

IRIS CORPORATION BERHAD

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

Interim Financial Report For the fourth quarter ended 31st December 2008

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Condensed Consolidated Income StatementFor the fourth quarter ended 31st December 2008

	Individual		Cumulative	
	3 months ended		12 months ended	
	31 st Dec	31 st Dec	31 st Dec	31 st Dec
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Revenue	91,020	62,771	284,964	219,530
Cost of sales	(66,326)	(40,794)	(207,261)	(153,679)
Depreciation and amortization	(3,600)	(707)	(13,879)	(8,870)
Gross profit	21,094	21,270	63,824	56,981
Other income	(684)	2,085	937	4,356
Operating expenses	(10,957)	(13,304)	(30,690)	(35,298)
Depreciation and amortization	(798)	(482)	(3,174)	(2,830)
Interest expenses	(3,519)	(3,928)	(15,276)	(15,953)
Share of profit / (loss) of associated companies	(302)	46	61	(46)
	4,834	5,687	15,682	7,210
Exceptional item	(143)	(1,694)	(143)	(1,694)
Profit before taxation	4,691	3,993	15,539	5,516
Tax expense	(3,188)	3,031	(5,206)	2,012
Profit after taxation	1,503	7,024	10,333	7,528
Attributable to:				
Equity holders of the Company	1,548	6,553	10,378	7,533
Minority Interest	(45)	471	(45)	(5)
	1,503	7,024	10,333	7,528
Earnings per ordinary share attributable to equity holders of the Company:				
Basic (Sen)	0.11	0.52	0.76	0.60
Diluted (Sen)	0.11	0.48	0.76	0.55

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 31st December 2008

	31st December 2008	31st December 2007
	RM'000	RM'000
Non current assets		
Concession assets	21,702	15,798
Property, plant and equipment	95,531	104,422
Prepaid land lease payments	5,960	6,268
Research & development	7,355	10,278
Intangible assets	14,298	15,678
Goodwill on consolidation	133,982	134,126
Investment in associated company	6,282	6,221
Other investments	406	406
	<hr/> 285,516	<hr/> 293,198
Current assets		
Contract work in progress	11,784	14,636
Inventories	66,063	75,714
Trade receivables	99,088	86,408
Other receivables & deposits	24,557	29,615
Cash and cash equivalents	55,334	27,948
	<hr/> 256,826	<hr/> 234,321
Current liabilities		
Trade payables	36,419	28,631
Other payables	31,755	26,747
Hire purchase & lease payables	5,458	6,215
Short term borrowings	34,895	32,987
Bonds	36,125	25,000
Provision for taxation	2,600	-
	<hr/> 147,252	<hr/> 119,580
Net current assets	109,574	114,741
	<hr/> 395,090	<hr/> 407,939

Condensed Consolidated Balance SheetAs at 31st December 2008

(continued)

	31st December 2008	31st December 2007
	RM'000	RM'000
Financed by:		
Capital and reserves		
Share capital	216,416	216,416
Reserves	61,200	50,799
Total equity attributable to shareholders of the company	277,616	267,215
Minority Interest	-	-
Total equity	277,616	267,215
Non current liabilities		
Hire purchase & lease payables	2,310	7,630
Other payables	2,986	2,738
Bonds	88,875	125,000
Long Term Borrowings	15,341	-
Deferred taxation	7,962	5,356
	395,090	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 fourth quarter ended 31st December 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 for the year	-	-	-	-	-	7,533	(5)	7,528	
New Business Combination	-	-	-	-	-	-	5	5	
Issue of shares	19,529	-	8,399	-	-	-	-	27,928	
Effect of subsidiary written off	-	-	-	2,275	-	-	-	2,275	
Reclassified from building cost	-	-	-	-	(626)	-	-	(626)	
Overprovided deferred taxation	-	-	-	-	175	-	-	175	
Realisation on usage of property	-	-	-	-	(289)	289	-	-	
Conversion of ICPS into ordinary shares	11,998	(11,998)	-	-	-	-	-	-	
At 31st December 2007	205,296	11,120	35,052	-	13,516	2,232	-	267,215	
At 1 st January 2008	205,296	11,119	35,052	-	13,516	2,232	-	267,215	
Profit for the year	-	-	-	-	-	10,378	(45)	10,333	
Issue of shares	-	-	-	-	-	-	-	-	
Effect of subsidiary written off	-	-	-	-	-	-	-	-	
Currency translation	-	-	-	23	-	-	-	23	
Conversion of ICPS into ordinary shares	5,382	(5,382)	-	-	-	-	-	-	
Acquisition of subsidiary	-	-	-	-	-	-	-	-	
At 31st December 2008	210,678	5,737	35,052	23	13,516	12,610	45	277,616	

