

IRIS CORPORATION BERHAD

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

Interim Financial Report For the third quarter ended 30th September 2008

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Condensed Consolidated Income StatementFor the third quarter ended 30th September 2008

	Individual		Cumulative	
	3 months ended	3 months ended	9 months ended	9 months ended
	30th Sept	30th Sept	30th Sept	30th Sept
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Revenue	63,007	51,365	193,944	156,758
Cost of sales	(42,926)	(31,791)	(140,935)	(112,884)
Depreciation and amortization	(3,379)	(2,640)	(10,279)	(8,163)
Gross profit	<u>16,702</u>	<u>16,934</u>	<u>42,730</u>	<u>35,711</u>
Other income	1,093	515	1,621	2,271
Operating expenses	(6,287)	(7,078)	(19,732)	(21,994)
Depreciation and amortization	(801)	(848)	(2,375)	(2,348)
Interest expenses	(4,103)	(3,848)	(11,758)	(12,025)
Share of profit / (loss) of associated companies	201	59	363	(92)
Profit before taxation	<u>6,805</u>	<u>5,734</u>	<u>10,849</u>	<u>1,523</u>
Tax expense	(1,025)	(8)	(2,018)	(1,019)
Profit after taxation	<u>5,780</u>	<u>5,726</u>	<u>8,831</u>	<u>504</u>
Attributable to:				
Equity holders of the Company	5,780	5,964	8,831	975
Minority Interest	-	(238)	-	(471)
	<u>5,780</u>	<u>5,726</u>	<u>8,831</u>	<u>504</u>
Earnings per ordinary share attributable to equity holders of the Company:				
Basic (Sen)	0.42	0.49	0.64	0.08
Diluted (Sen)	<u>0.42</u>	<u>0.46</u>	<u>0.64</u>	<u>0.08</u>

The Condensed Consolidated Income Statement should be read in conjunction with the audited financial statements of the Group for the year ended 31st December 2007 and the accompanying explanatory notes attached to this interim financial statement.

Condensed Consolidated Balance SheetAs at 30th September 2008

	30th September 2008	31st December 2007
	RM'000	RM'000
Non current assets		
Concession assets	16,979	15,798
Property, plant and equipment	96,035	104,422
Prepaid land lease payments	6,037	6,268
Research & development	8,475	10,278
Intangible assets	14,643	15,678
Goodwill on consolidation	134,126	134,126
Investment in associated company	6,584	6,221
Other investments	406	406
	<hr/> 283,285	<hr/> 293,198
Current assets		
Contract work in progress	20,881	14,636
Inventories	75,405	75,714
Trade receivables	97,429	86,408
Other receivables & deposits	25,170	29,615
Cash and cash equivalents	43,311	27,948
	<hr/> 262,196	<hr/> 234,321
Current liabilities		
Trade payables	40,188	28,631
Other payables	25,582	26,747
Hire purchase & lease payables	6,086	6,215
Short term borrowings	43,184	32,987
Bonds	36,125	25,000
	<hr/> 151,165	<hr/> 119,580
Net current assets	111,031	114,741
	<hr/> 394,316	<hr/> 407,939

Condensed Consolidated Balance SheetAs at 30th September 2008

(continued)

	30th September 2008	31st December 2007
	RM'000	RM'000
Financed by:		
Capital and reserves		
Share capital	216,416	216,416
Reserves	59,630	50,799
Total equity attributable to shareholders of the company	276,046	267,215
Minority Interest	45	-
Total equity	276,091	267,215
Non current liabilities		
Hire purchase & lease payables	3,265	7,630
Other payables	2,738	2,738
Bonds	88,875	125,000
Long Term Borrowings	16,011	-
Deferred taxation	7,336	5,356
	394,316	407,939
Net assets per share attributable to equity holders of the Company (RM)	0.20	0.21

The Condensed Consolidated Balance Sheet should be read in conjunction with the audited financial statements of the Group for the year ended 31st December 2007 and the accompanying explanatory notes attached to this interim financial statement.

