

IRIS CORPORATION BERHAD

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

Interim Financial Report for the Second quarter ended 30th September 2016

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Condensed Consolidated Statement of Comprehensive IncomeFor the Second quarter ended 30th September 2016

	Individual		Cumulative	
	3 months ended 30 th September 2016 RM'000	30 th September 2015 RM'000	6 months ended 30 th September 2016 RM'000	30 th September 2015 RM'000
<i>Continuing operations</i>				
Revenue	87,927	128,100	167,682	226,820
Cost of sales	(84,952)	(105,806)	(151,633)	(182,096)
Depreciation and amortisation	(2,736)	(2,331)	(5,081)	(4,952)
Gross profit	239	19,963	10,968	39,772
Other income	9,097	6,359	16,717	11,668
Administrative and operating expenses	(18,467)	(17,263)	(34,645)	(35,683)
Depreciation and amortisation	(1,677)	(1,696)	(3,277)	(3,773)
Finance costs	(4,657)	(6,225)	(9,353)	(11,267)
Share of (loss)/profit of associates	(6,787)	346	(7,009)	(293)
(Loss)/Profit before taxation	(22,252)	1,484	(26,599)	424
Tax expense	62	(3,526)	(656)	(5,955)
Loss from continuing operations	(22,190)	(2,042)	(27,255)	(5,531)
<i>Discontinued operations</i>				
Profit from discontinued operations, net of tax	-	5,976	-	8,215
(Loss)/Profit for the period	(22,190)	3,934	(27,255)	2,684
Other comprehensive income, net of tax				
Foreign currency translation for foreign operations	2,604	32,898	4,328	29,490
Share of equity accounted reserve	-	(1,619)	(553)	(3,493)
Reclassification of equity accounted reserve to profit or loss on disposal of associated company	10,482	-	10,482	-
	13,086	31,279	14,257	25,997
Total comprehensive (loss)/income for the period	(9,104)	35,213	(12,998)	28,681

Condensed Consolidated Statement of Comprehensive IncomeFor the Second quarter ended 30th September 2016

(continued)

	Individual 3 months ended 30th		Cumulative 6 months ended 30th	
	September 2016	September 2015	September 2016	September 2015
	RM'000	RM'000	RM'000	RM'000
(Loss)/Profit attributable to:				
Owners of the Company	(21,294)	4,759	(25,242)	5,452
Non-controlling interests	(896)	(825)	(2,013)	(2,768)
(Loss)/Profit for the period	(22,190)	3,934	(27,255)	2,684
Total comprehensive (loss)/income attributable to:				
Owners of the Company	(9,238)	27,480	(12,421)	28,841
Non-controlling interests	134	7,733	(577)	(160)
Total comprehensive (loss)/income for the period	(9,104)	35,213	(12,998)	28,681
(Loss)/Earnings per share attributable to owners of the Company:				
Basic (Sen)				
- continuing operations	(0.96)	0.01	(1.14)	(0.03)
- discontinued operations	-	0.22	-	0.30
	(0.96)	0.23	(1.14)	0.27
Diluted (Sen)				
- continuing operations	(0.96)	0.01	(1.14)	(0.03)
- discontinued operations	-	0.21	-	0.29
	(0.96)	0.22	(1.14)	0.26

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 2016 and the accompanying explanatory notes attached to the interim financial report.

