

IRIS CORPORATION BERHAD

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

Interim Financial Report for the Second quarter ended 30th September 2018

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Condensed Consolidated Statement of Comprehensive IncomeFor the Second quarter ended 30th September 2018

	Individual		Cumulative	
	3 months ended		6 months ended	
	30th	30th	30th	30th
	September	September	September	September
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
<i>Continuing operations</i>				
Revenue	75,107	110,048	150,919	211,097
Cost of sales	(57,962)	(109,173)	(112,704)	(196,681)
Depreciation and amortisation	(753)	(1,762)	(1,844)	(2,935)
Gross profit/(loss)	16,392	(887)	36,371	11,481
Other income	4,207	1,543	4,521	10,189
Administrative, operating and other expenses	(15,133)	(11,142)	(29,137)	(22,393)
Depreciation and amortisation	(953)	(1,327)	(1,935)	(2,553)
Finance costs	(2,717)	(2,325)	(4,977)	(5,061)
Share of results of associates, net of tax	(657)	819	(420)	1,212
Profit/(Loss) before taxation	1,139	(13,319)	4,423	(7,125)
Income tax expense	-	-	-	49
Profit/(Loss) from continuing operations	1,139	(13,319)	4,423	(7,076)
<i>Discontinued operations</i>				
Loss from discontinued operations, net of tax	-	(3,849)	-	(6,620)
Profit/(Loss) for the period	1,139	(17,168)	4,423	(13,696)
Other comprehensive income/(loss), net of tax				
Foreign currency translation for foreign operations	17	(3,188)	1,537	(1,713)
	17	(3,188)	1,537	(1,713)
Total comprehensive income/(loss) for the period	1,156	(20,356)	5,960	(15,409)

Condensed Consolidated Statement of Comprehensive IncomeFor the Second quarter ended 30th September 2018

(continued)

	Individual 3 months ended 30 th		Cumulative 3 months ended 30 th	
	September 2018	September 2017	September 2018	September 2017
	RM'000	RM'000	RM'000	RM'000
Profit/(Loss) attributable to:				
Owners of the Company	4,190	(14,684)	12,866	(9,474)
Non-controlling interests	(3,051)	(2,484)	(8,443)	(4,222)
Profit/(Loss) for the period	1,139	(17,168)	4,423	(13,696)
Total comprehensive income/(loss) attributable to:				
Owners of the Company	4,198	(16,682)	14,544	(11,088)
Non-controlling interests	(3,042)	(3,674)	(8,584)	(4,321)
Total comprehensive income/(loss) for the period	1,156	(20,356)	5,960	(15,409)
Earnings/(Loss) per share attributable to owners of the Company:				
Basic (Sen)				
- continuing operations	0.17	(0.50)	0.51	(0.16)
- discontinued operations	-	(0.12)	-	(0.24)
	0.17	(0.62)	0.51	(0.40)
Diluted (Sen)				
- continuing operations	0.17	(0.50)	0.51	(0.16)
- discontinued operations	-	(0.12)	-	(0.24)
	0.17	(0.62)	0.51	(0.40)

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 2018 and the accompanying explanatory notes attached to the interim financial report.

Condensed Consolidated Statement of Financial PositionAs at 30th September 2018

	30 th September 2018 RM'000	31 st March 2018 RM'000
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	96,468	97,739
Intangible assets	155,625	157,168
Operating financial assets	14,932	14,591
Investment in associates	11,390	11,810
Available-for-sale financial assets	216	216
	278,631	281,524
CURRENT ASSETS		
Inventories	19,687	25,156
Operating financial assets	592	592
Trade receivables	198,348	132,862
Other receivables, deposits & prepayments	44,897	51,150
Amount owing by associates	14	285
Amount owing by related parties	5,682	3,143
Amount owing by contract customers	11,291	9,375
Current tax assets	10,157	9,423
Short-term deposits	64,561	11,045
Cash and bank balances	88,095	25,342
	443,324	268,373
TOTAL ASSETS	721,955	549,897
EQUITY AND LIABILITIES		
EQUITY		
Share capital	539,602	480,276
Foreign currency translation reserve	468	5,074
Revaluation reserve	35,547	36,074
Accumulated losses	(309,752)	(327,605)
Total equity attributable to owners of the Company	265,865	193,819
Non-controlling interests	(34,708)	(40,453)
TOTAL EQUITY	231,157	153,366

