

# IRIS CORPORATION BERHAD

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

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## Interim Financial Report for the second quarter ended 30<sup>th</sup> June 2010

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**Condensed Consolidated Statement of Comprehensive Income**For the second quarter ended 30<sup>th</sup> June 2010

|   | Individual<br>3 months ended            |   | Cumulative<br>6 months ended            |   |
|---|---|---|---|---|
|   | 30 <sup>th</sup> June<br>2010<br>RM'000 | 30 <sup>th</sup> June<br>2009<br>RM'000 | 30 <sup>th</sup> June<br>2010<br>RM'000 | 30 <sup>th</sup> June<br>2009<br>RM'000 |
| <b>Revenue</b>  | 95,861                                  | 66,376                                  | 189,800                                 | 126,537                                 |
| Cost of sales   | (64,939)                                | (44,752)                                | (131,224)                               | (83,246)                                |
| Depreciation and amortisation                                   | (2,683)                                 | (2,878)                                 | (5,435)                                 | (5,768)                                 |
| <b>Gross profit</b>   | 28,239                                  | 18,746                                  | 53,141                                  | 37,523                                  |
| Operating expenses  | (7,532)                                 | (6,103)                                 | (16,978)                                | (15,280)                                |
| Other operating income/(expenses)                               | (319)                                   | (735)                                   | (482)                                   | (917)                                   |
| Depreciation and amortisation                                   | (937)                                   | (788)                                   | (1,678)                                 | (1,565)                                 |
| Finance costs   | (5,195)                                 | (3,451)                                 | (8,548)                                 | (7,106)                                 |
| Share of profit / (loss) of associates                          | 145                                     | (495)                                   | 202                                     | (484)                                   |
| <b>Profit before taxation</b>                                   | 14,401                                  | 7,174                                   | 25,657                                  | 12,171                                  |
| Tax expense   | (5,929)                                 | (2,522)                                 | (11,377)                                | (4,520)                                 |
| <b>Profit for the period</b>                                    | 8,472                                   | 4,652                                   | 14,280                                  | 7,651                                   |
| <b>Other comprehensive income</b>                               |   |   |   |   |
| Foreign currency translation differences for foreign operations | (8)                                     | (4)                                     | 4                                       | (4)                                     |
| <b>Other comprehensive income for the period</b>                | (8)                                     | (4)                                     | 4                                       | (4)                                     |
| <b>Total comprehensive income for the period</b>                | 8,464                                   | 4,648                                   | 14,284                                  | 7,647                                   |
| <b>Profit attributable to:</b>                                  |   |   |   |   |
| Owners of the Company   | 8,458                                   | 4,652                                   | 14,263                                  | 7,651                                   |
| Minority interest   | 14                                      | -                                       | 17                                      | -                                       |
| <b>Profit for the period</b>                                    | 8,472                                   | 4,652                                   | 14,280                                  | 7,651                                   |

**Condensed Consolidated Statement of Comprehensive Income**For the second quarter ended 30<sup>th</sup> June 2010

(continued)

|  | Individual            |                       | Cumulative            |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | 3 months ended        |                       | 6 months ended        |                       |
|  | 30 <sup>th</sup> June | 30 <sup>th</sup> June | 30 <sup>th</sup> June | 30 <sup>th</sup> June |
|  | 2010                  | 2009                  | 2010                  | 2009                  |
|  | RM'000                | RM'000                | RM'000                | RM'000                |
| <b>Total comprehensive income attributable to:</b>               |                       |                       |                       |                       |
| Owners of the Company  | 8,450                 | 4,648                 | 14,267                | 7,647                 |
| Minority interest  | 14                    | -                     | 17                    | -                     |
| <b>Total comprehensive income for the period</b>                 | <b>8,464</b>          | <b>4,648</b>          | <b>14,284</b>         | <b>7,647</b>          |
| <b>Earnings per share attributable to owners of the Company:</b> |                       |                       |                       |                       |
| Basic (Sen)  | 0.60                  | 0.33                  | 1.01                  | 0.54                  |
| Diluted (Sen)  | 0.60                  | 0.33                  | 1.01                  | 0.54                  |

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements of the Group for the year ended 31<sup>st</sup> December 2009 and the accompanying explanatory notes attached to the interim financial report.