Condensed Consolidated Statement of Financial PositionAs at 30th September 2016

	30 th September 2016 RM'000	31 st March 2016 RM'000
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	174,873	180,649
Development costs	75	20
Goodwill on consolidation	145,421	145,421
Other intangible assets	39,421	39,090
Operating financial assets	11,653	9,328
Investment in associates	11,347	9,197
Available-for-sale financial assets	14,961	14,961
Deferred tax assets	151	151
	397,902	398,817
CURRENT ASSETS		
Inventories	71,629	63,809
Property under development	6,196	4,785
Operating financial assets	2,750	2,750
Asset classified as held for sale	-	5,893
Trade receivables	236,799	269,508
Other receivables, deposits & prepayments	125,320	96,172
Amount owing by associates	1,000	2,211
Amount owing by related parties	17,432	27,527
Amount owing by contract customers	172,741	142,359
Current tax assets	17,575	719
Short-term deposits placed	10,929	29,420
Cash and bank balances	45,570	32,609
	707,941	677,762
TOTAL ASSETS	1,105,843	1,076,579
EQUITY AND LIABILITIES		
EQUITY		
Share capital	337,078	311,561
Share premium	111,738	105,068
Warrants reserve	-	8,773
Foreign exchange translation reserve	6,362	3,470
Fair value reserve	-	(9,929)
Revaluation reserve	37,656	38,184
Retained earnings	61,263	92,902
Total equity attributable to owners of the Company	554,097	550,029
Non-controlling interests	(2,392)	(12,185)
TOTAL EQUITY	551,705	537,844

Condensed Consolidated Statement of Financial PositionAs at 30th September 2016

(continued)

	30 th September 2016 RM'000	31 st March 2016 RM'000
NON-CURRENT LIABILITIES		
Term loan	103,410	136,400
Hire purchase and lease payables	2,476	3,493
Deferred tax liabilities	14,940	14,940
	<u>120,826</u>	<u>154,833</u>
CURRENT LIABILITIES		
Trade payables	69,419	40,761
Other payables and accruals	227,800	206,962
Amount owing to associates	-	1,021
Short-term borrowings	122,686	133,043
Hire purchase and lease payables	1,627	1,851
Current tax liabilities	11,780	264
	<u>433,312</u>	<u>383,902</u>
TOTAL LIABILITIES	<u>554,138</u>	<u>538,735</u>
TOTAL EQUITY AND LIABILITIES	<u>1,105,843</u>	<u>1,076,579</u>
Net assets per ordinary share attributable to owners of the Company (sen)	<u>24.66</u>	<u>26.48</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 2016 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 2016

	← 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	Fair Value Reserve RM'000	Revaluation Reserve RM'000				Retained Earnings RM'000
At 1 st April 2015	306,042	103,249	10,592	4,781	(4,081)	38,719	87,560	546,862	19,760	566,622
Warrants exercised	1	-	-	-	-	-	-	1	-	1
Realisation on usage of property	-	-	-	-	-	(150)	150	-	-	-
Profit/(loss) after taxation for the financial period	-	-	-	-	-	-	5,452	5,452	(2,768)	2,684
Other comprehensive income for the financial period, net of tax										
- foreign currency translation	-	-	-	26,882	-	-	-	26,882	2,608	29,490
- share of equity accounted reserves	-	-	-	-	(3,493)	-	-	(3,493)	-	(3,493)
Total comprehensive income/(loss) for the financial period	-	-	-	26,882	(3,493)	-	5,452	28,841	(160)	28,681
At 30th September 2015	306,043	103,249	10,592	31,663	(7,574)	38,569	93,162	575,704	19,600	595,304

Condensed Consolidated Statement of Changes in Equity

For the Second quarter ended 30th September 2016

(continued)