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 fourth quarter ended 31st December 2008

	Cumulative 31st Dec 2008 RM'000	Cumulative 31st Dec 2007 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	15,539	5,515
Adjustments for:		
Non-Cash Items	18,343	21,272
Interest expenses	15,276	15,399
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	49,158	42,186
Changes in working capital		
Net changes in current assets	4,532	11,238
Net changes in current liabilities	14,524	(17,921)
NET CASH GENERATED FROM OPERATIONS	68,214	35,503
Interest paid	(14,883)	(13,781)
Tax paid	(1,479)	(75)
NET CASH (USED IN) /GENERATED FROM OPERATING ACTIVITIES	51,852	21,647
CASH FLOW FROM INVESTING ACTIVITIES		
Development expenditure	(739)	(1,179)
Proceeds from disposal of fixed assets	605	80
Purchase of fixed assets	(4,446)	(10,104)
Acquisition of concession assets	(6,080)	(15,798)
Purchase of investment	-	(515)
Investment in associated company	-	(813)
NET CASH USED IN INVESTING ACTIVITIES	(10,660)	(28,329)

Condensed Consolidated Cash Flow Statement

For the fourth quarter ended 31st December 2008
(continued)

	Cumulative 31st Dec 2008 RM'000	Cumulative 31st Dec 2007 RM'000
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	-	27,927
Proceeds of share through minority interest	-	5
Repayment of hire purchase and lease payables	(6,077)	(5,797)
Repayment of bond	(25,000)	(15,000)
Short term borrowings	1,907	(5,000)
Long term borrowings	15,341	-
NET CASH (USED IN) / GENERATED FROM FINANCING ACTIVITIES	(13,829)	2,135
Net changes in cash and cash equivalents	27,363	(4,547)
Effects of exchange rate changes	23	-
Cash and cash equivalents at beginning of the year	27,948	32,496
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	55,334	27,948

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 fourth quarter ended 31st December 2008

1. Basis of preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 31st December 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 fourth quarter.

4. Segment information

The Group's segment information for the interim financial report to 31st December 2008 were as follows:-

Source	Revenue RM'000	Profit/(Loss) before tax RM'000
Software solutions and electronic hardware	132,668	18,041
Manufacturing of substrates, contact and contactless smart cards	150,612	31,513
Farming solutions	1,590	(399)
Environmental solutions	244	(2,142)
	<u>285,114</u>	<u>47,013</u>
Other income		937
Interest expenses		(15,276)
Depreciation and amortization		(17,053)
Share of profit of associates		61
Exceptional item		(143)
Profit before tax		<u>15,539</u>

5. Capital Commitments

Authorised and contracted for:-

	RM'000
Construction of greenhouse	3,006
Purchase of property, plant & equipment	288
	<u>3,294</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 31st December 2008, a total of 35,878,752 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 fourth 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

From 1st January 2009 up to 10th February 2009, the Company had issued 10,000 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 fourth 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

	31st Dec 2008 RM'000	31st Dec 2007 RM'000
Deferred tax liabilities – current year	2,606	5,200
Deferred tax liabilities – prior year	-	(6,886)
Realisation of deferred taxation	-	(112)
Current year tax	2,600	(214)
	<u>5,206</u>	<u>(2,012)</u>