**Condensed Consolidated Statement of Financial Position**As at 30<sup>th</sup> June 2010

|   | 30 <sup>th</sup> June 2010<br>RM'000 | 31 <sup>st</sup> December 2009<br>RM'000 |
|---|--------------------------------------|--|
| <b>ASSETS</b>   |                                      |  |
| <b>NON-CURRENT ASSETS</b>                                 |                                      |  |
| Concession assets   | 8,160                                | 7,753                                    |
| Property, plant and equipment                             | 109,533                              | 112,813                                  |
| Development Costs   | 2,732                                | 3,417                                    |
| Intellectual properties                                   | 11,489                               | 12,179                                   |
| Goodwill on consolidation                                 | 133,982                              | 133,982                                  |
| Investment in associates                                  | 42,364                               | 4,686                                    |
| Available-for-sale financial assets                       | 406                                  | 406                                      |
|   | 308,666                              | 275,236                                  |
| <b>CURRENT ASSETS</b>                                     |                                      |  |
| Inventories   | 75,972                               | 64,174                                   |
| Trade receivables   | 133,237                              | 115,729                                  |
| Amount owing by contract customers                        | 9,322                                | 21                                       |
| Other receivables, deposits & prepayments                 | 17,792                               | 20,419                                   |
| Amount owing by associates                                | 40,684                               | 44,597                                   |
| Amount owing by related parties                           | 335                                  | 194                                      |
| Tax refundable  | -                                    | 1,129                                    |
| Deposits with licensed banks                              | 10,637                               | 17,044                                   |
| Cash and cash equivalents                                 | 22,100                               | 11,443                                   |
|   | 310,079                              | 274,750                                  |
|   | 618,745                              | 549,986                                  |
| <b>TOTAL ASSETS</b>                                       |                                      |  |
| <b>EQUITY AND LIABILITIES</b>                             |                                      |  |
| <b>EQUITY</b>   |                                      |  |
| Share capital   | 216,416                              | 216,416                                  |
| Share premium   | 35,052                               | 35,052                                   |
| Warrants reserve  | 10,616                               | -  |
| Foreign exchange translation reserve                      | (23)                                 | (27)                                     |
| Revaluation reserve                                       | 27,971                               | 27,971                                   |
| Retained earnings   | 43,224                               | 28,961                                   |
| <b>Total equity attributable to owners of the Company</b> | 333,256                              | 308,373                                  |
| Minority Interest   | 17                                   | -  |
| <b>TOTAL EQUITY</b>                                       | 333,273                              | 308,373                                  |

**Condensed Consolidated Statement of Financial Position**As at 30<sup>th</sup> June 2010

(continued)

|   | 30 <sup>th</sup> June 2010<br>RM'000 | 31 <sup>st</sup> December 2009<br>RM'000 |
|---|--------------------------------------|--|
| <b>NON-CURRENT LIABILITIES</b>  |                                      |  |
| Hire purchase & lease payables  | 1,683                                | 1,031                                    |
| Other payables  | -                                    | 2,636                                    |
| Term loan   | 23,328                               | 27,428                                   |
| Deferred tax liabilities  | 13,446                               | 13,446                                   |
|   | 38,457                               | 44,541                                   |
| <b>CURRENT LIABILITIES</b>  |                                      |  |
| Trade payables  | 19,728                               | 38,657                                   |
| Amount owing to contract customers  | 30,320                               | 13,828                                   |
| Other payables and accruals   | 26,706                               | 29,806                                   |
| Amount owing to an associate  | 29,601                               | -  |
| Amount owing to related parties   | 244                                  | 94                                       |
| Hire purchase & lease payables  | 1,147                                | 1,746                                    |
| Bonds   | 60,000                               | 68,750                                   |
| Short-term borrowings   | 69,854                               | 38,561                                   |
| Provision for taxation  | 9,415                                | 5,630                                    |
|   | 247,015                              | 197,072                                  |
| <b>TOTAL LIABILITIES</b>  | 285,472                              | 241,613                                  |
| <b>TOTAL EQUITY AND LIABILITIES</b>   | 618,745                              | 549,986                                  |
| <b>Net assets per ordinary share<br/>attributable to owners of the Company<br/>(RM)</b> | 0.24                                 | 0.22                                     |

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements of the Group for the year ended 31<sup>st</sup> December 2009 and the accompanying explanatory notes attached to the interim financial report.