Condensed Consolidated Statement of Financial PositionAs at 30th September 2018

(continued)

	30th September 2018	31st March 2018
	RM'000	RM'000
NON-CURRENT LIABILITIES		
Term loans	129,065	59,535
Hire purchase and lease payables	184	218
	<u>129,249</u>	<u>59,753</u>
CURRENT LIABILITIES		
Trade payables	126,227	128,200
Other payables and accruals	182,782	156,380
Short-term loans and borrowings	44,250	44,250
Hire purchase and lease payables	137	504
Current tax liabilities	2,674	1,965
	<u>356,070</u>	<u>331,299</u>
Liabilities of a disposal group classified as held for sales	5,479	5,479
	<u>361,549</u>	<u>336,778</u>
TOTAL LIABILITIES	<u>490,798</u>	<u>396,531</u>
TOTAL EQUITY AND LIABILITIES	<u>721,955</u>	<u>549,897</u>
Net assets per ordinary share attributable to owners of the Company (sen)	<u>8.96</u>	<u>7.84</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 2018 and the accompanying explanatory notes attached to the interim financial report.

Condensed Consolidated Statement of Changes in Equity

For the Second quarter ended 30th September 2018

	← Attributable to the owners of the Company →						
	Ordinary Share Capital RM'000	Foreign Currency Translation Reserve RM'000	Revaluation Reserve RM'000	Accumulated Losses RM'000	Sub-total RM'000	Non- controlling Interests RM'000	Total Equity RM'000
At 1 st April 2017	448,816	7,322	37,129	(205,109)	288,158	(31,659)	256,499
<i>Transactions with owners</i>							
Issuance of new shares	31,460	-	-	-	31,460	-	31,460
Total transactions with owners	31,460	-	-	-	31,460	-	31,460
<i>Total comprehensive loss for the financial period</i>							
Loss after taxation for the financial period	-	-	-	(9,474)	(9,474)	(4,222)	(13,696)
Other comprehensive income for the financial period, net of tax - foreign currency translation	-	(1,614)	-	-	(1,614)	(99)	(1,713)
Total comprehensive loss	-	(1,614)	-	(9,474)	(11,088)	(4,321)	(15,409)
Realisation on revaluation reserve	-	-	(527)	527	-	-	-
At 30th September 2017	480,276	5,708	36,602	(214,056)	308,530	(35,980)	272,550

Condensed Consolidated Statement of Changes in Equity

For the Second quarter ended 30th September 2018

(continued)

	← Attributable to the owners of the Company →						
	Ordinary Share Capital RM'000	Foreign Currency Translation Reserve RM'000	Revaluation Reserve RM'000	Accumulated Losses RM'000	Sub-Total RM'000	Non- controlling Interests RM'000	Total Equity RM'000
At 1 st April 2018	480,276	5,074	36,074	(327,605)	193,819	(40,453)	153,366
Transactions with owners							
Issuance of new shares	59,326	-	-	-	59,326	-	59,326
Disposal of subsidiaries	-	(6,284)	-	4,460	(1,824)	14,329	12,505
Total transactions with owners	59,326	(6,284)	-	4,460	57,502	14,329	71,831
Total comprehensive income/(loss) for the financial period							
Profit/(Loss) after taxation for the financial period	-	-	-	12,866	12,866	(8,443)	4,423
Other comprehensive income for the financial period, net of tax - foreign currency translation	-	1,678	-	-	1,678	(141)	1,537
Total comprehensive income/(loss)	-	1,678	-	12,866	14,544	(8,584)	5,960
Realisation on revaluation reserve	-	-	(527)	527	-	-	-
At 30th September 2018	539,602	468	35,547	(309,752)	265,865	(34,708)	231,157

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 2018 and the accompanying explanatory notes attached to the interim financial report.