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

14. Related Party Transactions

	31st Dec 2008 RM'000
1. MCS Microsystems Sdn Bhd	
- Purchases	1,414
- Rental received	78
2. Versatile Paper Boxes Sdn Bhd	
- Purchases	17

Additional information required by the MMLR

15.1 Review of Performance

For the twelve (12) months ended 31st December 2008, the Group recorded a revenue of RM285.0 million representing an increase of approximately 29.8% as compared to the revenue of RM219.5 million for the previous comparable financial year ended (“FYE”) 31st December 2007. In line with the increase in revenue, the Group recorded an increase in the profit before taxation of RM15.5 million for the FYE 31st December 2008 as compared to a profit before taxation of RM5.5 million in the previous comparable FYE 31st December 2007.

For the current financial quarter ended 31st December 2008, the Group recorded a revenue of RM91.0 million and profit before taxation of RM4.7 million from RM62.8 million and RM4.0 million, which is 44.9% and 17.5% higher respectively when compared to the previous comparable financial quarter ended 31st December 2007. The increase was contributed by better performances of the trusted identity business segment from both local and overseas projects.

15.2 Comparison with Preceding Quarter

The Group’s revenue for the current financial quarter ended 31st December 2008 of RM91.0 million increased by approximately 44.4% as compared to the revenue of RM63.0 million for the preceding quarter ended 30th September 2008. This increase was mainly attributable to the higher delivery of Nigeria e-Passport and Malaysia e-Passport Substrates.

Whilst the current quarter recorded higher revenue, profit before taxation decreased to RM4.7 million from RM6.8 million recorded in the preceding financial quarter ended 30th September 2008. This decrease was mainly attributable to lower margin for the Turkey e-passport issuing system project.

16. Prospects

For the financial year 2009, the Group expects equal revenue contribution from both its local and overseas markets. Local revenue will comprise of the sale of Malaysia passport substrates, MyKad as well as project sales. Overseas revenue will comprise sales of trusted identity solutions to Nigeria, Senegal, Bahamas, Egypt, Turkey, Cambodia and Maldives.

Barring unforeseen circumstances, the Group expects the performance of financial year 2009 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:

	31st Dec 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><u>406</u></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 10th February 2009, 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 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 10th February 2009, 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 16th March 2009.

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	71,020	104,216	175,236
Unsecured	-	-	-
Total	71,020	104,216	175,236

23. Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risk as at 10th February 2009 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 outstanding material litigations as disclosed below, there are no other material litigations involving the Group as at 10th February 2009:

- (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.

On 11th December 2008, ICB received the written notification from Messrs Moses and Singer LLP that the case has been settled amicably on 24th November 2008.

- (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 this case, 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.

On 14th January 2009, SRSB has through its solicitors filed the Notice of Discontinuance to withdraw the SRSB's action against ICB with no order as to costs and without any liberty to file afresh.

25. Dividend

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

26. Earnings Per Share

	Individual quarter ended	
	31 st Dec 2008	31 st Dec 2007
(a) Basic earnings per share		
Profit attributable to equity holders of the Company for the period (RM'000)	1,548	6,553
Weighted average number of ordinary shares ('000)	1,374,563	1,220,652
Basic earnings per share (Sen)	0.11	0.52
(b) Diluted earnings per share		
Profit attributable to equity holders of the Company for the period (RM'000)	1,548	6,553
Adjustment for after tax effects of interest on ICPS (RM'000)	-	42
Adjusted net profit for the period (RM'000)	1,548	6,595
Weighted average number of ordinary shares ('000)	1,374,563	1,220,652
Adjustment for assumed conversion of ICPS ('000)	-	37,629
Adjustment for assumed exercise of Warrants ('000)	-	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)	1,374,563	1,294,010
Diluted earnings per share (Sen)	0.11	0.48