**Condensed Consolidated Statement of Changes in Equity**

For the second quarter ended 30<sup>th</sup> June 2010

|   | ← Attributable to the owners of the Company → |                 |                            |                               |  |                                  |                                |                 |                                |           |                           |
|---|---|-----------------|----------------------------|-------------------------------|--|----------------------------------|--------------------------------|-----------------|--------------------------------|-----------|---------------------------|
|   | Ordinary<br>Share<br>Capital<br>RM'000        | ICPS*<br>RM'000 | Share<br>Premium<br>RM'000 | Warrants<br>Reserve<br>RM'000 | ← Non-Distributable →                                      |                                  |                                | Distributable   |                                |           | Total<br>Equity<br>RM'000 |
| Foreign<br>Exchange<br>Translation<br>Reserve<br>RM'000 |   |                 |                            |                               | Reserve<br>Relating to<br>Asset Held<br>for sale<br>RM'000 | Revaluation<br>Reserve<br>RM'000 | Retained<br>Earnings<br>RM'000 | Total<br>RM'000 | Minority<br>Interest<br>RM'000 |           |                           |
| At 1 <sup>st</sup> January 2009                         | 210,678                                       | 5,738           | 35,052                     | -                             | 19   | 13,724                           | -                              | 13,075          | 278,286                        | -         | 278,286                   |
| Conversion of ICPS into<br>ordinary shares              | 1,511   | (1,511)         | -                          | -                             | -  | -                                | -                              | -               | -                              | -         | -                         |
| Total comprehensive income                              | -   | -               | -                          | -                             | (4)  | -                                | -                              | 7,651           | 7,647                          | -         | 7,647                     |
| <b>At 30<sup>th</sup> June 2009</b>                     | <b>212,189</b>                                | <b>4,227</b>    | <b>35,052</b>              | <b>-</b>                      | <b>15</b>  | <b>13,724</b>                    | <b>-</b>                       | <b>20,726</b>   | <b>285,933</b>                 | <b>-</b>  | <b>285,933</b>            |
| At 1 <sup>st</sup> January 2010                         | 212,277                                       | 4,139           | 35,052                     | -                             | (27)   | -                                | 27,971                         | 28,961          | 308,373                        | -         | 308,373                   |
| Conversion of ICPS into<br>ordinary shares              | 88  | (88)            | -                          | -                             | -  | -                                | -                              | -               | -                              | -         | -                         |
| Proceeds from issuance of<br>Warrants                   | -   | -               | -                          | 10,616                        | -  | -                                | -                              | -               | 10,616                         | -         | 10,616                    |
| Total comprehensive income                              | -   | -               | -                          | -                             | 4  | -                                | -                              | 14,263          | 14,267                         | 17        | 14,284                    |
| <b>At 30<sup>th</sup> June 2010</b>                     | <b>212,365</b>                                | <b>4,051</b>    | <b>35,052</b>              | <b>10,616</b>                 | <b>(23)</b>  | <b>-</b>                         | <b>27,971</b>                  | <b>43,224</b>   | <b>333,256</b>                 | <b>17</b> | <b>333,273</b>            |

\* ICPS define as Non-Cumulative Irredeemable Convertible Preference Shares

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 31<sup>st</sup> December 2009 and the accompanying explanatory notes attached to the interim financial report.

**Condensed Consolidated Cash Flow Statement**For the second quarter ended 30<sup>th</sup> June 2010

|  | <b>Cumulative<br/>30<sup>th</sup> June<br/>2010<br/>RM'000</b> | <b>Cumulative<br/>30<sup>th</sup> June<br/>2009<br/>RM'000</b> |
|--|--|--|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                 |  |  |
| Profit before taxation                                     | 25,657   | 12,171   |
| Adjustments for:   |  |  |
| Non-Cash Items   | 7,295  | 8,953  |
| Interest income  | (39)   | (77)   |
| Finance costs  | 8,548  | 7,106  |
| <b>OPERATING PROFIT BEFORE WORKING<br/>CAPITAL CHANGES</b> | <b>41,461</b>  | <b>28,153</b>  |
| Changes in working capital                                 |  |  |
| Net changes in current assets                              | (32,482)   | 10,607   |
| Net changes in current liabilities                         | 21,579   | (19,725)   |
| <b>NET CASH GENERATED FROM OPERATIONS</b>                  | <b>30,558</b>  | <b>19,035</b>  |
| Interest received  | 39   | 77   |
| Interest paid  | (8,548)  | (7,274)  |
| Tax paid   | (6,463)  | (1,287)  |
| <b>NET CASH FROM OPERATING<br/>ACTIVITIES</b>              | <b>15,586</b>  | <b>10,551</b>  |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>                 |  |  |
| Acquisition of investment in associates                    | (37,476)   | -  |
| Purchase of property, plant and equipment                  | (956)  | (800)  |
| Purchase of concession assets                              | (514)  | (481)  |
| Grants   | -  | 1  |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>               | <b>(38,946)</b>  | <b>(1,280)</b>   |

**Condensed Consolidated Cash Flow Statement**

For the second quarter ended 30<sup>th</sup> June 2010  
(continued)

|   | <b>Cumulative<br/>30<sup>th</sup> June<br/>2010<br/>RM'000</b> | <b>Cumulative<br/>30<sup>th</sup> June<br/>2009<br/>RM'000</b> |
|---|--|--|
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                |  |  |
| Proceeds from issuance of Warrants                        | 10,616   | -  |
| Repayment of hire purchase and lease payables             | (1,449)  | (3,146)  |
| Repayment of bonds  | (8,750)  | (35,250)   |
| Net proceeds from short term borrowings                   | 17,271   | 7,625  |
| Repayment of term loans                                   | (4,100)  | (2,100)  |
| <b>NET CASH FROM /(USED IN) FINANCING<br/>ACTIVITIES</b>  | <b>13,588</b>  | <b>(32,871)</b>  |
| Net changes in cash and cash equivalents                  | (9,772)  | (23,600)   |
| Effects of exchange rate changes                          | -  | 1  |
| Cash and cash equivalents at beginning of the year        | 28,487   | 55,334   |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE<br/>PERIOD</b> | <b>18,715</b>  | <b>31,735</b>  |