Condensed Consolidated Cash Flow StatementFor the Second quarter ended 30th September 2018

	Cumulative 6 months ended 30th September 2018 RM'000	Cumulative 6 months ended 30th September 2017 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(Loss) before taxation		
- continuing operations	4,423	(7,125)
- discontinued operations	-	(6,599)
	4,423	(13,724)
Adjustments for:		
Non-Cash Items	5,516	3,099
Interest income	(227)	(206)
Finance costs	4,977	5,066
OPERATING PROFIT/(LOSS) BEFORE WORKING CAPITAL CHANGES	14,689	(5,765)
Changes in working capital:		
Net changes in current assets	(57,947)	12,004
Net changes in current liabilities	38,792	12,072
NET CASH (USED IN)/GENERATED FROM OPERATIONS	(4,466)	18,311
Interest received	227	206
Interest paid	(4,977)	(5,066)
Tax refund/(paid)	12	(2,792)
NET CASH (USED IN)/FROM OPERATING ACTIVITIES	(9,204)	10,659
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of financial operating assets	(341)	(84)
Acquisition of intangible assets	(183)	(2,511)
Acquisition of development costs	(1,820)	(15)
Acquisition of plant and equipment	(566)	(382)
Disposal of subsidiaries	(70)	-
NET CASH FOR INVESTING ACTIVITIES	(2,980)	(2,992)

Condensed Consolidated Cash Flow StatementFor the Second quarter ended 30th September 2018

(continued)

	Cumulative 6 months ended 30th September 2018 RM'000	Cumulative 6 months ended 30th September 2017 RM'000
CASH FLOW FROM FINANCING ACTIVITIES		
Net proceeds from term loan of a foreign subsidiary	84,155	-
Net proceeds from issuance of ordinary shares	59,326	31,461
Net repayment of hire purchase and lease payables	(403)	(634)
Net repayment of bankers' acceptances and revolving credit	-	(12,661)
Net repayment of trade loans	-	(19,275)
Repayment of term loans	(14,625)	(23,513)
Placement of pledged deposits	(53,933)	(566)
NET CASH FROM/(FOR) FINANCING ACTIVITIES	74,520	(25,188)
Net changes in cash and cash equivalents	62,336	(17,521)
Cash and cash equivalents at beginning of the period	26,149	44,584
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	88,485	27,063

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

Cash and bank balances	88,095	25,738
Short-term deposits placed	64,561	12,186
	152,656	37,924
Less: Short-term deposits pledged	(64,171)	(10,861)
	88,485	27,063

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 2018 and the accompanying explanatory notes attached to the interim financial report.

Notes to the Interim Financial Report

For the Second quarter ended 30th September 2018

1. Basis of preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 30th September 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 2018.

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 2018 except for those standards, amendments and IC Interpretation, which are in effective for financial period beginning on or after 1st April 2018 and are applicable to the Group.

The adoption of these new MFRSs does not have any significant effect on the financial statements of the Group.

3. Audit report of preceding annual financial statement

The preceding year audited financial statements were not subject to any qualifications.

