

IRIS CORPORATION BERHAD

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

Interim Financial Report for the Second quarter ended 30th September 2013

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Condensed Consolidated Statement of Comprehensive IncomeFor the Second quarter ended 30th September 2013

Second	Individual		Cumulative	
	3 months ended 30 th September 2013 RM'000	30 th September 2012 RM'000	6 months ended 30 th September 2013 RM'000	30 th September 2012 RM'000
Revenue	131,357	124,543	265,271	227,010
Cost of sales	(95,802)	(88,165)	(194,465)	(162,904)
Depreciation and amortization	(5,451)	(2,716)	(10,978)	(5,709)
Gross profit	30,104	33,662	59,828	58,397
Other income	849	953	928	3,005
Administrative and operating expenses	(15,646)	(18,799)	(29,414)	(31,309)
Depreciation and amortisation	(1,570)	(1,226)	(3,280)	(2,432)
Finance costs	(4,345)	(3,062)	(9,806)	(5,559)
Share of profit/(loss) of associates	216	(125)	312	(261)
Profit before taxation	9,608	11,403	18,568	21,841
Tax expense	(3,068)	(4,915)	(5,803)	(8,068)
Profit for the period	6,540	6,488	12,765	13,773
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	6,540	6,488	12,765	13,773
Profit attributable to:				
Owners of the Company	7,308	6,184	14,986	14,519
Non-controlling interests	(768)	304	(2,221)	(746)
Profit for the period	6,540	6,488	12,765	13,773

Condensed Consolidated Statement of Comprehensive IncomeFor the Second quarter ended 30th September 2013

(continued)

	Individual		Cumulative	
	3 months ended		6 months ended	
	30th	30th	30th	30th
	September	September	September	September
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Total comprehensive income attributable to:				
Owners of the Company	7,308	6,184	14,986	14,519
Non-controlling interests	(768)	304	(2,221)	(746)
Total comprehensive income for the period	6,540	6,488	12,765	13,773
Earnings per share attributable to owners of the Company:				
Basic (Sen)	0.46	0.39	0.95	0.92
Diluted (Sen)	0.44	0.35	0.90	0.83

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 2013 and the accompanying explanatory notes attached to the interim financial report.

Condensed Consolidated Statement of Financial PositionAs at 30th September 2013

	30 th September 2013 RM'000	31 st March 2013 RM'000
ASSETS		
NON-CURRENT ASSETS		
Investment in associates	7,955	7,728
Property, plant and equipment	166,957	162,354
Concession assets	181,216	185,892
Intellectual properties	18,833	7,628
Available-for-sale financial assets	406	406
Goodwill on consolidation	141,511	141,511
	516,878	505,519
CURRENT ASSETS		
Inventories	101,114	94,616
Trade receivables	219,879	224,790
Amount owing by contract customers	108,967	87,576
Other receivables, deposits & prepayments	130,215	109,094
Amount owing by associates	7	2,089
Amount owing by related parties	-	215
Tax refundable	9,936	9,211
Deposits with licensed banks	30,422	21,687
Cash and cash equivalents	9,233	37,163
	609,773	586,441
	1,126,651	1,091,960
TOTAL ASSETS		
EQUITY AND LIABILITIES		
EQUITY		
Share capital	236,459	236,459
Share premium	35,211	35,211
Warrants reserve	10,609	10,609
Foreign exchange translation reserve	(1,199)	(1,199)
Revaluation reserve	26,741	26,904
Retained earnings	123,224	108,075
Total equity attributable to owners of the Company	431,045	416,059
Non-controlling interests	38,920	41,141
TOTAL EQUITY	469,965	457,200

Condensed Consolidated Statement of Financial PositionAs at 30th September 2013

(continued)

	30 th September 2013 RM'000	31 st March 2013 RM'000
NON-CURRENT LIABILITIES		
Other payables	185	168
Hire purchase payables	3,612	4,309
Lease payables	112	242
Term loan	83,912	98,498
Deferred tax liabilities	13,534	13,534
	101,355	116,751
CURRENT LIABILITIES		
Trade payables	42,273	42,163
Other payables and accruals	266,004	293,574
Amount owing to associates	422	418
Amount owing to related parties	-	5
Hire purchase payables	3,017	2,096
Lease payables	253	240
Short-term borrowings	226,195	167,837
Provision for taxation	17,167	11,676
	555,331	518,009
TOTAL LIABILITIES	656,686	634,760
TOTAL EQUITY AND LIABILITIES	1,126,651	1,091,960
Net assets per ordinary share attributable to owners of the Company (sen)	27.34	26.39