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

|  |               |               |
|--|---------------|---------------|
| Deposits with licensed banks, cash and bank balances | 32,737        | 31,735        |
| Bank overdraft                                       | (14,022)      | -             |
|  | <b>18,715</b> | <b>31,735</b> |

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the audited financial statements of the Group for the year ended 31<sup>st</sup> December 2009 and the accompanying explanatory notes attached to the interim financial report.



## Notes to the Interim Financial Report

For the second quarter ended 30<sup>th</sup> June 2010

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### 1. Basis of preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 30<sup>th</sup> June 2010 and has been prepared in compliance with FRS 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").

The Group has applied the following accounting standards, amendments and interpretations that have been issued by the MASB from the annual period beginning 1 January 2010 except for IC Interpretation 13 and IC Interpretation 14 which are not applicable to the Group:

#### *FRSs, Interpretation and amendments effective for annual periods beginning on or after 1 July 2009*

FRS 8, Operating Segments

#### *FRSs, Interpretation and amendments effective for annual periods beginning on or after 1 January 2010*

FRS 4, Insurance Contracts

FRS 7, Financial Instruments : Disclosures

FRS 101, Presentation of Financial Statements (revised)

FRS 123, Borrowing Costs (revised)

FRS 139, Financial Instruments : Recognition and Measurement

Amendments to FRS 1, First-time Adoption of Financial Reporting Standards

Amendments to FRS 2, Share-based Payment : Vesting Conditions and Cancellations

Amendments to FRS 7, Financial Instruments : Disclosures

Amendments to FRS 101, Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation

Amendments to FRS 127, Consolidation and Separate Financial Statements : Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

Amendments to FRS 132, Financial Instruments : Presentation

- Puttable Financial Instruments and Obligations Arising on Liquidation

- Separation of Compound Instruments

Amendments to FRS 139, Financial Instruments : Recognition and Measurement

- Reclassification of Financial Assets

- Collective Assessment of Impairment for Banking Institutions

Improvements to FRSs (2009)

IC Interpretations 9, Reassessment of Embedded Derivatives

IC Interpretations 10, Interim Financial Reporting and Impairment

IC Interpretations 11, FRS 2, - Group and Treasury Share Transactions

IC Interpretations 13, Customer Loyalty Programmes

**1. Basis of preparation (Cont'd)**

***FRSs, Interpretation and amendments effective for annual periods beginning on or after 1 January 2010 (Cont'd)***

IC Interpretations 14, FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

The Group plans to apply the following accounting standards, amendments and interpretations from the annual period beginning 1 January 2011 except for IC Interpretation 15, IC Interpretation 16 and IC Interpretation 17 which are not applicable to the Group:

***FRSs, Interpretation and amendments effective for annual periods beginning on or after 1 March 2010***

Amendments to FRS 132, Financial Instruments : Presentation – Classification of Rights Issues

***FRSs, Interpretation and amendments effective for annual periods beginning on or after 1 July 2010***

FRS 1, First-time Adoption of Financial Reporting Standards (revised)

FRS 3, Business Combinations (revised)

FRS 127, Consolidated and Separate Financial Statements (revised)

Amendments to FRS 2, Share-based Payment

Amendments to FRS 5, Non-current Assets Held For Sale and Discontinued Operations

Amendments to FRS 138, Intangible Assets

IC Interpretation 12, Service Concession Agreements

IC Interpretation 15, Agreements for the Construction of Real Estate

IC Interpretation 16, Hedges of a Net Investment in a Foreign Operation

IC Interpretation 17, Distribution of Non-cash Assets to Owners

Amendments to IC Interpretation 9, Reassessment of Embedded Derivatives

***FRSs, Interpretation and amendments effective for annual periods beginning on or after 1 January 2011***

Amendments to FRS 1, First-time Adoption of Financial Reporting Standards – Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters

Amendments to FRS 1, Additional Exemptions for First-time Adopters

Amendments to FRS 2, Group Cash-settled Share-based Payment Transactions

Amendments to FRS 7, Financial Instruments : Disclosures – Improving Disclosures about Financial Instruments

IC Interpretation 4, Determining whether an Arrangement contains a Lease

IC Interpretation 18, Transfers of Assets from Customers

The initial application of the above standards (and its consequential amendments) and interpretations are not expected to have any material financial impacts to the current and prior periods financial statements upon their first adoption.