4. Seasonal or cyclical factors

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

5. Segment information

The Group's operating segments information for the interim financial report to 30th September 2018 was as follows:-

	← Continuing operations →							
	Sustainable Development Division							
	Trusted ID & IT Division RM'000	Property development & construction sub-division RM'000	Food & Agro Technology sub-division RM'000	Environment & Renewable Energy sub-division RM'000	Adjustments & Eliminations RM'000	Total continuing operations RM'000	Discontinued operations RM'000	Total RM'000
Revenue from external customers	145,555	3,747	1,617	-	-	150,919	-	150,919
Inter-segment revenue	-	-	-	-	-	-	-	-
Total Revenue	145,555	3,747	1,617	-	-	150,919	-	150,919
Segment results <i>(Note A)</i>	22,640	543	(20,167)	3,281	-	6,297	-	6,297
Unallocated corporate expenses	-	-	-	-	(1,454)	(1,454)	-	(1,454)
Share of results of associates, net of tax	-	-	-	-	(420)	(420)	-	(420)
Profit/(Loss) before taxation	22,640	543	(20,167)	3,281	(1,874)	4,423	-	4,423
Income tax expense	-	-	-	-	-	-	-	-
Profit/(Loss) after taxation	22,640	543	(20,167)	3,281	(1,874)	4,423	-	4,423

5. Segment information (cont'd)

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

	← Continuing operations →							
	<u>Sustainable Development Division</u>							
	Trusted ID & IT Division RM'000	Property development & construction sub-division RM'000	Food & Agro Technology sub-division RM'000	Environment & Renewable Energy sub-division RM'000	Adjustments & Eliminations RM'000	Total continuing operations RM'000	Discontinued operations RM'000	Total RM'000
Operating results	41,604	1,326	(4,715)	-	-	38,215	-	38,215
Add/(Less):								
- Depreciation and amortisation	(3,197)	(55)	(526)	-	-	(3,778)	-	(3,778)
- Interest income	108	-	-	-	-	108	-	108
- Other income	265	659	192	3,298	-	4,414	-	4,414
- Finance costs	(3,549)	(3)	(1,425)	-	-	(4,977)	-	(4,977)
- Administrative, operating and other expenses	(12,591)	(1,384)	(13,693)	(17)	-	(27,685)	-	(27,685)
	(18,964)	(783)	(15,452)	3,281	-	(31,918)	-	(31,918)
Segment results	22,640	543	(20,167)	3,281	-	6,297	-	6,297

6. Capital Commitments

There were no material capital commitments for this quarter.

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 the entire equity interest in a subsidiary, Regal Energy Limited

On 26 July 2018, the Company had entered into a Shares Sales Agreement (“SSA”) with Speedy K-Gital Co., Ltd. (“the Purchaser”), a company incorporated in Kingdom of Cambodia, to dispose its entire 100% equity interest in Regal Energy Limited (“REL”) for a total cash consideration of RM1.

REL held 65% of the equity interest in Weinan IRIS Envirowerks Zhouji Renewable Resources Co., Ltd. (“Weinan”), a company incorporated in the People’s Republic of China.

The disposal was completed on 26th July 2018 as the Purchaser had fully settled the sale consideration upon execution of the SSA. Consequently, REL and Weinan ceased to be subsidiaries of the Group. The gain arising from the disposal amounted to RM3.3 million.

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 this 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

There are no contingent liabilities and assets incurred or known to be incurred by the Company and/or the Group as at 30th September 2018.

14. Taxation

	Individual		Cumulative	
	3 months ended 30 th September 2018	3 months ended 30 th September 2017	6 months ended 30 th September 2018	6 months ended 30 th September 2017
	RM'000	RM'000	RM'000	RM'000
<u>Continuing operations</u>				
Income tax				
- (Under)/over provision in prior years	-	-	-	49
	-	-	-	49
<u>Discontinued operations</u>				
Income tax				
- Under provision in prior years		(12)	-	(21)
	-	(12)	-	(21)
	-	(12)	-	28

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 6 months period ended 30th September 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	3,624

Additional information required by the AMLR

16.1 Review of Performance

Continuing operations

For the three (3) months financial period ended 30th September 2018, the Group recorded a revenue of RM75.1 million, representing a decrease of RM34.9 million or 31.7% from RM110.0 million recorded in the previous comparable quarter ended 30th September 2017. The Group also recorded a profit before taxation of RM1.1 million this quarter, which is RM14.4 million higher as compared to loss before taxation of RM13.3 million recorded in the previous comparable quarter ended 30th September 2017.