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 2013 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 2013

	← Non-Distributable →					Distributable	Attributable to the owners of the Company RM'000	Non-controlling Interests RM'000	Total Equity RM'000
	Ordinary Share Capital RM'000	Share Premium RM'000	Warrants Reserve RM'000	Foreign Exchange Translation Reserve RM'000	Revaluation Reserve RM'000	Retained Earnings RM'000			
At 1 st April 2012	236,257	35,211	10,616	(412)	27,233	93,773	402,678	(1,000)	401,678
Warrant exercised	9	-	(5)	-	-	5	9	-	9
Acquisition/Issue of share in subsidiaries	-	-	-	-	-	-	-	43,796	43,796
Realisation on usage of property	-	-	-	-	(164)	164	-	-	-
Total comprehensive income for the financial period	-	-	-	-	-	14,519	14,519	(746)	13,773
At 30th September 2012	236,266	35,211	10,611	(412)	27,069	108,461	417,206	42,050	459,256

Condensed Consolidated Statement of Changes in Equity

For the Second quarter ended 30th September 2013

(continued)

	← Non-Distributable →				Distributable		Attributable to the owners of the Company RM'000	Non- controlling Interests RM'000	Total Equity RM'000
	Ordinary Share Capital RM'000	Share Premium RM'000	Warrants Reserve RM'000	Foreign Exchange Translation Reserve RM'000	Revaluation Reserve RM'000	Retained Earnings RM'000			
At 1 st April 2013	236,459	35,211	10,609	(1,199)	26,904	108,075	416,059	41,141	457,200
Realisation on usage of property	-	-	-	-	(163)	163	-	-	-
Total comprehensive income for the financial period	-	-	-	-	-	14,986	14,986	(2,221)	12,765
At 30th September 2013	236,459	35,211	10,609	(1,199)	26,741	123,224	431,045	38,920	469,965

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 2013 and the accompanying explanatory notes attached to the interim financial report.

Condensed Consolidated Cash Flow StatementFor the Second quarter ended 30th September 2013

	Cumulative 30th September 2013 RM'000	Cumulative 30th September 2012 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	18,568	21,841
Adjustments for:		
Non-Cash Items	13,945	12,797
Interest income	(22)	(173)
Finance costs	9,806	5,559
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	42,297	40,024
Changes in working capital		
Net changes in current assets	(41,803)	(31,174)
Net changes in current liabilities	(27,443)	7,469
NET CASH GENERATED (FOR)/FROM OPERATIONS	(26,949)	16,319
Dividend received	85	-
Interest received	22	173
Interest paid	(9,806)	(5,559)
Tax paid	(1,037)	(2,339)
NET CASH (FOR)/FROM OPERATING ACTIVITIES	(37,685)	8,594
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of an intangible asset	(12,240)	-
Acquisition of investment in associates	-	(500)
Acquisition of subsidiaries, net of cash acquired	-	4,174
Net cash flows from additional investment in a subsidiary	-	4,825
Purchase of plant and equipment	(12,667)	(42,602)
Purchase of concession assets	(483)	(339)
NET CASH FOR INVESTING ACTIVITIES	(25,390)	(34,442)

Condensed Consolidated Cash Flow StatementFor the Second quarter ended 30th September 2013

(continued)

	Cumulative 30th September 2013 RM'000	Cumulative 30th September 2012 RM'000
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	-	9
Net proceeds from/(repayment of) hire purchase and lease payables	107	(1,941)
Net proceeds/(repayment of) short term borrowings	58,581	(18,374)
Proceeds from drawdown of trade and term loans	112,640	105,754
Repayment of trade and term loans	(127,448)	(58,292)
NET CASH FROM FINANCING ACTIVITIES	43,880	27,156
Net changes in cash and cash equivalents	(19,195)	1,308
Effects of exchange rate changes	-	-
Cash and cash equivalents at beginning of the year	50,398	88,824
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	31,203	90,132

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

Deposits with licensed banks	30,422	28,661
Cash and bank balances	9,233	61,471
Less: Deposits pledged with licensed banks	(8,452)	-
	31,203	90,132

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 2013 and the accompanying explanatory notes attached to the interim financial report.

Notes to the Interim Financial Report

For the Second quarter ended 30th September 2013

1. Basis of preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 30th September 2013 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 2013.