**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 segment information for the interim financial report to 30<sup>th</sup> June 2010 was as follows:-

|                                | <b>Digital Identity<br/>&amp; Business<br/>Solutions<br/>RM'000</b> | <b>Others<br/>RM'000</b> | <b>Inter-<br/>segment<br/>Elimination<br/>RM'000</b> | <b>Group<br/>RM'000</b> |
|--------------------------------|---|--------------------------|--|-------------------------|
| Revenue                        | 187,497   | 2,303                    | -  | 189,800                 |
| Segment results                | 65,809  | (12,668)                 | -  | 53,141                  |
| Unallocated corporate expenses |   |                          |  | (18,656)                |
| Other operating expenses       |   |                          |  | (482)                   |
| Operating profit               |   |                          |  | 34,003                  |
| Finance costs                  |   |                          |  | (8,548)                 |
|                                |   |                          |  | 25,455                  |
| Share of profit of associates  |   |                          |  | 202                     |
| Profit before taxation         |   |                          |  | 25,657                  |
| Income tax expense             |   |                          |  | (11,377)                |
| Profit after taxation          |   |                          |  | 14,280                  |

**5. Capital Commitments**

|   |   |
|---|---|
|   | As at<br>30 <sup>th</sup> June<br>2010<br><b>RM'000</b> |
| <b>Authorised and contracted for:-</b>    |   |
| Purchase of property, plant and equipment | 1,455   |

**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 1<sup>st</sup> January 2010 to 30<sup>th</sup> June 2010, a total of 588,000 units of ICPS have been converted into ordinary shares of RM0.15 each.

**7. Changes in the composition of the Group**

**(a) Investment in an Associate – PJT Technology Co., Ltd.**

On 5<sup>th</sup> April 2010, the Company acquired 3,234,000 ordinary shares of Thai Baht 100 each in PJT Technology Co., Ltd. (“PJT”), a company incorporated in Thailand, which represents 49% of equity interest in PJT, for a total cash consideration of Thai Baht 360 million (equivalent to RM37.5 million).

**(b) Joint Venture Company between ICB and WRP Asia Pacific Sdn Bhd**

On 2<sup>nd</sup> June 2010, ICB had entered into a joint venture agreement with WRP Asia Pacific Sdn Bhd (“WRP”) to form a new joint venture company (“JVC”) to develop, construct, operate and own a new biomass plant on a designated site owned or to be owned by WRP. The JVC under the name of IRIS WRP Eco Power Sdn Bhd was incorporated on 23<sup>rd</sup> June 2010.

**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 1<sup>st</sup> July 2010 to 19<sup>th</sup> August 2010, the Company had issued 919,800 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 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

### (a) Contingent Liabilities

- (i) On 19<sup>th</sup> March 2010, the Company had extended a company guarantee of Thai Baht 360 million (equivalent to RM36.8 million) in favour of PJT Technology Co., Ltd. ("PJT") for the investment via equity interest in PJT, which was intended to partially finance the new waste incineration plant in Phuket, Thailand ("Project").

The investment amounting to Thai Baht 360 million is payable to PJT via monthly instalments over a period of thirteen (13) months, commencing from April 2010 to April 2011.

The guarantee of Thai Baht 360 million ("Amount") extended by ICB to PJT for the investment is conditional upon the following conditions:-

- (a) that PJT shall ensure that the Amount be remitted into a project account in Thailand, where ICB and PJT are both joint signatories, as partners in the Project;
- (b) that the Amount shall be applied strictly towards the Project; and
- (c) that PJT has received confirmation and approval for a loan to be applied towards the Project from the Government Savings Bank of Thailand.

As at 19<sup>th</sup> August 2010, the total amount paid to PJT was Thai Baht 135 million (equivalent to RM14.1 million).

- (ii) On 14<sup>th</sup> 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 14<sup>th</sup> May 2010 that has been entered into between PJT and the Bank.

### (b) Contingent Assets

On 12<sup>th</sup> 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 30<sup>th</sup> 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 4<sup>th</sup> March 2008, ICB had agreed to an extension of eighteen (18) months by ENVE to fulfill the profit guarantee.

On 30<sup>th</sup> November 2009, ICB had accepted a proposal from ENVE on the change of condition for the profit guarantee. The profit guarantee is deemed to be fulfilled if ICB achieves any one of the following conditions:-

**i) Signing of supply agreement for farming system in Perak**

The identified project in Perak is to supply a complete and consolidated turnkey farming system, comprising greenhouses completed with AutoPots Systems to be installed in an area measuring 100 acres. The project deliverables include the supply of greenhouses, up to 800,000 units of SmartTrays and planting materials. The profit guarantee is deemed to be fulfilled if ICB is able to sign the above project agreement within 12 months from 30<sup>th</sup> November 2009.

