

# IRIS CORPORATION BERHAD

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

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## Interim Financial Report for the Fourth quarter ended 31<sup>st</sup> December 2010

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**Condensed Consolidated Statement of Comprehensive Income**For the Fourth quarter ended 31<sup>st</sup> December 2010

	<b>Individual</b>		<b>Cumulative</b>	
	<b>3 months ended</b>		<b>12 months ended</b>	
	<b>31<sup>st</sup> Dec</b>	<b>31<sup>st</sup> Dec</b>	<b>31<sup>st</sup> Dec</b>	<b>31<sup>st</sup> Dec</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>
<b>Revenue</b>	75,473	132,548	366,110	331,728
Cost of sales	(51,142)	(109,693)	(253,915)	(242,965)
Depreciation and amortisation	(2,674)	(1,691)	(10,782)	(11,427)
<b>Gross profit</b>	21,657	21,164	101,413	77,336
Other operating income/(expenses)	(383)	1,784	(2,023)	2,141
Operating expenses	(10,739)	(9,795)	(36,979)	(33,597)
Depreciation and amortisation	(1,302)	(782)	(3,922)	(3,177)
Finance costs	(3,706)	(1,894)	(15,188)	(11,745)
Share of profit/(loss) of associates	(605)	(109)	(1,669)	(537)
<b>Profit before taxation</b>	4,922	10,368	41,632	30,421
Tax expense	(1,603)	(7,344)	(14,349)	(14,840)
<b>Profit for the period</b>	3,319	3,024	27,283	15,581
<b>Other comprehensive income</b>				
Foreign currency translation differences for foreign operations	(4)	(41)	20	(46)
<b>Other comprehensive income for the period</b>	(4)	(41)	20	(46)
<b>Total comprehensive income for the period</b>	3,315	2,983	27,303	15,535
<b>Profit attributable to:</b>				
Owners of the Company	3,333	3,024	27,283	15,581
Minority interest	(14)	-	-	-
<b>Profit for the period</b>	3,319	3,024	27,283	15,581

**Condensed Consolidated Statement of Comprehensive Income**For the Fourth quarter ended 31<sup>st</sup> December 2010

(continued)

	Individual 3 months ended		Cumulative 12 months ended	
	31 <sup>st</sup> Dec 2010 RM'000	31 <sup>st</sup> Dec 2009 RM'000	31 <sup>st</sup> Dec 2010 RM'000	31 <sup>st</sup> Dec 2009 RM'000
<b>Total comprehensive income attributable to:</b>				
Owners of the Company	3,329	2,983	27,303	15,535
Minority interest	(14)	-	-	-
<b>Total comprehensive income for the period</b>	<b>3,315</b>	<b>2,983</b>	<b>27,303</b>	<b>15,535</b>
<b>Earnings per share attributable to owners of the Company:</b>				
Basic (Sen)	0.24	0.22	1.93	1.11
Diluted (Sen)	0.24	0.22	1.93	1.11

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 31<sup>st</sup> December 2010

	31 <sup>st</sup> December 2010 RM'000	31 <sup>st</sup> December 2009 RM'000
<b>ASSETS</b>		
<b>NON-CURRENT ASSETS</b>		
Concession assets	8,720	7,753
Property, plant and equipment	114,812	112,813
Development Costs	2,048	3,417
Intellectual properties	10,799	12,179
Goodwill on consolidation	133,982	133,982
Investment in associates	40,393	4,686
Available-for-sale financial assets	406	406
Deferred tax assets	932	-
	312,092	275,236
<b>CURRENT ASSETS</b>		
Inventories	70,153	64,174
Trade receivables	138,555	115,729
Amount owing by contract customers	21,888	21
Other receivables, deposits & prepayments	21,210	20,419
Amount owing by associates	62,947	44,597
Amount owing by related parties	363	194
Tax refundable	-	1,129
Deposits with licensed banks	12,458	17,044
Cash and cash equivalents	18,563	11,443
	346,137	274,750
	658,229	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	(7)	(27)
Revaluation reserve	27,971	27,971
Retained earnings	56,240	28,961
<b>Total equity attributable to owners of the Company</b>	346,288	308,373
Minority Interest	-	-
<b>TOTAL EQUITY</b>	346,288	308,373