	← Non-Distributable →						Distributable			
	Ordinary Share Capital RM'000	Share Premium RM'000	Warrants Reserve RM'000	Foreign Exchange Translation Reserve RM'000	Fair Value Reserve RM'000	Revalua- tion Reserve RM'000	Retained Earnings RM'000	Attributable to the owners of the Company RM'000	Non- controlling Interests RM'000	Total Equity 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
Issuance of new shares	7,500	1,432	-	-	-	-	-	8,932	-	8,932
Warrant exercise	18,017	5,238	(5,238)	-	-	-	-	18,017	-	18,017
Transfer of unexercised warrant reserve	-	-	(3,535)	-	-	-	3,535	-	-	-
Effect of change in equity in subsidiaries	-	-	-	-	-	-	(10,460)	(10,460)	10,370	(90)
Realisation on usage of property	-	-	-	-	-	(528)	528	-	-	-
Loss after taxation for the financial period	-	-	-	-	-	-	(25,242)	(25,242)	(2,013)	(27,255)
Other comprehensive income for the financial period, net of tax	-	-	-	-	-	-	-	-	-	-
- foreign currency translation	-	-	-	2,892	-	-	-	2,892	1,436	4,328
- 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) for the financial period	-	-	-	2,892	9,929	-	(25,242)	(12,421)	(577)	(12,998)
At 30th September 2016	337,078	111,738	-	6,362	-	37,656	61,263	554,097	(2,392)	551,705

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 2016 and the accompanying explanatory notes attached to the interim financial report.

Condensed Consolidated Cash Flow StatementFor the Second quarter ended 30th September 2016

	Cumulative 30th September 2016 RM'000	Restated Cumulative 30th September 2015 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
(Loss)/Profit before taxation		
- continuing operations	(26,599)	424
- discontinued operations	-	8,222
	(26,599)	8,646
Adjustments for:		
Non-Cash Items	11,402	39,854
Interest income	(328)	(220)
Finance costs	9,353	12,858
OPERATING (LOSS)/PROFIT BEFORE WORKING CAPITAL CHANGES	(6,172)	61,138
Changes in working capital		
Net changes in current assets	(24,746)	(65,420)
Net changes in current liabilities	48,475	37,985
NET CASH GENERATED FROM OPERATIONS	17,557	33,703
Interest received	328	220
Interest paid	(9,353)	(12,858)
Tax paid	(5,996)	(6,557)
NET CASH FROM OPERATING ACTIVITIES	2,536	14,508
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of available for sale investment	-	(952)
Additional investment in an associate	(8,823)	-
Additional of financial operating assets	(2,325)	-
Proceeds from disposal of plant and equipment	-	205
Proceeds from partial disposal of an associate	25,869	-
Purchase of additional investments in subsidiaries	(90)	-
Purchase of operating financial assets	-	(1,550)
Purchase of development costs	(54)	(1,702)
Purchase of plant and equipment	(2,913)	(6,499)
NET CASH FROM/(FOR) INVESTING ACTIVITIES	11,664	(10,498)

Condensed Consolidated Cash Flow StatementFor the Second quarter ended 30th September 2016

(continued)

	Cumulative 30th September 2016 RM'000	Restated Cumulative 30th September 2015 RM'000
CASH FLOW FROM FINANCING ACTIVITIES		
Net proceeds from issuance of ordinary shares	26,949	1
Net repayment of hire purchase and lease payables	(1,241)	(1,353)
Net proceeds from / (repayment of) bankers' acceptances	10,742	(9,966)
Net repayment of trade loans	(18,830)	(186)
Proceeds from drawdown of term loans	-	72,556
Repayment of term loans	(37,350)	(83,346)
Withdrawal/(Placement) of pledged deposits	15,242	(7,622)
NET CASH FOR FINANCING ACTIVITIES	(4,488)	(29,916)
Net changes in cash and cash equivalents	9,712	(25,906)
Effects of exchange rate changes	-	-
Cash and cash equivalents at beginning of the period	37,318	66,008
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	47,030	40,102

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

Short-term deposits placed	10,929	50,706
Cash and bank balances	45,570	34,558
Less: Pledged deposits	(9,469)	(45,162)
	47,030	40,102

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 2016 and the accompanying explanatory notes attached to the interim financial report.

Notes to the Interim Financial Report

For the Second quarter ended 30th September 2016

1. Basis of preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 30th September 2016 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 2016.