**ii) Sales of 600,000 units of AutoPots**

The profit guarantee is also deemed as fulfilled if ICB is able to achieve a cumulative sales volume of 600,000 AutoPots over a period of 5 years, effective from the date of Sales and Purchase Agreement between ICB and ENVE.

On 8<sup>th</sup> June 2010, ICB had entered into an agreement with Koperasi Atlet Malaysia Berhad for the implementation of AutoPots Systems Farming Project in Perak. Therefore, the profit guarantee is deemed as fulfilled.

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

**13. Taxation**

|                                       | <b>Individual</b>           |                             | <b>Cumulative</b>           |                             |
|---------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                       | <b>3 months ended</b>       |                             | <b>6 months ended</b>       |                             |
|                                       | <b>30<sup>th</sup> June</b> | <b>30<sup>th</sup> June</b> | <b>30<sup>th</sup> June</b> | <b>30<sup>th</sup> June</b> |
|                                       | <b>2010</b>                 | <b>2009</b>                 | <b>2010</b>                 | <b>2009</b>                 |
|                                       | <b>RM'000</b>               | <b>RM'000</b>               | <b>RM'000</b>               | <b>RM'000</b>               |
| Income tax for current financial year | 5,929                       | 2,522                       | 11,377                      | 4,520                       |
| Total tax expense                     | 5,929                       | 2,522                       | 11,377                      | 4,520                       |

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 transactions with related parties of the Group for the cumulative 6 months period ended 30<sup>th</sup> June 2010 were as follows:

|  | <b>RM'000</b> |
|--|---------------|
| <b>(a) Associates</b>  |               |
| GMPC Corporation Sdn Bhd   |               |
| - Sales  | 35,311        |
| - Rental received  | 3             |
| <br>   |               |
| <b>(b) A company in which a director of the Company has financial interest</b> |               |
| MCS Microsystems Sdn Bhd   |               |
| - Purchases  | 31            |
| - Rental received  | 39            |
| <br>   |               |
| Versatile Paper Boxes Sdn Bhd  |               |
| - Purchases  | 1             |

**15. Comparative figures**

The following comparatives have been reclassified to conform with the current financial period's presentation:

|   | <b>At restated<br/>31<sup>st</sup> December<br/>2009<br/>RM'000</b> | <b>At previously<br/>stated<br/>31<sup>st</sup> December<br/>2009<br/>RM'000</b> |
|---|---|--|
| <i>Consolidated Statement of Financial Position</i> |   |  |
| Property, plant and equipment                       | 112,813   | 107,162  |
| Prepaid land lease payments                         | -   | 5,651  |
| <br>  |   |  |
| Trade receivables                                   | 115,729   | 139,081  |
| Amount owing by associates                          | 44,597  | 21,245   |

## **Additional information required by the AMLR**

### **16.1 Review of Performance**

For the current financial quarter ended 30<sup>th</sup> June 2010, the Group recorded revenue of RM95.9 million and profit before taxation of RM14.4 million from RM66.4 million and RM7.2 million in the previous comparable quarter ended 30<sup>th</sup> June 2009, which is 44.4% and 100.0% higher respectively.

The main contributions to the Group's performance for the current financial quarter came from its ongoing projects, namely MyKad Project, Malaysia e-Passport Project, Senegal e-Passport Project, Nigeria e-Passport Project and the provision of smart terminals and solutions to financial institutions.

### **16.2 Comparison with Preceding Quarter**

For the current financial quarter ended 30<sup>th</sup> June 2010, the Group recorded revenue of RM95.9 million from RM93.9 million, which is 2.1% higher when compared to the preceding financial quarter ended 31<sup>st</sup> March 2010.

Whilst the current financial quarter recorded higher revenue, profit before taxation increased to RM14.4 million from RM11.3 million recorded in the preceding financial quarter ended 31<sup>st</sup> March 2010. This increase was mainly attributable to high project margin from the digital identity division in the current financial quarter.

### **17. Prospects**

For the financial year 2010, the Group's revenue is expected to be contributed mainly from the core business of digital identity solutions. Local revenue will be sustained by the sale of passport inlays, MyKad as well as project sales. Overseas revenue will be driven by the sales of digital identity solutions to Nigeria, Senegal and Bangladesh.

In view of the on-going contracts, the Group is optimistic that its performance will be satisfactory for the financial year ending 31<sup>st</sup> December 2010.

### **18. Variance between actual results and forecasted profit and shortfall in profit guarantee**

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

### **19. Unquoted Securities and/or Properties**

There were no purchases or disposals of unquoted securities and/or properties for the current quarter and financial year to date other than acquisition of an associate and incorporation of a joint venture company as disclosed in the Note 7(a) and Note 7(b) respectively.