**Condensed Consolidated Statement of Financial Position**As at 31<sup>st</sup> December 2010

(continued)

	31 <sup>st</sup> December 2010 RM'000	31 <sup>st</sup> December 2009 RM'000
<b>NON-CURRENT LIABILITIES</b>		
Hire purchase & lease payables	3,911	1,031
Other payables	-	2,636
Term loan	102,727	27,428
Deferred tax liabilities	13,535	13,446
	120,173	44,541
<b>CURRENT LIABILITIES</b>		
Trade payables	10,005	38,657
Amount owing to contract customers	42,072	13,828
Other payables and accruals	18,396	29,806
Amount owing to an associate	19,191	-
Amount owing to related parties	235	94
Hire purchase & lease payables	1,583	1,746
Bonds	-	68,750
Short-term borrowings	90,914	38,561
Provision for taxation	9,372	5,630
	191,768	197,072
<b>TOTAL LIABILITIES</b>	311,941	241,613
<b>TOTAL EQUITY AND LIABILITIES</b>	658,229	549,986
<b>Net assets per ordinary share attributable to owners of the Company (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 Fourth quarter ended 31<sup>st</sup> December 2010

	← Attributable to the owners of the Company →										
	← Non-Distributable →						Distributable				
	Ordinary Share Capital RM'000	ICPS* RM'000	Share Premium RM'000	Warrants Reserve RM'000	Foreign Exchange Translation Reserve RM'000	Reserve Relating to Asset Held for sale RM'000	Revaluation Reserve RM'000	Retained Earnings RM'000	Total RM'000	Minority Interest RM'000	Total Equity 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 ordinary shares	1,599	(1,599)	-	-	-	-	-	-	-	-	-
Additional investment in a subsidiary	-	-	-	-	-	-	-	-	-	(24)	(24)
Net effect of change in equity interest as a result of additional investment in a subsidiary	-	-	-	-	-	-	-	(24)	(24)	24	-
Reclassified from reserve related to assets held for sale to revaluation reserve	-	-	-	-	-	(13,724)	13,724	-	-	-	-
Realisation on usage of property	-	-	-	-	-	-	(329)	329	-	-	-
Revaluation surplus	-	-	-	-	-	-	14,576	-	14,576	-	14,576
Total comprehensive income	-	-	-	-	(46)	-	-	15,581	15,535	-	15,535
<b>At 31<sup>st</sup> December 2009</b>	<b>212,277</b>	<b>4,139</b>	<b>35,052</b>	<b>-</b>	<b>(27)</b>	<b>-</b>	<b>27,971</b>	<b>28,961</b>	<b>308,373</b>	<b>-</b>	<b>308,373</b>

**Condensed Consolidated Statement of Changes in Equity**

For the Fourth quarter ended 31<sup>st</sup> December 2010

(continued)

	← Attributable to the owners of the Company →										
	← Non-Distributable →					Distributable					
	Ordinary Share Capital RM'000	ICPS* RM'000	Share Premium RM'000	Warrants Reserve RM'000	Foreign Exchange Translation Reserve RM'000	Reserve Relating to Asset Held for sale RM'000	Revaluation Reserve RM'000	Retained Earnings RM'000	Total RM'000	Minority Interest RM'000	Total Equity RM'000
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 ordinary shares	289	(289)	-	-	-	-	-	-	-	-	-
Additional investment in a subsidiary	-	-	-	-	-	-	-	-	-	(4)	(4)
Net effect of change in equity interest as a result of additional investment in a subsidiary	-	-	-	-	-	-	-	(4)	(4)	4	-
Proceeds from issuance of Warrants	-	-	-	10,616	-	-	-	-	10,616	-	10,616
Total comprehensive income	-	-	-	-	20	-	-	27,283	27,303	-	27,303
<b>At 31<sup>st</sup> December 2010</b>	<b>212,566</b>	<b>3,850</b>	<b>35,052</b>	<b>10,616</b>	<b>(7)</b>	<b>-</b>	<b>27,971</b>	<b>56,240</b>	<b>346,288</b>	<b>-</b>	<b>346,288</b>