2. Audit report of preceding annual financial statement

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

3. Seasonal or cyclical factors

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

4. Segment information

The Group's operating segments information for the interim financial report to 30th September 2013 was as follows:-

	Trusted Identification & Payment and Transportation	Sustainable development, Agro and Food & Industrial Building Systems	Environment & Renewable Energy	Other segments	Inter- segment Elimination	Group
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	192,534	50,745	21,459	533	-	265,271
Segment results	63,594	(11,505)	7,442	297	-	59,828
Unallocated corporate expenses						(32,694)
Other income						928
Operating profit						28,062
Finance costs						(9,806)
						18,256
Share of profit of associates						312
Profit before taxation						18,568
Income tax expense						(5,803)
Profit after taxation						12,765

5. Capital Commitments

Authorised and contracted for:-

As at
30th September
2013
RM'000

Purchase of property, plant and equipment

1,997

6. Debt and equity securities

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

7. Changes in the composition of the Group

(a) Acquisition of paid-up share capital of IRIS Eco Power Co., Ltd

The Company had on 4th October 2013 completed the acquisition of 4,900 ordinary shares of RM1.00 each representing a 49% equity interest in IRIS Eco Power Co., Ltd, a company incorporated in Thailand, for a total cash consideration of Thai Baht 122,450 (equivalent to RM12,245). IRIS Eco Power Co., Ltd has now become an associated company of IRIS Corporation Berhad.

8. 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.

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

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

10. Items of an unusual nature

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

11. Valuations of property, plant and equipment

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

12. 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 30th September 2013, except as disclosed below:

- i) The counter guarantees given to local and foreign banks for Performance Bond issued on behalf of the Group amounted to RM102,608,000.
- ii) On 14th May 2010, the Company had entered into a Guarantee Agreement with PJT as the guarantor of PJT for the benefit of Government Savings Bank in Thailand (“The Bank”) for up to Thai Baht 640 million (equivalent to RM64.5 million), which is equivalent to the facilities limit of the Credit Facilities Agreement dated 14th May 2010 that has been entered into between PJT and the Bank.

13. Taxation

	Individual		Cumulative	
	3 months ended 30th September 2013 RM'000	3 months ended 30th September 2012 RM'000	6 months ended 30th September 2013 RM'000	6 months ended 30th September 2012 RM'000
Income tax				
- Current financial year	(3,068)	(4,915)	(5,803)	(8,068)
- Over/(Under) provision in prior years	-	-	-	-
	<u>(3,068)</u>	<u>(4,915)</u>	<u>(5,803)</u>	<u>(8,068)</u>
Deferred tax				
- Current financial year	-	-	-	-
Total tax expense	<u>(3,068)</u>	<u>(4,915)</u>	<u>(5,803)</u>	<u>(8,068)</u>

The Group's effective tax rate is higher than the statutory tax rate of 25% mainly due to losses in subsidiaries which were not available for tax relief at the Group level and the non-deductibility of certain operating expenses for tax purposes.

14. Related Party Transactions

The significant transactions with related parties of the Group for the cumulative 6 months period ended 30th September 2013 were as follows:

A company in which a key management of the Company has financial interest	RM'000
MCS Microsystems Sdn Bhd	
- Acquisition of an intangible asset	<u>12,240</u>

Additional information required by the AMLR

15.1 Review of Performance

For the current financial quarter ended 30th September 2013, the Group recorded a revenue of RM131.4 million from RM124.5 million, which is 5.5% higher as compared to the previous comparable quarter last year.

Whilst the current financial quarter recorded higher revenue, profit before taxation decreased by 15.8% to RM9.6 million compared to profit before taxation of RM11.4 million in the previous comparable quarter. The lower profit before taxation was mainly due to higher interest costs incurred in the current quarter.

The traditional core business - Trusted Identification Division and Payment & Transportation Division recorded higher revenue of RM104.7 million in the current financial quarter ending 30th September 2013 from RM100.8 million in the previous comparable quarter, representing increase of 3.9%. The higher revenue was mainly attributed to the higher delivery of Tanzania e-ID in the current reporting quarter.

The Sustainable Development, Agro and Food Technology and Industrial Building Systems Division recorded revenue of RM15.1 million in the current financial quarter ending 30th September 2013. The revenue for these divisions was minimal in the previous comparable quarter as these divisions were newly set up and re-organized in the last financial year.