The loss before taxation of RM13.3 million reported in previous comparable quarter was mainly due to one-off recognition of litigation cases' settlement totaling of RM17.9 million.

The performance of the respective business segments for this 3-month financial quarter ended 30th September 2018 as compared to the previous comparable quarter is analysed as follows:-

Trusted ID & IT Division

Trusted Identification recorded a lower revenue of RM74.1 million in the current financial quarter ended 30th September 2018, as compared to RM105.7 million in the previous comparable quarter, representing a decrease of 29.9%. In previous comparable quarter, the demand for the Senegal eID cards was higher due to initial launching of the eID cards by Senegal government.

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.

16.2 Comparison with Preceding Quarter

Continuing operations

For the current financial quarter ended on 30th September 2018, the Group recorded revenue of RM75.1 million as compared to RM75.8 million recorded in the preceding quarter ended 31st March 2018.

The Group reported a profit before tax of RM1.1 million, which is RM2.2 million lower as compared to profit before taxation of RM3.3 million recorded in the preceding quarter.

17. Prospects

For the financial year 2019, IRIS Group is expected to continue to derive revenues from the on-going trusted identification projects in Africa, Asia, Asia Pacific and North America regions.

With the disposal of IRIS's education division as well as the food waste-to-fertilizer plant sub-division and the rationalisation of non-core businesses, the management of IRIS will be able to focus its resources on its core trusted identification business and capturing new growth opportunities. IRIS Group is expected to be well positioned to further strengthen its trusted identification business and to expand its enterprise products and solutions offerings to ensure the Group remains competitive in the challenging business environment.

In this regard, barring any unforeseen circumstances which may have an adverse impact on the business operations of the Group, the management of IRIS is positive about the Group's prospects and expects continued growth of IRIS business operations and financial performance.

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 30th September 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 by the company which has not completed as at 21st November 2018, the latest practicable date which shall not earlier than seven (7) days from the date of issue of this quarterly report.

Private Placement exercise

On 14th June 2018, the Company had entered into a subscription agreement with Dato' Sri Robin Tan Yeong Ching, Dato' Poh Yang Hong and Dato' Rozabil @ Rozamujib Bin Abdul Rahman for the proposed issuance and allotment of 494,380,400 new ordinary shares, representing approximately 20% of the total number of issued shares of the Company, at an issue price of RM0.12 per subscription share to be satisfied in cash.

The private placement exercise was completed on 21st September 2018, whereby 494,380,400 new ordinary shares were issued at an issue price of RM0.12 each share and were subsequently listed and quoted on the ACE Market of Bursa Malaysia Securities Berhad on the same date.

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

Description	Proposed utilisation (RM'000)	Actual utilisation (RM'000)	Balance to be utilised (RM'000)	Intended Timeframe for Utilisation
Working capital of ICB Group	50,826	(12,641)	38,185	Within 12 months
Future business projects / investment	8,000	-	8,000	Within 12 months
Estimated expenses in relation to the Private Placement	500	(500)	-	Within 1 month
Total	59,326	(13,141)	46,185	

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	129,065	173,315
Unsecured	-	-	-
	<u>44,250</u>	<u>129,065</u>	<u>173,315</u>

All of the above borrowings are denominated in Ringgit Malaysia other than a term loan of a foreign subsidiary amounting to RM84.2 million that are denominated in USD dollar.

24. Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risk as at 21st November 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 November 2018:

(i) IRIS Corporation Berhad (“IRIS”) vs The Government of the United States (“U.S.”) (“U.S. Government”)

The lawsuit commenced on 24 February 2015. 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” against the U.S Government. 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.