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

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 Fourth quarter ended 31<sup>st</sup> December 2010

	<b>Cumulative 31<sup>st</sup> Dec 2010 RM'000</b>	<b>Cumulative 31<sup>st</sup> Dec 2009 RM'000</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	41,632	30,421
Adjustments for:		
Non-Cash Items	20,852	42,863
Interest income	(86)	(659)
Finance costs	15,188	11,745
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>	<b>77,586</b>	<b>84,370</b>
Changes in working capital		
Net changes in current assets	(74,713)	(22,668)
Net changes in current liabilities	(14,312)	(16,624)
<b>NET CASH (USED IN)/GENERATED FROM OPERATIONS</b>	<b>(11,439)</b>	<b>45,078</b>
Dividend received	100	-
Interest received	86	659
Interest paid	(15,188)	(12,273)
Tax paid	(10,320)	(10,383)
<b>NET CASH (USED IN)/FROM OPERATING ACTIVITIES</b>	<b>(36,761)</b>	<b>23,081</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net payment on acquisition of investment in an associate	(18,285)	-
Net cash flow on additional of investment in subsidiary	(4)	(24)
Proceeds from disposal of plant and equipment	143	172
Purchase of property, plant and equipment	(10,834)	(2,798)
Purchase of concession assets	(834)	(1,140)
Grants	-	2
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(29,814)</b>	<b>(3,788)</b>



**Condensed Consolidated Cash Flow Statement**

For the Fourth quarter ended 31<sup>st</sup> December 2010  
(continued)

	<b>Cumulative 31<sup>st</sup> Dec 2010 RM'000</b>	<b>Cumulative 31<sup>st</sup> Dec 2009 RM'000</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Drawdown of term loans	123,000	20,286
Proceeds from issuance of Warrants	10,616	-
Net repayment of hire purchase and lease payables	(410)	(5,598)
Net (repayment of)/proceeds from short term borrowings	(7,119)	(333)
Repayment of bonds	(68,750)	(56,250)
Repayment of term loans	(8,200)	(4,199)
<b>NET CASH FROM /(USED IN) FINANCING ACTIVITIES</b>	<b>49,137</b>	<b>(46,094)</b>
Net changes in cash and cash equivalents	(17,438)	(26,801)
Effects of exchange rate changes	-	(46)
Cash and cash equivalents at beginning of the year	28,487	55,334
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>11,049</b>	<b>28,487</b>

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

Deposits with licensed banks, cash and bank balances	31,021	28,487
Bank overdraft	(19,972)	-
	<b>11,049</b>	<b>28,487</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 Fourth quarter ended 31<sup>st</sup> December 2010

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### 1. Basis of preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 31<sup>st</sup> December 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) & FRSs (2010)

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

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

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

IC Interpretation 15, IC Interpretation 16 and IC Interpretation 17 are not applicable to the Group. The Group plans to apply the rest of the following accounting standards, amendments and interpretations from the annual period beginning 1 January 2011 (for those accounting standards, amendments and interpretations that will be effective beginning on and after 1 March 2010, 1 July 2010 and 1 January 2011) and 1 January 2012 (for those accounting standards, amendments and interpretations that will be effective beginning on and after 1 January 2012) respectively:

***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 16, Hedges of a Net Investment in a Foreign Operation

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

IC Interpretation 19, Extinguishing Financial Liabilities with Equity Instruments

Amendments to IC Interpretation 9, Reassessment of Embedded Derivatives

Amendments to IC Interpretation 14, Prepayments of a Minimum Funding Requirement

***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

***FRSs, Interpretation and amendments effective for annual periods beginning on or after 1 January 2012***

FRS 124, Related Party Disclosures

IC Interpretation 15, Agreements for the Construction of Real Estate

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 Fourth quarter.