The Environment & Renewable Division recorded revenue of RM11.0 million from RM7.4 million compared to the same period in the financial quarter ending 30th September 2012. The increase was mainly due to the sales of electricity generated from the Waste-to-Energy Incinerator Plant in Phuket, Thailand. The plant was completed and commissioned in July 2012.

15.2 Comparison with Preceding Quarter

For the current financial quarter ended 30th September 2013, the Group recorded revenue of RM131.4 million in the financial quarter ended 30th September 2013 representing a decrease of 1.9% as compared to RM133.9 million in the preceding financial quarter ended 30th June 2013. The lower revenue was mainly due to lower sales recognized for the Rimbunan Kaseh project and Sentuhan Kasih project in the current financial quarter ending 30th September 2013.

Whilst the current financial quarter recorded lower revenue, profit before taxation increased to RM9.61 million in the financial quarter ended 30th September 2013 representing an increase of 7.3% as compared to profit before taxation of RM8.96 million in the previous financial quarter ended 30th June 2013.

16. Prospects

For the coming financial year 2014, the prospects for the core business remain bright. The division's revenue is expected to be derived mainly from the trusted identification's projects, namely Malaysia e-Passport inlays, Nigeria e-Passport inlays, Tanzania e-ID cards project and Bangladesh MRP Passport project. The Automatic Fare Collection Project and banking cards will contribute positively to the Payment and Transportation's performance.

In line with the Government's ETP initiatives, more affordable housing programmes and modern rural projects are expected to be launched by the Government. The management believes that the aforesaid initiatives would benefit the relevant divisions within the ICB Group such as its Sustainable Development Division, Food & Agro Technology Division and Koto Industrialised Building Division in the coming FYE 31 March 2014 whereby the Group may use its expertise in integrated farming systems and IRIS Koto Industrial Building Systems ("IBS") with the successful implementation of the two Rimbunan Kaseh and one Sentuhan Kasih Programme in FY 2013, which are the modern rural programmes launched and undertaken by the Company. A sub-division will be established in the coming financial year under the Food & Agro Technology Division for marketing and distribution of farm produce generated from the Rimbunan Kaseh and Sentuhan Kasih farms. The company anticipates that the various marketing and distribution mechanism would help the Division to contribute positively in the coming financial year 2014.

For the Environment & Renewable Energy Division, the 700-tonnes Waste-to-Energy Incinerator Plant in Phuket, Thailand and the newly set up 300-tonnes Food Waste-to-Fertilizer Plant in Weinan, China are expected to produce positive results in the coming financial year 2014.

In view of the above on-going contracts, the Group is optimistic that its performance will remain satisfactory for the financial year ending 31st March 2014.

17. 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.

18. Unquoted Securities and/or Properties

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

19. Quoted Securities

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

20. Available-for-sale financial assets

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

	At 30th September 2013 RM'000
Investment in an unquoted shares in Malaysia	273
Investment in an unquoted shares in Singapore	2,378
Investment in an unquoted shares in Hong Kong	981
Golf Club Membership	406
(Less): Allowance for diminution in value	(3,632)
	<u>406</u>

21. Status of Corporate Proposals and utilisation of proceeds

There were no corporate proposals announced but not completed as at 21st November 2013, 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

On 13 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 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 subsequent on 30 September 2013, the proposed Private Placement was approved by the shareholders of the Company.

On 6 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 Capital Protocol 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 November 2013 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	-	25,000	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	1,375	6,973	Within 6 months
Total	110,348	1,375	108,973	

21. Status of Corporate Proposals and utilisation of proceeds

b) Conditional Voluntary Take-Over Offer of Versatile Creative Berhad

On 23 September 2013, IRIS Healthcare Sdn Bhd (“IHSB”), a wholly-owned subsidiary of the Company, together with Versatile Credit & Leasing Sdn Bhd (“VCLSB”), Datuk Tan Say Jim (“Datuk Tan”), Dato’ Lee Kwee Hiang (“Dato’ Lee”) (IHSB, VCLSB, Datuk Tan and Dato’ Lee collectively referred to as the “Joint Offerors”), served a notice of condition voluntary take-over offer to the Board of Directors of Versatile Creative Berhad (“VCB”) to acquire the remaining 83,102,560 ordinary shares of RM1.00 each in Versatile Creative Berhad (“VCB Share(s)”) (“Offer Share(s)”) not already known owned by the Joint Offerors for a cash offer price of RM0.50 per Offer Share (“Offer Price”) (“Offer”).