Condensed Consolidated Statement of Changes in Equity
For the third quarter ended 30th September 2008

	Share Capital RM'000	ICPS RM'000	Share Premium RM'000	Non-Distributable			Distributable		Total Equity RM'000
				Translation Reserve RM'000	Revaluation Reserve RM'000	Accumulated (Loss)/Profit RM'000	Minority Interest RM'000		
At 1 st January 2007	173,769	23,118	26,653	(2,275)	14,256	(5,590)	-	229,931	
Profit / (loss) for the period	-	-	-	-	-	975	(471)	504	
Issue of shares	19,529	-	8,424	-	-	-	5	27,958	
Conversion of ICPS into ordinary shares	11,766	(11,766)	-	-	-	-	-	-	
At 30th September 2007	205,064	11,352	35,077	(2,275)	14,256	(4,615)	(466)	258,393	
At 1 st January 2008	205,296	11,119	35,052	-	13,516	2,232	-	267,215	
Profit for the period	-	-	-	-	-	8,831	-	8,831	
Issue of shares	-	-	-	-	-	-	-	-	
Conversion of ICPS into ordinary shares	120	(120)	-	-	-	-	-	-	
Acquisition of subsidiary	-	-	-	-	-	-	-	-	
At 30th September 2008	205,416	10,999	35,052	-	13,516	11,063	45	276,091	

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements of the Group for the year ended 31st December 2007 and the accompanying explanatory notes attached to this interim financial statement.

Condensed Consolidated Cash Flow StatementFor the third quarter ended 30th September 2008

	Cumulative 30th Sept 2008 RM'000	Cumulative 30th Sept 2007 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	10,849	1,523
Adjustments for:		
Non-Cash Items	13,969	10,577
Interest expenses	11,758	12,025
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	36,576	24,125
Changes in working capital		
Net changes in current assets	(12,558)	24,473
Net changes in current liabilities	10,392	(16,319)
NET CASH GENERATED FROM OPERATIONS	34,410	32,279
Interest paid	(11,668)	(11,686)
Tax paid	(37)	(19)
NET CASH (USED IN) /GENERATED FROM OPERATING ACTIVITIES	22,705	20,574
CASH FLOW FROM INVESTING ACTIVITIES		
Development expenditure	(1,107)	(1,579)
Proceeds from disposal of fixed assets	603	34
Purchase of fixed assets	(1,724)	(7,680)
Purchase of concession assets	(1,828)	-
Purchase of investment	-	(346)
Investment in associated company	-	(810)
NET CASH USED IN INVESTING ACTIVITIES	(4,056)	(10,381)

Condensed Consolidated Cash Flow Statement

For the third quarter ended 30th September 2008
(continued)

	Cumulative 30th Sept 2008 RM'000	Cumulative 30th Sept 2007 RM'000
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	-	27,953
Repayment of hire purchase and lease payables	(4,494)	(4,174)
Repayment of bond	(25,000)	(15,000)
Short term borrowings	10,197	(10,576)
Long term borrowings	16,011	(10,576)
NET CASH (USED IN) / GENERATED FROM FINANCING ACTIVITIES	(3,286)	(1,797)
Net changes in cash and cash equivalents	15,363	8,396
Effects of exchange rate changes	-	-
Cash and cash equivalents at beginning of the year	27,948	35,061
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	43,311	43,457

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the audited financial statements of the Group for the year ended 31st December 2007 and the accompanying explanatory notes attached to this interim financial statement.

Notes to the Interim Financial Report

For the third quarter ended 30th September 2008

1. Basis of preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 30th September 2008 and has been prepared in compliance with FRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB") and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for the MESDAQ Market ("MMLR").

The accounting policies and methods of computation adopted by the Group in this report are consistent with those adopted in the financial statements for the year ended 31st December 2007 except for the mandatory adoption of the following revised Financial Reporting Standards ("FRS") and Issues Committee Interpretations ("IC Interpretation") effective for the financial period beginning on 1st January 2008:

FRS 107	Cash Flow Statements
FRS 112	Income Taxes
FRS 118	Revenue
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
Amendment to FRS 121	The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation
FRS 134	Interim Financial Reporting
FRS 137	Provisions, Contingent Liabilities and Contingent Assets
IC Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IC Interpretation 8	Scope of FRS 2 – Share-based payment

The adoption of the above FRSs and IC Interpretations does not have any significant financial impact to the Group.

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 third quarter.

4. Segment information

The Group's segment information for the interim financial report to 30th September 2008 were as follows:-

Source	Revenue RM'000	Profit/(Loss) before tax RM'000
Software solutions and electronic hardware	87,157	9,171
Manufacturing of substrates, contact and contactless smart cards	105,966	25,520
Farming solutions	821	(351)
Environmental solutions	-	(1,063)
	<u>193,944</u>	<u>33,277</u>
Other income		1,621
Interest expenses		(11,758)
Depreciation and amortization		(12,654)
Share of profit of associates		363
Profit before tax		<u>10,849</u>

5. Capital Commitments**Authorised and contracted for:-**

	RM'000
Construction of greenhouse	3,006
Purchase of property, plant & equipment	7,721
	<u>10,727</u>

6. Debt and equity securities

There were no issuances, cancellations, repurchases, resale and repayments of debts and equity securities except for the following:

(a) Conversion of Non-Cumulative Irredeemable Convertible Preference Shares ("ICPS")

For the financial period from 1st January 2008 to 30th September 2008, a total of 825,600 units of ICPS have been converted into ordinary shares of RM0.15 each.