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 2016 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	Environment & Renewable Energy RM'000	Total RM'000
Revenue from external customers	129,640	31,929	2,343	-	3,770	-	167,682	-	167,682
Inter-segment revenue	-	-	-	-	-	-	-	-	-
Total Revenue	129,640	31,929	2,343	-	3,770	-	167,682	-	167,682
Segment results	12,910	(426)	(12,729)	(1,654)	(2,558)	-	(4,457)	-	(4,457)
Unallocated corporate expenses							(16,163)	-	(16,163)
Other income							10,383	-	10,383
Operating loss							(10,237)	-	(10,237)
Finance costs							(9,353)	-	(9,353)
Share of loss of associates							(19,590)	-	(19,590)
							(7,009)	-	(7,009)
Loss before taxation							(26,599)	-	(26,599)
Income tax expense							(656)	-	(656)
Loss after taxation							(27,255)	-	(27,255)

5. Capital Commitments

**As at
30th September
2016
RM'000**

Authorised and contracted for:-

Purchase of property, plant and equipment	1,735
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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

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

(a) Disposal of entire remaining equity interest in Versatile Creative Berhad

The Company had on 20th September 2016 completed the disposal of its entire remaining equity interest of 35,000,000 or 29.83% of the issued and fully paid-up shares of RM1.00 each in Versatile Creative Berhad to a 3rd party for a total gross consideration of RM22,194,000. Versatile Creative Berhad and its subsidiaries has then ceased to become the associated companies of the Company.

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 this 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 2016, 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 24 of this report.

13. Taxation

	Individual		Cumulative	
	3 months ended	3 months ended	6 months ended	6 months ended
	30th	30th	30th	30th
	September	September	September	September
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
<u>Continuing operations</u>				
Income tax				
- Current financial year	557	(3,526)	(154)	(5,955)
- Under provision in prior years	(495)	-	(502)	-
	62	(3,526)	(656)	(5,955)
Deferred tax				
- Current financial year	-	-	-	-
	62	(3,526)	(656)	(5,955)
<u>Discontinued operations</u>				
Income tax				
- Under provision in prior years	-	-	-	(7)
	62	(3,526)	(656)	(5,962)

The Group’s effective tax rate is higher than the statutory tax rate of 24% mainly due to losses in some 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 2016 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	6,507

Additional information required by the AMLR

15.1 Review of Performance

Continuing operations

For the three (3) months financial period ended 30th September 2016, the Group recorded a revenue of RM87.9 million, representing a decrease of 31.4% from RM128.1 million recorded in the previous comparable quarter ended 30th September 2015 (“previous comparable quarter”). The loss before taxation for the current financial quarter was RM22.3 million, whereby the Group recorded a profit before taxation of RM1.1 million in the previous comparable quarter last year.

The performance of the respective business segments for this financial quarter ended 30th September 2016 as compared to the previous comparable quarter is analysed as follows:-

The traditional core business - Trusted Identification Division recorded lower revenue of RM79.2 million in the current financial quarter ended 30th September 2016 from RM99.1 million in the previous comparable quarter, representing a decrease of 20.1%. The decrease was mainly caused by the decline in revenue from Malaysia Immigration Department and lower sales generated from the key overseas projects namely, Nigeria e-Passports project and Senegal e-Passports project.

The Property Development & Construction sub-division recorded revenue of RM6.1 million in the current financial quarter ended 30th September 2016 from RM27.0 million. The revenue decreased by RM23.1 million is mainly due to lower sales derived from Sarawak school projects and also Rimbuan Kaseh and Sentuhan Kasih programmes from the State Governments and FELDA respectively in this quarter.

The Food and Agro sub-division recorded a revenue of RM0.7 million in the current financial quarter ended 30th September 2016 from RM3.4 million in previous comparable quarter. Lower sales in farm equipment supply to Rimbuan Kaseh and Sentuhan Kasih projects is the main reason for the drop of sales this quarter. The loss recorded in the current reporting quarter is mainly due to lower sales and the charging out of pre-operating expenses by its subsidiary in New Zealand which involves mining and distribution of Diatomite.