In February 2016, the U.S. Government filed a petition with the United States Patent and Appeals Board, (“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 put on hold. At the time the litigation was put on hold, the proceedings was still in the discovery phase.

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

The U.S Government filed another Motion to dismiss ICB’s First Amended Complaint on 14 June 2018. The Motion was denied by the Court on 26 October 2018 and instructed both parties to file a Joint Status Report on/before 16 November 2018. ICB’s Motion for entry of default judgment (for non-replying by U.S Government) was also denied by the Court on 30 October 2018 and instructed the U.S Government to file its answer on/or before 6 November 2018. Therefore, the filing date of Joint Status Report is adjourned to 30 November 2018.

The solicitors are of the view that it is estimated that the litigation will last for another twelve (12) to eighteen (18) months. A reasonable estimate as to the outcome of the litigation must await completion of briefing and hearing on patent claim construction. The solicitors are of the view that in the compensation phase, IRIS will be required to hire an expert to testify on the value of the patent to the U.S. Government.

25. Material Litigation (cont'd)

(ii) IRIS Technologies (M) Sdn Bhd (“ITSB”) and 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) (“EGM”)

The JVCO’s claim for unlawful termination by EGM and payment for the balance amount of (Turkish Lira) TL6,195,000 (equivalent to RM9,014,221.00) due to JVCO for works completed was rejected. 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 RM9,014,221.00) was allowed and declared that the JVCO had to return the said amount to EGM with interest. The JVCO to pay TL5,053,84 (equivalent to RM7,354.00) as expenses arising from their performance of the contract and loss suffered by EGM. EGM’s claim of TL49,761,53 (equivalent to RM72,407.00) 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 Company was informed that a decision was declared on 16 September 2014 and was duly served on the JVCO on 28 January 2015.

The Judgment were as follows:

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 JVCO had on 26 November 2018 filed an appeal to Cassation Court in Turkey and the hearing is fixed on 19 January 2019.

25. Material Litigation (cont'd)

(iii) IRIS vs IQPR Sdn Bhd (High Court of Pulau Pinang A/E No: PA-38-275-06/2016)

IRIS had entered into an Equipment Lease Agreement (“**Agreement**”) with IQPR Sdn Bhd on 3 May 2011 where a security was given by Mr Tan Chin Hwang (“**the Defendant**”) to IRIS in respect of this Agreement. The Security in question was a charge registered on a piece of land held under title no. GRN 56247 Lot 3635, Bandar Tanjong Bungah, Daerah Timur Laut, Negeri Pulau Pinang (“**the Security**”).

The Charge over the Security was registered on 10 September 2011 and no other charges exist on the said Security. Due to IQPR Sdn Bhd committing several defaults in its obligations under the Agreement, IRIS had sent out letters of demand and intent dated 13 December 2013 and 6 March 2014 stating its intent to enforce its rights over the Security in view of the IQPR’s continued breaches. By the same letter IRIS terminated the Agreement.

The application to fix 4th Auction date was filed on 26 July 2018 at reserve price of RM3,499,200.00 and was heard on 30 August 2018. The 4th Auction date is fixed on 19 December 2018.

(iv) Saudi Arabia Quad Communication & Security Solutions (“Plaintiff”) v IRIS

The Plaintiff filed its claim against IRIS 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.

On 29 December 2015, Quad via its solicitors issued a Notice of Demand (NOD) to IRIS claiming they sum of USD3,477,522 allegedly payable to them under the Supply & Services Agreement.

On 16 February 2016, IRIS disputed the claims and did not make any payments. Quad via its solicitors filed a suit against IRIS in the Riyadh Court. IRIS has appointed Messrs Adel Yousef Al-Atalah based in Riyadh to represent IRIS.

The next hearing date adjourned to 5 December 2018.