7. Changes in the composition of the Group

There were no changes in the composition of the Group for the third quarter.

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, except for the following:-

(a) Conversion of ICPS

As at 13th November 2008, the Company had issued 19,268,366 ordinary shares of RM0.15 each pursuant to the conversion of ICPS.

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 third 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

On 12th July 2006, ICB entered into a Sales and Purchase Agreement with Enve Hitech Farming Solutions Sdn Bhd (“ENVE”) to purchase Capillary Agrotech (Malaysia) Sdn Bhd (“CA”) to which ENVE would guarantee ICB a profit before taxation of RM6 million before 30th June 2008.

In the event of CA’s inability to achieve the cumulative profit of RM6 million at the stipulated date, ENVE would be liable to compensate ICB for an amount of 70% of the shortfall in cumulative profit before tax.

On 4th March 2008, ICB had agreed to an extension of eighteen (18) months by ENVE to fulfill the profit guarantee.

Other than above, there were no changes in contingent liabilities and contingent assets since the last balance sheet date.

13. Taxation

	30 th Sept 2008 RM’000	30 th Sept 2007 RM’000
Deferred tax liabilities – current year	1,980	1,000
Current year tax	38	19
	<u>2,018</u>	<u>1,019</u>

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The Group's effective tax rate is lower than the statutory tax rate of 26% mainly due to the availability of capital allowances, investment tax allowances and reinvestment allowances.

14. Related Party Transactions

	30th Sept 2008 RM'000
1. MCS Microsystems Sdn Bhd	
- Purchases	1,412
- Rental received	59
2. Versatile Paper Boxes Sdn Bhd	
- Purchases	86

Additional information required by the MMLR

15.1 Review of Performance

For the nine (9) months ended 30th September 2008, the Group recorded a revenue of RM193.94 million representing an increase of approximately 23.7% as compared to the revenue of RM156.76 million for the previous comparable financial period ended (“FPE”) 30th September 2007. In line with the increase in revenue, the Group recorded an increase in the profit before taxation of RM10.85 million for the FPE 30th September 2008 as compared to profit before taxation of RM1.52 million in the previous comparable FPE 30th September 2007.

For the current financial quarter ended 30th September 2008, the Group recorded a revenue of RM63 million and profit before taxation of RM6.8 million from RM51.37 million and RM5.73 million, which is 22.6% and 18.7% higher respectively when compared to the previous comparable financial quarter ended 30th September 2007. The increase was contributed by better performances from both local and overseas projects.

15.2 Comparison with Preceding Quarter

The Group’s revenue for the current financial quarter ended 30th September 2008 of RM63 million decreased by approximately 12.5% as compared to the revenue of RM72 million for the preceding quarter ended 30th June 2008. This decrease was mainly attributable to the lower delivery of Malaysia e-Passport Substrates.

Whilst the current quarter recorded lower revenue, profit before tax increased to RM6.8 million from RM1.69 million recorded in the preceding financial quarter ended 30th June 2008. This increase was mainly attributable to higher margin for overseas projects and local project sales.

16. Prospects

For the financial year ending 2008, the Group’s expected revenue will be contributed by the core business of national security solutions. Local revenue will be sustained by the sale of passport inlays, MyKad as well as project sales. Overseas sales will be contributed by higher sales of passports to Nigeria and Senegal.

Based on the previous nine (9) months results, the Group expects the performance for the financial year ending 2008 to be satisfactory.

17. Variance on actual results from forecast profit and shortfall in profit guarantee

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

18. Unquoted Securities

There were no purchases or disposals of unquoted securities 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. Other Investments

Other investments represent deposits paid in respect of:

	30th Sept 2008
	RM'000
Investment in XID Technologies Pte Ltd	2,378
Golf Club Membership	406
(Less) Provision for diminution in value	<u>(2,378)</u>
	<u>406</u>

XID Technologies Pte Ltd is an unquoted Singapore company.

21. Status of Corporate Proposals

Save as disclosed below, there were no corporate proposals announced but not completed as at 13th November 2008, being the latest practicable date which is not earlier than seven (7) days from the date of issue of this quarterly report:-

(a) Proposed Private Placement of up to 155,431,281 new ordinary shares of RM0.15 each in ICB (“Proposed Private Placement”)

On 16th May 2008, the Board had announced that that the application to the Securities Commission and Foreign Investment Committee on the Proposed Private Placement of up to 155,431,281 new ordinary shares of RM0.15 each in representing up to ten percent (10%) of the issued and paid-up share capital of the company to investors to be identified has been approved.