The offer document dated 14th October 2013 set out the details of the Offer and the first offer closing date was determined on 4 November 2013. The offer closing date has subsequently extended to 2 December 2013.

As of 21st November 2013, the Offer is conditional upon the following items:

- (i) Acceptance Condition - which is the condition that the Joint Offerors having received valid acceptances (provided that such acceptances are not, where permitted, subsequently withdrawn) before the offer closing date, in respect of the Offer Shares, of more than 74.89% of the voting shares of VCB (excluding the shares already owned by the Joint Offerors) representing 82,862,062 VCB Shares; and
- (ii) The approval of shareholders of ICB at an EGM to be convened.

22. Group Borrowings and Debt Securities

The Group’s borrowings from financial institutions at the end of the current quarter were:

	Short Term	Long Term	Total
	RM’000	RM’000	RM’000
Secured	226,195	83,912	310,107

All of the above borrowings are denominated in Ringgit Malaysia other than trade and term loan borrowings amounting to RM53.6 million, RM1.4 million and RM51.0 million that are denominated in USD dollar, EURO and Thai Baht respectively.

23. Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risk as at 21st November 2013 being the latest practicable date which is not earlier than seven (7) days from date of issue of this quarterly report.

24. Material Litigation

Save for the material litigations as disclosed below, there are no other material litigations involving the Group as at 21st November 2013:

(a) *ICB v. Japan Airlines International Co. Ltd (United States)*

On 1 June 2007, ICB commenced a lawsuit against Japan Airlines International Co. Ltd. (“JAL”) in the United States District Court for the Eastern District of New York (“United States District Court”) alleging that JAL’s use of electronic passports as part of their check-in procedures at United States airports, in which JAL operates constitutes an infringement of ICB’s United States Patent No. 6,111,506 “Method of Making an Improved Security Identification Document Including Contactless Communication Insert Unit” (“Patent”). The case was dismissed on 30 September 2009. One of the grounds of dismissal was that the United States statutory and treaty requirements mandate that international airlines operating out of United States airports use passenger electronic passports as part of their check-in procedures and this pre-empted ICB’s right, if any, to collect patent infringement royalties on this use. ICB filed an appeal to the United States Court of Appeals for the Federal Circuit (“Appeal”).

Subsequent to this, JAL filed for bankruptcy protection in the United States based on a bankruptcy filing it had initiated in Japan. The Appeal was stayed pursuant to United States’ bankruptcy laws on 22 January 2010. ICB’s solicitors (“Solicitors”) have informed that the attorneys for JAL had filed an application with the bankruptcy court to terminate proceedings in the United States, providing that any party wanting to object to the said termination would have to file their objections on or before 16 October 2013. No objection had been filed and on 18 October 2013, the attorneys of JAL notified the bankruptcy court of this. The Solicitors anticipate that an order terminating the bankruptcy without further notice may be entered by the bankruptcy court, which has not been signed as at 23 October 2013. Once the order is signed, the stay of the Appeal would likely be lifted and the Appeal proceedings would resume. If ICB is successful at the United States Court of Appeals for the Federal Circuit, the matter will be remanded to the United States District Court for further proceedings, which will involve discovery relating to the merits of the litigation including potential damages and the retention of experts.

The Solicitors are of the view that until input from technical and damage experts are obtained, neither the scope of infringement by JAL nor potential damages can be estimated except that under United States patent laws, damages are to be no less than a reasonable royalty based on a question of fact. The Solicitors are of the view that should ICB’s Patent be found invalid or not infringed, ICB could be held liable on JAL’s costs, disbursements and legal fees. As litigation is at an early stage, it is not possible to estimate ICB’s costs or potential liability. It is unlikely that ICB’s appeal will exceed USD 150,000 in costs.

24. Material Litigation (cont'd)

- (b) *(1) IRIS Technologies (M) Sdn Bhd (2) Kunt Electronic Sanayii ve Ticaret A.S v. Security General Directorate of Ministry of Interior or Emniyet Genel Mudurlugu (Turkey)*

Kunt Electronic Sanayii ve Ticaret A.S. (“Kunt”) is a joint venture partner of IRIS Technologies (M) Sdn Bhd (“ITSB”), a wholly-owned subsidiary of the Company, in Turkey (both parties are henceforth known as “JVCo”). JVCo had been awarded a tender related to 98 units of Passport Regulation System Purchase dated 26 March 2007 (“Project”) by the Security General Directorate of Ministry of Interior of Turkey, or Emniyet Genel Mudurlugu (“EGM”). A contract was subsequently entered into between JVCo and EGM on 11 July 2007 for the implementation of the Project (“Contract”). (The EGM is alternatively referred to as Ministry of Interior and/or Administration in all opinions and correspondences of ICB’s solicitors.)