## 20. Quoted Securities

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

## 21. Available-for-sale financial assets

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

|   |   |
|---|---|
|   | At 30 <sup>th</sup> June<br>2010<br><b>RM'000</b> |
| Investment in XID Technologies Pte Ltd    | 2,378   |
| Golf Club Membership                      | 406   |
| (Less): Allowance for diminution in value | (2,378)   |
|   | <u>406</u>  |

XID Technologies Pte Ltd is an unquoted Singapore company.

## 22. Status of Corporate Proposals and utilisation of proceeds

Save as disclosed below, there were no corporate proposals announced but not completed as at 19<sup>th</sup> August 2010, being the latest practicable date which is not earlier than seven (7) days from the date of issue of this quarterly report:-

- (a) **Renounceable rights issue of up to 223,408,274 new six (6)-year warrants ("New Warrants") on the basis of three (3) New Warrants for every twenty (20) existing ordinary shares of RM0.15 each in IRIS at the issue price of RM0.05 per New Warrant ("Warrants Issue")**

On 27<sup>th</sup> April 2010, the 212,326,987 New Warrants issued pursuant to the Warrants Issue were listed and quoted on the ACE Market of Bursa Malaysia Securities Berhad marking the completion of the Warrants Issue.

The details of the utilisation of the proceeds from the Warrants Issue up to 19<sup>th</sup> August 2010 are as follows:-

| Description             | Proposed Utilisation (RM'000) | Actual Utilisation (RM'000) | Balance to be utilised (RM'000) |
|-------------------------|-------------------------------|-----------------------------|---------------------------------|
| Repayment of borrowings | 10,000                        | -                           | 10,000                          |
| Working capital         | 616                           | -                           | 616                             |
| Total                   | 10,616                        | -                           | 10,616                          |

**23. Group Borrowings and Debt Securities**

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

|                            | <b>Short Term</b> | <b>Long Term</b> | <b>Total</b>   |
|----------------------------|-------------------|------------------|----------------|
|                            | <b>RM'000</b>     | <b>RM'000</b>    | <b>RM'000</b>  |
| Secured                    | 115,832           | 23,328           | 139,160        |
| Unsecured – bank overdraft | 14,022            | -                | 14,022         |
| <b>Total</b>               | <b>129,854</b>    | <b>23,328</b>    | <b>153,182</b> |

The above borrowings are denominated in Ringgit Malaysia other than a short term borrowing amounting to RM3.18 million which is denominated in USD dollar.

**24. Off Balance Sheet Financial Instruments**

There were no financial instruments with off balance sheet risk as at 19<sup>th</sup> August 2010 being the latest practicable date which is not earlier than seven (7) days from date of issue of this quarterly report.

**25. Material Litigation**

Save for the material litigations as disclosed below, there are no other material litigations involving the Group as at 19<sup>th</sup> August 2010:

- (a) On 29<sup>th</sup> November 2006, ICB had filed a lawsuit against Japan Air Lines (“JAL”) in the U.S. District Court, Eastern District of New York for JAL’s infringement of IRIS’s US patent. This claim is based on the allegation that JAL’s inspection of passports at United States airports infringes IRIS’s patent over a method of manufacturing a secure electronic passport.

JAL has filed a motion to dismiss the claim. IRIS’s solicitors, Messrs Moses & Singer LLP (the “**Solicitors**”), has opposed the motion to dismiss. The briefs on the motion had been filed in June 2007. The District Court had on 30<sup>th</sup> September 2009 granted JAL’s motion to dismiss the claim and the decision stated that the patent protections conferred on IRIS conflicted with, and were superseded by JAL’s federal legal obligation to inspect passenger passports. The Solicitors had, on behalf of IRIS, filed a notice to appeal to the United States Court of Appeals for the Federal Circuit in Washington and the matter is currently stayed pending the outcome of the JAL’s bankruptcy proceedings in Japan.

The Solicitors of the Company stated that there are no US case precedents to indicate the likelihood of success on appeal. However, by analogy, the Solicitors pointed out that there are many regulations affecting airlines, such as JAL, as well as affecting other commercial operations, requiring these commercial entities to use intellectual property and other property that they do not own. These commercial entities do not get such property for free, and must buy them, even though regulations require that they use them. The Solicitors argued further that JAL should not be able to use IRIS' intellectual property for free, as part of their commercial operations. The Solicitors further informed that in any event, it does not appear that this case will be heard within the next year or two, as the Federal Circuit in Washington proceedings are dependent upon the outcome of the Japanese bankruptcy proceedings. Until these proceedings are complete there is nothing for IRIS to do with respect to the JAL litigation.