The Environment & Renewable sub-division recorded zero revenue as compared to RM0.1 million recorded in the same period last year. The Division has been in-active after the disposal of Phuket Plant in December 2015. In the previous comparable quarter, a revenue of RM16.6 million generated from Waste-to-Energy Incinerator Plant in Phuket was reclassified to discontinued operations as it has been disposed in December 2015. Thus, no comparable results for this quarter.

The Education Division recorded a revenue of RM1.9 million in the current financial quarter ended 30th September 2016 from RM1.3 million of previous comparable quarter. The Division recognised a segment loss of RM1.3 million is mainly due to high administrative costs incurred in this quarter.

15.2 Comparison with Preceding Quarter

Continuing operations

For the current financial quarter which ended 30th September 2016, the Group recorded revenue of RM87.9 million, representing an increase of 10.3% from RM79.7 million recorded in the preceding quarter ended 30th June 2016.

Loss before taxation for this quarter, however, recorded as RM22.3 million, which has shown a RM18 million increase as compared to loss before taxation of RM4.3 million recorded in the preceding quarter.

Higher loss before taxation in this quarter was mainly due to higher direct expenditure recognised in Trusted Identification Division in this current financial quarter. In addition, the Company recognized a one-off share of post-acquisition losses of an associated company, IRIS Global Blue TRS Malaysia Sdn Bhd ('IGB'), of RM7.38 million this quarter upon the Company increased its equity to assume the previous quarters' losses of IGB.

16. Prospects

The market conditions for financial year 2017 is expected to remain challenging as the recovery of the global economy is modest. In the domestic front, Ringgit Malaysia and commodities remain volatile and property market remains sluggish.

Given the above uncertainties and the current business environment, the Group will continue to streamline its business divisions to achieve better operational efficiency. In addition, the Group is embarking on costs optimization exercises and capitalise its expertise and skills on Trusted Identification to develop new security systems and solutions to ensure the Group remains competitive in the challenging business environment.

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 period to date except for an additional investment in an associated company of RM8,823,000.

19. Quoted Securities

There were no purchases or disposals of quoted securities for the current quarter and financial period to date except for the disposal of remaining entire equity interest in Versatile Creative Berhad's shares, a public limited liability company, incorporated in Malaysia and is listed in Main Market of Bursa Malaysia Securities Berhad. Details of the information is disclosed in Note 7(a).

20. Available-for-sale financial assets

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

	At 30th September 2016 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	(3,359)
	14,961

21. Status of Corporate Proposals and utilisation of proceeds

There were no corporate proposals announced but not completed as at 22nd November 2016, 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:

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.

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 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 22nd November 2016 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	(10,091)	14,909	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	(95,439)	14,909	

22. Group Borrowings and Debt Securities

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

	Short Term	Long Term	Total
	RM'000	RM'000	RM'000
Secured	113,899	103,410	217,309
Unsecured	8,787	-	8,787
	<u>122,686</u>	<u>103,410</u>	<u>226,096</u>

All of the above borrowings are denominated in Ringgit Malaysia other than trade and term loan borrowings amounting to RM37.4 million that are denominated in USD dollar.

23. Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risk as at 22nd November 2016 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 22nd November 2016:

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

ICB filed a lawsuit on 28th November 2006 against Japan Airlines International Co., Ltd (“JAL”) in the U.S. District Court, Eastern District of New York alleging direct infringement of ICB’s US Patent No: 6,111,506 entitled “*Method of making an Improved Security Identification Document Including Contactless Communication Insert Unit*” (“506 Patent”). The 506 Patent contains claims directed to a process for manufacturing a secure electronic passport consisting of computer chip embedded in a multi-layered document which contains biographical or biometric data about the passport holder.