According to Article 10 of the Contract, the lump sum price of the Contract is New Turkish Lira (“YTL”) 10.5million (equivalent to RM24.8million at an exchange rate of YTL 1 to RM2.36). The Project requires the JVCo to prepare the first, second and third phases of work which would be ready for acceptance not later than 6 months, 12 months and 16 months respectively from the commencement date of 11 July 2009 (“Commencement Date”), not later than a maximum of 20 months for delivery of the Project, a period of which includes potential penalty periods which could be taken. The guarantee amount for the work is YTL0.63million pursuant to Article 12.1 of the Contract. Each phase was subject to evaluation in accordance to the Technical Specifications of the Project. JVCo had completed the third phase of the Project in compliance of the said Technical Specifications, which was delivered to EGM not later than 20 months from the Commencement Date. However, EGM had requested JVCo to make adjustments to the delivery due to the occurrence of material conditions. EGM subsequently alleged that the adjustments did not comply with the expectations of EGM and did not meet the conditions of the said specifications.

EGM had on 14 September 2010 sent a letter of termination for breach of the Contract to JVCo requesting for a refund of YTL6.195 million (equivalent to RM14.6 million at an exchange rate of YTL 1 to RM2.36), which is the sum of the payment for the first phase of the Project received by JVCo, with all hardware and equipment delivered to EGM to be returned to JVCo.

ICB’s solicitors (“Solicitors”) had on 18 September 2009 made an application to the Ankara Civil Court of Turkey for a precautionary decree in order to prevent a conversion of two guarantee letters which were issued by ITSB to Garanti Bankasi Celiktepe Branch dated 3 December 2007 amounting to YTL472,500, and issued by Kunt to Finansbank/Europe Branch dated 5 July 2007 amounting to YTL157,500 (“Guarantee Letters”) to which an interlocutory injunction was granted (“Injunction”).

On 5 October 2009, JVCo filed a lawsuit against EGM in the Ankara Court of First Instance for unlawful termination of the Contract, claiming for YTL5 million million (equivalent to RM11.8 million at an exchange rate of YTL 1 to RM2.36) and return of the Guarantee Letters (“Claim”). On 23 March 2013, EGM filed a counter claim against JVCo claiming approximately YTL5.25 million (equivalent to RM12.4 million at an exchange rate of YTL 1 to RM2.36) from JVCo (“Counter Claim”). On 10 June 2010, a hearing was conducted whereby the judge requested JVCo to submit precise damage amount(s) to be claimed against EGM so as to determine which component court would hear the matter. At a hearing on 5 October 2010, the Courts appointed three (3) expert witnesses to submit reports on the case and the submissions of both parties on commercial and technical grounds since the case is highly technical in nature (“Expert Technical Reports”).

24. Material Litigation (cont'd)

- (b) *(1) IRIS Technologies (M) Sdn Bhd (2) Kunt Electronic Sanayii ve Ticaret A.S v. Security General Directorate of Ministry of Interior or Emniyet Genel Mudurlugu (Turkey) (cont'd)*

The Expert Technical Reports came in on 10 January 2012 which stated that EGM has the right to reject the second phase of the operations and that EGM cannot pass the third phase without the completion of the second phase and EGM is entitled to be paid YTL5.25 million by the JVCo and they had subsequently appealed against those reports on 20 March 2012.

Apart from the Counter Claim filed by EGM, on 14 September 2010 EGM filed another suit for additional claims for loss of opportunity amounting to YTL13.0 million against JVCo (“Additional Claims”). On 30 November 2010, JVCo submitted evidence substantiating grounds for rebuttal of the Additional Claims. On 12 April 2011, the court appointed two (2) experts who are experienced in law and finance matters to resubmit a report on the case (“Financial Expert Report”). The Financial Expert Report was submitted on 27 March 2012. In the Financial Expert Report there was the issue of negative indemnity and JVCo appealed against the submission of the negative indemnity provision reported in the said Financial Expert Report. The case was further adjourned pending the submission of an additional Financial Expert Report (“Additional Financial Expert Report”).