On 30th October 2008, Securities Commission had vided its letter to approve the extension of time up to 15th May 2009 for the company to implement the Proposed Private Placement. As at the 13th November 2008, the Proposed Private Placement is pending implementation.

(b) Proposed disposal and leaseback of two plots of leasehold land located within Technology Park Malaysia, Kuala Lumpur and a four (4) and a half storey office and manufacturing building to Mapletree Industrial Fund Ltd (“Mapletree”) (“Proposed Disposal and Leaseback”)

IRIS Technologies (M) Sdn Bhd (“IRIS Tech”), a wholly-owned subsidiary of ICB, had on 11th July 2007 accepted a Conditional Letter of Offer issued by Mapletree dated 9th July 2007 for the proposed disposal and leaseback of two plots of leasehold land and a four (4) and a half storey office and manufacturing building bearing the postal address Lot 8 & 9, IRIS Smart Technology Complex, Technology Park Malaysia, Bukit Jalil, 57000 Kuala Lumpur with an estimated land area of approximately 188,179 sq ft to Mapletree for a consideration of RM91.5 million.

Both IRIS Tech and Mapletree Industrial Fund Ltd have mutually agreed to extend the negotiation period on the terms of the definitive Sale and Purchase Agreement up to 4th December 2008.

22. Group Borrowings and Debt Securities

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

	Short Term RM’000	Long Term RM’000	Total RM’000
Secured	79,309	104,886	184,195
Unsecured	-	-	-
Total	79,309	104,886	184,195

23. Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risk as at the date of this report.

24. Material Litigation

Save for the outstanding material litigations as disclosed below, there are no other material litigations involving the Group:

- (a) On 29th November 2006, ICB had filed a lawsuit against United States (“US”) Government in the U.S Court of Federal Claims in Washington D.C. The claim based on the ICB US Patent No. 6,041,412 which relates to others, a Basic Access Control (“BAC”) and Extended Access Control (“EAC”) e-passport reader. IRIS is claiming for reasonable compensation, in this case, royalties, from the US Government in respect of readers in use by the US Government, which were in turn purchased from Rochford Thompson of Newbury, England and supplied to the US Government by Rochford’s agent, Government Micro Resources, Inc of Virginia (now known as Fulcrum IT Services Company).

The US Government has brought Fulcrum IT Services Company and 3M Rochford Thompson Ltd. (3M has acquired Rochford Thompson on 31st July

2007) into the litigation alleging that ICB should be reimbursed by the party, should they be found to be liable to pay royalties to ICB. Currently, the hearing of case is still on-going.

- (b) On 29th November 2006, ICB had filed a lawsuit against Japan Air Lines (“JAL”) in the U.S. District Court, Eastern District of New York. The claim is in relation to the ICB US Patent No. 6,111,506, which claims among others, a method of manufacturing an electronic passport (“the ICB US patented process”). ICB’s claim is based on allegation that JAL uses electronic passports that have been manufactured overseas by entities that practice the steps of the ICB US patented process, when checking in passengers at JAL’s US passenger check-in facilities.

JAL has filed a motion to dismiss the claim. ICB’s solicitors, Messrs Moses & Singer LLP, have opposed the motion to dismiss. The briefs on the motion had been filed in June 2007 and the matter is now pending a written decision and opinion by District Judge.

In both (a) and (b) mentioned above, ICB is seeking monetary damages, the quantum of which has not been specified to date.

- (c) A Writ of Summons No. MT3- 22-191-2007 and Statement of Claim dated 13th April 2007 was filed in the High Court of Malaya at Penang by Sigma Range Sdn Bhd (“SRSB”) against ICB. SRSB is seeking damages for loss of profits in the sum of RM17,466,840.00 on sale together with general damages, interests, costs and further and/or other relief for the alleged breach of an agreement for the sale and purchase of the 5,000 units of ICB’s Smart Team product lines comprising 4,600 units of Mobile SmartTerm ST4e and 400 units of Desktop SmartTerm TC6000.

ICB has filed its Statement of Defence on 13th June 2007. ICB has received a letter dated 22nd April 2008 from the Penang High Court informing that the matter has been transferred to the Kuala Lumpur High Court and the new suit number D1-22-676-2008 has been given by the High Court of Kuala Lumpur on 13th May 2008.

The Court had fixed the hearing date on 19th December 2008 in relation to the application for the Court to grant an order and direct Sigma Range Sdn Bhd to deposit RM300,000 to the Court in order to defray the legal expenses.