ICB alleged that passports containing these secured electronic computer chips were manufactured outside United States using ICB’ patented process. Use of these passports would therefore constitute direct clear violation of 35 U.S.C. 271(g) which states:-

“Whosoever without authority imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer, if the importation, offer to sell, or use of the product occurs during the term of such process patent.”

ICB alleges that 506 Patent infringement by JAL stems from JAL’s examination of passenger passports at its terminal in New York’s John F Kennedy International Airport (“JFK”) an other check-in locations within the USA and IRIS alleged that the passports of JAL passengers were made “Using” their 506 Patent process, that they constitute “Products” as defined by patent laws, and that JAL’s inspection of the passports at their terminal constitutes an infringement.

At the time IRIS filed the litigation there was no basis for an action against the US Government, also the “User” of these electronic passports. The Federal Tort Claims Act -28 U.S.C. 1498 (a) states that whenever a person or company manufactures a product or uses a product for the US Government that entity may not be sued but instead a law suit may be brought against the US Government in a special court, i.e. US Court of Federal Claims. However the governing case law at that time of the commencement of the suit held that the statute permitting patent infringement suits against the US Government did not apply to U.S.C. 271(g) type infringement, that is, it did not apply to situations where the product used in the USA had been manufactured outside of USA.

Hence not being permitted to sue the US Government because the passports in issue were manufactured outside of USA and being impractical to sue the individual passport holder, IRIS targeted JAL which used e-passports as their check-in procedures conducted at airport facilities in the USA.

24. Material Litigation (cont'd)

JAL on 1st June 2007 filed a motion to dismiss the action. The District Court agreeing with JAL that there is a conflict of law between the Enhanced Border Security Act 8U.S.C. 1221 which requires all airlines examine passports at check-in facilities in US and Patent laws (35 U.S.C. 271(g) granted the motion to dismiss ICB' suit. The District Court however concluded that:

1. A passport is a “product” under patent laws of USA;
2. Reading a passport is a “use”;
3. 28U.S.C 1948 cannot be used as a “shield” by JAL; and
4. Declined to opine on JAL’s argument that the Doctrine of Foreign Sovereign Compulsion shields JAL from patent infringement relating to electronic passports.

The Solicitors filed a notice to appeal to the United States Court of Appeals for the Federal Circuit in Washington (2010-1051) but the matter was stayed by virtue of Chapter 15 of the US Bankruptcy Code and also due to the corporate reorganization and outcome of the bankruptcy proceedings in Japan. The JAL bankruptcy proceedings have been terminated and an order was made by the US Bankruptcy Court for the Southern District of New York (SDNY) to close the Chapter 15 case.

On 30th December 2013 the Federal Circuit vacated the stay in response to JAL’s discharge from the bankruptcy. The hearing of the Appeal was reopened for hearing in the US Court of Appeals for the Federal Circuit in Washington.

The case was fully briefed and parties submitted their respective submissions for argument in open court on 8 September 2014. The United States Government then filed a friend of the court (amicus curiae) brief stating, in essence, that the District Court was incorrect, but nevertheless the case should be dismissed in that the proper defendant is the United States government in light of a change in the law that occurred subsequent to the filing of the appeal. The United States Airlines Industry Association also filed a friend of the court brief agreeing with the position taken by the United States government.

On 21st October 2014, the United States Court of Appeals for the Federal Circuit gave its decision and ruled that JAL’s allegedly infringing acts are carried out “for the United States” under 28U.S.C. 1498(a) and affirmed the District Court’s decision to dismiss ICB’ suit.

Pursuant to the advice of the US Department of Justice in their amicus brief and our Solicitors, ICB has proceeded on 24th February 2015 to file a Complaint against the US Federal Government (Case1:15-cv-00175-EGB) under Section 28 U.S.C. 1498 for reasonable compensation for the unlicensed manufacture and use of ICB’s 506 Patent methods, amounts of which shall be based upon the profit ICB would have made had ICB manufactured each of the e-passport inlays that form the subject matter of the suit. By this Complaint, ICB seeks damages based upon the reasonable compensation formula.