On 4 October 2012, the cases for the Claim, the Counter Claim and Additional Claims were merged so that they can be heard concurrently under the Ankara 12th Civil Court under Case No. 2009/343 and fixed to be heard on 5 March 2013. On the 5 March 2013, the Additional Financial Expert Report was submitted with findings which were unfavourable to the JVCo. JVCo requested the court for a further expert report on 26 June 2013 and the court granted a hearing date of 7 November 2013 with the EGM to reply to the JVCo’s said request in the interim. In addition, the Court upon the request of the JVCo granted in favour of JVCo, a visit to the premises of EGM to undertake searches and gather evidence in relation to Case No. 2009/343. This visit took place on 26 September 2013 and JVCo is awaiting an expert report on the visit to be issued.

Pursuant to Case No 2012/173 filed on 19 July 2012 by EGM against JVCo and Turkey Garanti Bank (“Bank”), EGM had obtained a ruling in this case on 8 March 2013 against the JVCo and the Bank to make a payment to EGM amounting to YTL82,292, as interest between 30 December 2011 to 8 March 2013 for the Guarantee Letter issued by ITSB. JVCo will appeal against the ruling.

Pursuant to Case No. 2012/510 filed by EGM on 24 September 2012 against the JVCo, EGM also claimed from JVCo an interest of YTL250,048 due to them not being able to cash in the Guarantee Letters as a result of the Injunction. JVCo has filed a defence against this claim under the Turkish Law of Obligations which does not hold it liable to pay this interest. This matter is pending decision with no date furnished to the Solicitors thus far.

The Solicitors are of the view that the above suits filed by EGM are frivolous and vexatious under Turkey jurisdiction. The Solicitors are now seeking the advice of the JVCo if the above cases are to be further litigated. The JVCo is currently in discussions with its representatives and the Solicitors to arrive at a decision. The estimated legal costs for the conduct of the above matters is USD500,000 as to date.

24. Material Litigation (cont'd)

(c) ***Stamford College Berhad v. ICB (Kuala Lumpur High Court Case No. 22NCC-126-01/2013)***

On 30 January 2013, Stamford College Berhad (“SCB”) brought a suit against ICB for the sum of RM2,225,000, being the balance sum of the purchase price for the sale of shares pursuant to a sale and purchase agreement dated 4 October 2012 together with interest and costs. ICB had on 8 February 2013 filed a defence and counterclaim for the sum of RM250,000, which was the deposit paid, and the sum of RM3,380,086, which was an advance paid by ICB at the request of SCB. On 18 September 2013, the application for summary judgment filed by SCB on 8 March 2013 and the application to strike out SCB’s claim filed by ICB on 9 April 2013 were dismissed with costs of RM3,000 to be borne by the parties filing the applications respectively. On 18 September 2013 as well, the court allowed ICB’s application for security for costs filed by ICB on 9 April 2013 with costs of RM3,000 to be borne by SCB. The court directed that SCB deposit RM250,000 into court within 30 days (“Deposit”), that all proceedings are stayed pending the disposal of any appeals save for ICB’s counterclaim, and that ICB is granted liberty to file an application to strike out SCB’s claim in the event of SCB’s non-compliance of the court orders. After the 30 day period, SCB failed to comply with the court’s order regarding the Deposit. The solicitors of ICB (“Solicitors”) are thus preparing to file an application to strike out SCB’s claim. SCB however has filed a notice of appeal against the court’s order and a notice of application for a stay of execution. Pursuant to the case management on 24 October 2013, the court granted an ex-parte injunction in favour of ICB.

The Solicitors are of the view that the probable outcome would be that SCB’s claim is dismissed and that ICB’s counterclaim is allowed. The Solicitors have informed that it is likely the court will award costs of RM100,000 as the sum to be paid at the end of the trial to the successful party.

(d) ***IRIS Eco Power Sdn Bhd v. Durairaj Raja (Kuala Lumpur High Court Case No. 24NCC 155-05/2013)***

On 14 May 2013, IRIS Eco Power Sdn Bhd (“IEPSB”), a subsidiary of ICB filed an originating summons against Durairaj Raja (“DR”) claiming for a declaration that the sale and purchase agreement dated 20 July 2012 (“Agreement”) between the parties is terminated under Clause 9 of the said agreement, for an order that the sum of USD 500,000 (equivalent to RM1,547,500 at an exchange rate of 3.095) be refunded to IEPSB by DR, for an order that the 2,550,000 shares in Oil Field Services Ltd to be transferred back to DR, and for damages and costs (“Originating Summons”). As DR is not a Malaysian citizen and is now residing in United Arab Emirates, IEPSB filed an application to serve the Originating Summons out of jurisdiction which was granted by the court. ICB’s solicitors (“Solicitors”) are attempting the said service. The case management for this matter was on 4 September 2013 and the next date given by the court is 8 November 2013 to update the courts on the service of the Originating Summons.