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) (“Plaintiff”) against (1) IRIS, (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 on 17 November 2011 and among the salient terms of the Cooperation Agreement was for the Plaintiff to identify for IRIS potential projects in the Republic of Guinea and Guinea Bissau (“**Territory**”) for a period of three (3) years from the date of the Cooperation Agreement. In consideration of any and all services in respect of the Cooperation Agreement involving the sale of plant, equipment, machinery or asset arranged by the Plaintiff, IRIS agreed to pay the Plaintiff a commission of 15%.

In 2013, IRIS separately tendered and was awarded the BOT Passport Contract by the Government of the Republic of Guinea (“**the BOT project**”). 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 Cooperation Agreement calculated based on the formula of 15% on the reported value. The Plaintiff is also alleging that IRIS has colluded with D2, D3, D4 and D5 to deprive of its contractual rights under the Cooperation Agreement.

It is relevant to note that the BOT project does not fall under the Cooperation Agreement as it does not involve the sale of plant, equipment, machinery or asset sold, and no deposit or payment was received from the Republic of Guinea under the Cooperation Agreement.

The BOT project was secured via public tender directly from Government of the Republic of Guinea. Therefore, IRIS denies it has breached the Cooperation Agreement and wishes to reiterate that the Plaintiff had never in any way secured any contract whatsoever in favour of IRIS within the two years from the execution of the Cooperation Agreement.

The full trial was conducted from 16 October 2018 to 19 October 2018. The Court then fixed new hearing dates between 14 December 2018 to 15 March 2019 for continued trial.

26. Dividend

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

27. Earnings/(Loss) Per Ordinary Share

	Individual		Cumulative	
	3 months ended		6 months ended	
	30th	30th	30th	30th
	September	September	September	September
	2018	2017	2018	2017
(a) Basic earnings/(loss) per ordinary share				
Earnings/(Loss) attributable to owners of the Company for the period (RM'000)				
- continuing operations	4,190	(11,721)	12,866	(3,741)
- discontinued operations	-	(2,962)	-	(5,733)
	<u>4,190</u>	<u>(14,683)</u>	<u>12,866</u>	<u>(9,474)</u>
Weighted average number of ordinary shares ('000) at end of period	<u>2,504,321</u>	<u>2,352,789</u>	<u>2,504,321</u>	<u>2,353,789</u>
Basic earnings/(loss) per ordinary share (Sen)				
- continuing operations	0.17	(0.50)	0.51	(0.16)
- discontinued operations	-	(0.12)	-	(0.24)
	<u>0.17</u>	<u>(0.62)</u>	<u>0.51</u>	<u>(0.40)</u>
(b) Diluted earnings/(loss) per ordinary share				
Earnings/(Loss) attributable to owners of the Company for the period (RM'000)				
- continuing operations	4,190	(11,721)	12,866	(3,741)
- discontinued operations	-	(2,962)	-	(5,733)
	<u>4,190</u>	<u>(14,683)</u>	<u>12,866</u>	<u>(9,474)</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share ('000) at end of period	<u>2,504,321</u>	<u>2,352,789</u>	<u>2,504,321</u>	<u>2,352,789</u>
Diluted earnings/(loss) per ordinary share (Sen)				
- continuing operations	0.17	(0.50)	0.51	(0.16)
- discontinued operations	-	(0.12)	-	(0.24)
	<u>0.17</u>	<u>(0.62)</u>	<u>0.51</u>	<u>(0.40)</u>

28. Profit before taxation

	Individual 3 months ended 30th September 2018 RM'000	Cumulative 6 months ended 30th September 2018 RM'000
Profit before taxation is arrived at after charging/ (crediting) :		
<i>Continuing operations</i>		
- Amortisation of concession assets, intangible assets and depreciation of property, plant and equipment	1,705	3,779
- Net foreign currency exchange (income)/ losses	(635)	490
	<hr/>	<hr/>

29. 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.

30. Authorisation for Issue

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