25. Dividend

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

26. Earnings Per Share

	Individual quarter ended	
	30th Sept 2008	30th Sept 2007
(a) Basic earnings per share		
Profit attributable to equity holders of the Company for the period (RM'000)	5,780	5,964
Weighted average number of ordinary shares ('000)	1,369,237	1,220,652
Basic earnings per share (Sen)	0.42	0.49
(b) Diluted earnings per share		
Profit attributable to equity holders of the Company for the period (RM'000)	5,780	5,964
Adjustment for after tax effects of interest on ICPS (RM'000)	-	42
Adjusted net profit for the period (RM'000)	5,780	6,006
Weighted average number of ordinary shares ('000)	1,369,237	1,220,652
Adjustment for assumed conversion of ICPS ('000)	3,119	37,629
Adjustment for assumed exercise of Warrants ('000)	1,984	23,179
Adjustment for assumed exercise of ESOS ('000)	-	12,550
Weighted average number of ordinary shares for the purpose of diluted earnings per share ('000)	1,374,340	1,294,010
Diluted earnings per share (Sen)	0.42	0.46

27. Projects On Hand

The projects on hand of the Group as at 13th November 2008 are as follows:-

Project	Client	Description	Status
MyKad	GMPC Corporation Sdn Bhd / Jabatan Pendaftaran Negara (“JPN”)	Supply of national ID Card to JPN	Supplied 1,275,935 pieces of MyKad Touch N’ Go up to 3 rd quarter 2008
Malaysia Electronic Passport (“MEP”) Substrates	Percetakan Keselamatan Nasional (“PKN”) / Jabatan Imigresen Malaysia (“JIM”)	Supply of e-passport substrates to PKN	Supplied 690,234 pieces of e-passport substrates up to 3 rd quarter 2008
JPN Maintenance Contract	JPN	Provide maintenance services	On-going
JIM Maintenance Contract	JIM	Provide maintenance services	On-going
Nigeria Project	Iris Smart Technologies Limited (“ISTL”) / Nigerian Government	Supply of e-passport inlays to the Federal Republic of Nigeria	Supplied 470,000 pieces of e-passport books with embedded inlay up to 3 rd quarter 2008
Thai Passport Inlay	On Loyal Technology Ltd	Supply of e-passport inlays to Thailand	Supplied 575,000 pieces of e-passport inlays up to 3 rd quarter 2008
Somalia Project	Just Solutions Limited	To supply and implement a complement e-passport and e-ID System for the Republic of Somalia	Slow progress for the time being due to civil unrest in the country
Indonesia Project	PT. (Persero) Sucofindo	To design, supply, implement and maintain the Civil Service Electronic Identification Card System in Indonesia	Initial ground work commenced. Further work is dependent on financing package from Indonesia
Bahamas Project	Indusa LLC	Supply of Passport, Visa & Work Permit Issuance System and Border Control Management System	Completed 80% of project milestone

Project	Client	Description	Status
Cambodia Project	Southeastasianet Technologies Sdn Bhd	Supply of ICAO E-Passport stickers, E-Passport Systems & Autogates	Supplied 53,000 pieces of passport stickers up to 3 rd quarter 2008
Maldives Project	Austria State Printing House	Supply of ICAO E-Passport inlays & E-Passport Systems	Supplied 20,000 pieces of passport inlays for year 2008 order
Turkey e-passport issuing systems	Government of Turkey	To supply e-passport enrolment & issuance systems, public key infrastructure and e-passport personalization equipment	Completed delivery of hardware and off-the-shelf software. Customisation of application software is being implemented
Solid Waste Disposal and Electricity Generation Plant	PJT Technology Co., Ltd.	Design, Construction and Maintenance of a solid waste incinerator and electricity generation plant in Thailand	Incinerator, boiler, turbine and generator have been installed and are being tested. The commissioning will be completed by end of the year.
Smart Packing Solution	Smart Packing Solution SPS ("SPS")	Cross-license and business agreement between IRIS and SPS	Final agreement is being made in respect of Quality Control and resultant yield before actual supply of IC modules.
MOU for strategic collaboration with IBM	International Business Machines Corporation ("IBM")	To Produce laser engraved polycarbonate cards for the development of an upgraded Canadian Driving License.	Finalising the art work of the cards and initial supply will commence in December 2008.
Senegal e-passport project	The Government of The Republic of Senegal	Construct the operating office of e-Passport system and supply of 10 million pieces of e-passport inlays over 20 years	Supplied 323,000 pieces of e-passport books with embedded inlay until 3 rd quarter 2008