ICB’s solicitors are of the view that the probable outcome would be that the court would grant the declaration that the Agreement would be terminated and that it would order the refund of the sum of USD500,000 and costs to IEPSB.

24. Material Litigation (cont'd)

- (e) *IRIS Eco Power Sdn Bhd v. IPSA Group PLC (Kuala Lumpur High Court Case No. 24NCC-510-0582013)*

On 1 August 2013, IRIS Eco Power Sdn Bhd (“IEPSB”) filed a claim against IPSA Group Plc (“IPSA”), a company registered in England and Wales for a breach of the Sale and Purchase Agreement of 2 Gas Turbine Generating Sets with Ancillary Equipment. IEPSB claimed for the sum of USD3,100,000 (equivalent to RM9,594,500 at an exchange rate of 3.095) being the deposit paid to IPSA, USD500,000 being the purchase price of the shares in Oil Field Services Ltd (a subsidiary of IEPSB) and the sum of RM20,000,000 for loss and damages, together with interest and costs (“Claim”). The court subsequently granted an order in terms for IEPSB to serve the Claim out of jurisdiction as IPSA is based on the United Kingdom. The matter is fixed for case management on 28 November 2013 to update the court of the said service out of jurisdiction.

ICB’s solicitors (“Solicitors”) are unable to advise on the probable outcome at this stage. The Solicitors are of the view that IEPSB’s exposure to liabilities is the sums stated in the Claim.

25. Realised and Unrealised retained earnings

Breakdown of retained earnings of the Group is as follows:

	As at 30th Sep 2013 RM'000	As at 31st March 2013 RM'000
Total retained earnings:		
i) The Company and its subsidiaries		
- Realised profits/(losses)	66,214	74,140
- Unrealised profits/(losses)	(17,220)	(17,220)
	48,994	56,920
ii) Associates		
- Realised profits/(losses)	3,317	3,090
- Unrealised profits/(losses)	-	-
	3,317	3,090
	52,311	60,010
iii) Group consolidated adjustments	70,913	48,065
Total retained earnings of the Group	123,224	108,075

26. Dividend

A first and final tax-exempt dividend of 0.45 sen per ordinary share amounting to approximately RM8.87million in respect of the financial year ended 31 March 2013 will be paid on 29 November 2013.

27. Earnings Per Ordinary Share

	Individual		Cumulative	
	3 months ended		6 months ended	
	30th	30th	30th	30th
	September	September	September	September
	2013	2012	2013	2012
(a) Basic earnings per ordinary share				
Profit attributable to owners of the Company for the period (RM'000)	7,308	6,184	14,986	14,519
Weighted average number of ordinary shares ('000)	1,576,394	1,575,050	1,576,394	1,575,050
Basic earnings per ordinary share (Sen)	0.46	0.39	0.95	0.92
(b) Diluted earnings per ordinary share				
Profit attributable to owners of the Company for the period (RM'000)	7,308	6,184	14,986	14,519
Adjustment for after tax effects of Warrants A (RM'000)	-	-	-	-
Adjustment for after tax effects of Warrants B (RM'000)	-	-	-	-
Adjusted net profit for the period (RM'000)	7,308	6,184	14,986	14,519
Weighted average number of ordinary shares ('000)	1,576,394	1,575,050	1,576,394	1,575,050
Adjustment for assumed exercise of Warrants A ('000)	14,419	32,885	14,419	32,885
Adjustment for assumed exercise of Warrants B ('000)	67,543	149,855	67,543	149,855
Weighted average number of ordinary shares for the purpose of diluted earnings per share ('000)	1,658,356	1,757,790	1,658,356	1,757,790
Diluted earnings per ordinary share (Sen)	0.44	0.35	0.90	0.83

28. Profit before taxation

	Individual 3 months ended 30th September 2013 RM'000	Cumulative 6 months ended 30th September 2013 RM'000
Profit before taxation is arrived at after charging/(crediting):		
- Amortisation of concession assets and depreciation of property, plant and equipment	7,022	14,258
- Net foreign exchange (gain)/loss	(548)	(419)
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