- (b) IRIS Technologies (M) Sdn Bhd (“**ITSB**”), a wholly owned subsidiary of IRIS, and its joint venture Turkish partner Kunt Elektronik San.Ve Tic. A.S (“**KUNT**”) (“**JV Company**”) had on 17<sup>th</sup> September 2009 received a Letter of Termination dated 14<sup>th</sup> September 2009 (“**Letter of Termination**”), from Emniyet Genel Mudurlugu.

(“EGM”), known as General Directorate of Security in relation to the provision of Electronic Passport Issuing Systems in Turkey (“**The Agreement**”).

Pursuant to the Letter of Termination, EGM requested for refund of New Turkish Lira (“**YTL**”) 6.195 million (equivalent to approximately RM14.6 million at an exchange rate of YTL 1: RM2.36 as at 18<sup>th</sup> September 2009) which is equivalent to the first phase payment received by the Joint Venture Company between ITSB and KUNT. Subsequently, all the hardware and equipment delivered shall be returned to the JV Company.

On 18<sup>th</sup> September 2009, Messrs Sen & Arpaci had on behalf of the JV Company, made an application to the Ankara Civil Court of Turkey (“**Court**”), for an injunction to restrain EGM from claiming on the performance bond submitted by the JV Company in year 2007.

On 24<sup>th</sup> September 2009, an interlocutory injunction was obtained by the JV Company from the Court. Subsequently, on behalf of the JV Company, Messrs Sen & Arpaci had on 5<sup>th</sup> October 2009 filed a lawsuit against EGM in Ankara Court of First Instance (“**Ankara Court**”) for the unlawful termination of the Agreement. The JV Company is claiming a total of YTL 5 million from EGM and the return of the performance bond. This matter was first heard on 22<sup>nd</sup> December 2009. The second hearing was held on 23<sup>rd</sup> March 2010. During the second hearing, EGM presented a counter claim, claiming approximately YTL 5.25 million from the JV Company. Specifically, the EGM is seeking to return all the hardware and equipments to the JV Company in exchange for a refund of YTL 5.25 million paid to the JV Company. The third hearing was held on 10<sup>th</sup> June 2010. The outcome of the hearing was that the judge had requested the JV Company to submit the precise damages amount(s) to be claimed against EGM so that the judge can decide which component court will hear the matter. The Ankara Court has instructed EGM to reply to our counter-claim submitted to the Court on 23<sup>rd</sup> March 2010. The next hearing date is fixed on 5<sup>th</sup> October 2010.

Messrs Sen & Arpaci is of opinion that the JV Company has a good chance of recovering all the amount claimed and having the performance bond returned. Messrs Sen & Arpaci is also of the view that the counter claim filed by EGM is likely to be rejected by the Ankara Court.

**26. Dividend**

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

**27. Earnings Per Share**

|   | <b>Individual</b>           |                             | <b>Cumulative</b>           |                             |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | <b>3 months ended</b>       | <b>3 months ended</b>       | <b>6 months ended</b>       | <b>6 months ended</b>       |
|   | <b>30<sup>th</sup> June</b> | <b>30<sup>th</sup> June</b> | <b>30<sup>th</sup> June</b> | <b>30<sup>th</sup> June</b> |
|   | <b>2010</b>                 | <b>2009</b>                 | <b>2010</b>                 | <b>2009</b>                 |
| <b>(a) Basic earnings per ordinary share</b>  |                             |                             |                             |                             |
| Profit attributable to owners of the Company for the period (RM'000)                            | 8,458                       | 4,652                       | 14,263                      | 7,651                       |
| Weighted average number of ordinary shares ('000)   | 1,415,576                   | 1,404,772                   | 1,415,406                   | 1,404,772                   |
| <b>Basic earnings per ordinary share (Sen)</b>  | <b>0.60</b>                 | <b>0.33</b>                 | <b>1.01</b>                 | <b>0.54</b>                 |
| <b>(b) Diluted earnings per ordinary share</b>  |                             |                             |                             |                             |
| Profit attributable to owners of the Company for the period (RM'000)                            | 8,458                       | 4,652                       | 14,263                      | 7,651                       |
| Adjustment for after tax effects of interest on ICPS (RM'000)                                   | -                           | -                           | -                           | -                           |
| Adjusted net profit for the period (RM'000)   | 8,458                       | 4,652                       | 14,263                      | 7,651                       |
| Weighted average number of ordinary shares ('000)   | 1,415,576                   | 1,404,772                   | 1,415,406                   | 1,404,772                   |
| Adjustment for assumed conversion of ICPS ('000)  | -                           | -                           | -                           | -                           |
| Adjustment for assumed exercise of Warrants ('000)  | -                           | -                           | -                           | -                           |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share ('000) | 1,415,576                   | 1,404,772                   | 1,415,406                   | 1,404,772                   |
| <b>Diluted earnings per ordinary share (Sen)</b>  | <b>0.60</b>                 | <b>0.33</b>                 | <b>1.01</b>                 | <b>0.54</b>                 |