On the 27th April 2015 the Defendant, the US Government replied to the Complaint and enclosed a Defense. On 8th May 2015, the Defendant filed a Joint Motion to stay the proceedings pending for entry of potential third parties. Order of Stay was granted on even date pending the filing of third party pleadings until 30th June 2015 or if a third party submits a pleading or until no later than 30 days after the last third party pleading is submitted.

24. Material Litigation (cont'd)

On 19th June 2015 and 10th July 2015 were the last date for 3rd Parties to accept the Government's invitation to join the Defence. They did not file any pleading. ICB is now in the process of appointing a Damages Expert to evaluate the total amount of damages that can be claimed from potential infringers and a Technical Expert to advice on the technical aspect of the 506 Patent in the event of success.

On 30th October 2015, ICB's US Counsel was served with deposition notices for the witnesses previously identified in the Government's initial disclosures. Depositions will generally commence on the 14th December 2015 in US. On 3rd November 2015, ICB's US Counsel was served with the Government's initial discovery demands. They are asking for one deposition from ICB which will be made in US sometime end of the year. ICB has made it's deposition and further depositions were made and pending. The case is at the Interrogatory stage.

The U.S. Government in defending the lawsuit, as part of the Defence have filed a petition with the US Patent and Trademark office to invalidate the patent, alleging that ICB's invention is obvious in light of the prior art. The petition was on 22nd January 2016. The petition requires ICB to file a response within 90 days, after which there is a trial in the Patent and Trademark office on the sole issue of validity. This is a separate trial from the trial that will take place in the U.S. Court of Federal Claims where IRIS is seeking compensation for use of it's patented invention.

(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

24. Material Litigation (cont'd)

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.

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. The hearing of the Defendant's application will be fixed and to be informed later before the High Court Judge.

24. Material Litigation (cont'd)

(iv) Winding Up Petition by United Logistics Sdn Bhd against Seri Stamford College Sdn Bhd (“Seri Stamford”) (Companies Winding-Up Petition No.Wa-28NCC-533-06/2016)

A winding-up petition dated 27th June 2016 (“the Petition”) taken out by United Logistics Sdn Bhd (“ULSB”) was served on Seri Stamford’s Company Secretary, on 29th June 2016. ULSB claims against Seri Stamford for the sum of RM1,604,520.52 being the judgment sum of RM1,474,262.77 together with interest thereon at the rate of 5% per annum from 20th August 2014 to date on daily rest until full and final settlement amounting to RM130,257.75, based on the judgment dated 1st March 2016 obtained against Seri Stamford at Kuala Lumpur High Court vide “Writ No. 22NCC-312-08/2014 United Logistics Sdn Bhd v Seri Stamford (“the Judgment”).

The Petition arises from ULSB’s purported demand via letter dated 26th May 2016 for the aforesaid sum of RM1,604,520.52. Seri Stamford’s counsels filed the Notice of Application for Stay of Execution of the Judgment on 1st July 2016. Seri Stamford filed the Notice of Intention to appear on Petition and served it on Messrs Yew Huoi & Associates (ULSB’s Counsels) on 22nd July 2016. Seri Stamford’s counsels attended the first case management on 4th August 2016 and filed the Respondent’s Affidavit in Opposition and served it on Messrs Yew Huoi & Associates. Presently, the matter has been fixed for hearing on 18th August 2016.

ICB of the view that there is no financial and operational impact on the Group as the winding-up petition is frivolous and vexatious and/or an abuse of the process of the Court. ULSB’s purported claim is already in the midst of an appeal proceeding. The Notice of Appeal against the Judgment was filed on 29th March 2016. Save for legal fees and disbursements involved to challenge and oppose the winding-up petition, ICB and/or Seri Stamford is not expected to incur losses arising from the winding up proceedings.

