28. Loss Per Ordinary Share

	Individual 3 months ended		Cumulative 12 months ended	
	31st March 2018	31st March 2017	31st March 2018	31st March 2017
(a) Basic loss per ordinary share				
Loss attributable to owners of the Company for the period (RM'000)				
- continuing operations	(55,957)	(260,026)	(110,380)	(282,933)
- discontinued operations	(10,814)	(5,083)	(11,373)	(9,207)
	<u>(66,771)</u>	<u>(265,109)</u>	<u>(121,753)</u>	<u>(292,140)</u>
Weighted average number of ordinary shares ('000) at end of period	<u>2,412,183</u>	<u>2,247,184</u>	<u>2,412,183</u>	<u>2,247,184</u>
Basic loss per ordinary share (Sen)				
- continuing operations	(2.32)	(11.57)	(4.58)	(12.59)
- discontinued operations	(0.45)	(0.23)	(0.47)	(0.41)
	<u>(2.77)</u>	<u>(11.80)</u>	<u>(5.05)</u>	<u>(13.00)</u>
(b) Diluted loss per ordinary share				
Loss attributable to owners of the Company for the period (RM'000)				
- continuing operations	(55,957)	(260,026)	(110,380)	(282,933)
- discontinued operations	(10,814)	(5,083)	(11,373)	(9,207)
	<u>(66,771)</u>	<u>(265,109)</u>	<u>(121,753)</u>	<u>(292,140)</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share ('000) at end of period	<u>2,412,183</u>	<u>2,247,184</u>	<u>2,412,183</u>	<u>2,247,184</u>
Diluted loss per ordinary share (Sen)				
- continuing operations	(2.32)	(11.57)	(4.58)	(12.59)
- discontinued operations	(0.45)	(0.23)	(0.47)	(0.41)
	<u>(2.77)</u>	<u>(11.80)</u>	<u>(5.05)</u>	<u>(13.00)</u>

29. Loss before taxation

	Individual 3 months ended 31st March 2018 RM'000	Cumulative 12 months ended 31st March 2018 RM'000
Loss before taxation is arrived at after charging/(crediting):		
<i>Continuing operations</i>		
- Allowance for impairment loss on plant and equipment	1,950	5,680
- Allowance for impairment loss on amount due from contract customers	-	23,723
- Allowance for impairment loss on investment in an associate	713	713
- Allowance for impairment loss on trade receivables	5,064	9,464
- Allowance for impairment loss on other receivables	2,981	2,981
- Allowance for slow moving and obsolete inventories	7,457	7,968
- Amortisation of concession assets, intangible assets and depreciation of property, plant and equipment	11,778	20,220
- Net foreign exchange (gain)/losses	(2,191)	7,472
<i>Discontinued operations</i>		
- Allowance for impairment loss on assets of a disposal group classified as held for sale	10,814	10,814
- Depreciation of property, plant and equipment	75	75

30. Comparative figures

Certain comparative figures as shown in the condensed consolidated statement of financial position and statement of comprehensive income have been reclassified in order to conform with the current financial period's presentation.

31. Authorisation for Issue

This interim financial report was authorised for issuance by the Board of Directors on 28th May 2018.