Seri Stamford will categorically challenge and oppose the Petition with a view to having the same dismissed or struck out as ULSB’s purported claim and demand is an abuse of the process of the Court. Further, Seri Stamford will continue to pursue the current ongoing appeal proceedings against the Judgment. Seri Stamford will categorically defend this purported claim as it is misconceived and without legal basis whatsoever. As such all disputes in respect of the matter are pending determination in the ongoing appeal proceedings.

25. Realised and Unrealised retained earnings

Breakdown of retained earnings of the Group is as follows:

	As at 30th September 2016 RM'000	As at 31st March 2016 RM'000
Total retained earnings:		
i) The Company and its subsidiaries		
- Realised profits/(losses)	17,546	58,254
- Unrealised profits/(losses)	(17,367)	(26,435)
	179	31,819
ii) Associates		
- Realised profits/(losses)	5,034	(3,200)
- Unrealised profits/(losses)	-	-
	5,034	(3,200)
iii) Group consolidated adjustments	5,213	28,619
	56,050	64,283
Total retained earnings of the Group	61,263	92,902

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
	2016	2015	2016	2015
(a) Basic earnings/(loss) per ordinary share				
Profit/(Loss) attributable to owners of the Company for the period (RM'000)				
- continuing operations	(21,294)	277	(25,242)	(709)
- discontinued operations	-	4,482	-	6,161
	<u>(21,294)</u>	<u>4,759</u>	<u>(25,242)</u>	<u>5,452</u>
Weighted average number of ordinary shares ('000) at end of period	<u>2,223,282</u>	<u>2,040,284</u>	<u>2,223,282</u>	<u>2,040,284</u>
Basic earnings/(loss) per ordinary share (Sen)				
- continuing operations	(0.96)	0.01	(1.14)	(0.03)
- discontinued operations	-	0.22	-	0.30
	<u>(0.96)</u>	<u>0.23</u>	<u>(1.14)</u>	<u>0.27</u>
(b) Diluted earnings per ordinary share				
Profit/(Loss) attributable to owners of the Company for the period (RM'000)				
- continuing operations	(21,294)	277	(25,242)	(709)
- discontinued operations	-	4,482	-	6,161
	<u>(21,294)</u>	<u>4,759</u>	<u>(25,242)</u>	<u>5,452</u>
Adjustment for after tax effects of Warrants A & Warrants B (RM'000)	-	-	-	-
Adjusted net profit for the period (RM'000)				
- continuing operations	-	-	-	-
- discontinued operations	-	-	-	-
	<u>(21,294)</u>	<u>4,759</u>	<u>(25,242)</u>	<u>5,452</u>
Weighted average number of ordinary shares ('000)	2,223,282	2,040,284	2,223,282	2,040,284
Adjustment for assumed exercise of Warrants A ('000)	-*	13,253	-*	13,253
Adjustment for assumed exercise of Warrants B ('000)	-*	61,952	-*	61,952
Weighted average number of ordinary shares for the purpose of diluted earnings per share ('000)	<u>2,223,282</u>	<u>2,115,489</u>	<u>2,223,282</u>	<u>2,115,489</u>
Diluted earnings per ordinary share (Sen)				
- continuing operations	(0.96)	0.01	(1.14)	(0.03)
- discontinued operations	-	0.21	-	0.29
	<u>(0.96)</u>	<u>0.22</u>	<u>(1.14)</u>	<u>0.26</u>

* Both Warrants A & Warrants B have expired in June 2016 and April 2016 respectively.

28. (Loss)/Profit before taxation

	Individual 3 months ended 30th September 2016 RM'000	Cumulative 6 months ended 30th September 2016 RM'000
(Loss)/Profit before taxation is arrived at after charging/(crediting):		
- Amortisation of concession assets, intangible assets and depreciation of property, plant and equipment	4,413	8,358
- Net foreign exchange (gain)/loss	(2,378)	(2,684)
	<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.