**4. Segment information**

The Group's segment information for the interim financial report to 31<sup>st</sup> December 2010 was as follows:-

	<b>Digital Identity &amp; Business Solutions RM'000</b>	<b>Others RM'000</b>	<b>Inter- segment Elimination RM'000</b>	<b>Group RM'000</b>
Revenue	362,540	3,570	-	366,110
Segment results	114,236	(12,823)	-	101,413
Unallocated corporate expenses				(40,901)
Other operating expenses				(2,023)
Operating profit				58,489
Finance costs				(15,188)
				43,301
Share of loss of associates				(1,669)
Profit before taxation				41,632
Income tax expense				(14,349)
Profit after taxation				27,283

**5. Capital Commitments**

	As at 31 <sup>st</sup> Dec 2010 <b>RM'000</b>
<b>Authorised and contracted for:-</b>	
Purchase of property, plant and equipment	1,409

**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 31<sup>st</sup> December 2010, a total of 1,925,300 units of ICPS have been converted into ordinary shares of RM0.15 each.

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

**(a) Members' voluntary winding-up of IRIS Egypt LLC ("IRIS Egypt")**

The Company had on 21<sup>st</sup> November 2010 placed its 87.5% owned subsidiary company, namely IRIS Egypt under members' voluntary winding up. IRIS Egypt was incorporated in Egypt on 29<sup>th</sup> May 2008 with an authorized share capital of EGP 300,000 comprising 3,000 ordinary shares of EGP 100 each.

IRIS Egypt was previously in the business of providing products, services, maintenance and solutions in the area of identity security documents, biometrics information technology and communication in Egypt. The Members' voluntary winding up is part of ICB Group's continuing rationalization exercise to winding-up inactive subsidiaries.

**(b) Acquisition of the issued and paid-up share capital of IRIS Eco Power Sdn Bhd ("IEP")**

IRIS Technologies (M) Sdn Bhd ("IRIS Tech"), a wholly owned subsidiary of IRIS Corporation Berhad, had on 29<sup>th</sup> December 2010 acquired 4,900 ordinary shares of RM1.00 each in IEP, representing 49% of its issued and paid-up share capital for a total cash consideration of RM 4,900.

IRIS Tech had previously owned 51% equity interest in IEP. Following this acquisition, IEP has now become the wholly owned subsidiary of IRIS Tech.

**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> January 2011 to 16<sup>th</sup> February 2011, the Company had issued 91,400 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

### (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 RM37.08 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 16<sup>th</sup> February 2011, the total amount paid to PJT was Thai Baht 175 million (equivalent to RM18.28 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.

**13. Taxation**

	<b>Individual</b>		<b>Cumulative</b>	
	<b>3 months ended</b>		<b>12 months ended</b>	
	<b>31<sup>st</sup> Dec</b>	<b>31<sup>st</sup> Dec</b>	<b>31<sup>st</sup> Dec</b>	<b>31<sup>st</sup> Dec</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				
- Current financial year	(2,516)	(5,844)	(18,710)	(13,340)
- Over/(Under) provision in prior years	70	(500)	3,518	(500)
	(2,446)	(6,344)	(15,192)	(13,840)
Deferred tax				
- Current financial year	843	(1,000)	843	(1,000)
Total tax expense	(1,603)	(7,344)	(14,349)	(14,840)

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 12 months period ended 31<sup>st</sup> December 2010 were as follows:

	<b>RM'000</b>
<b>(a) Associates</b>	
GMPC Corporation Sdn Bhd	
- Sales	77,502
- Rental received	6
	<hr/>
PJT Technology Co. Ltd	
- Sales	11
	<hr/>
<b>(b) A company in which a director of the Company has financial interest</b>	
MCS Microsystems Sdn Bhd	
- Purchases	65
- Rental received	78
	<hr/>
Versatile Paper Boxes Sdn Bhd	
- Purchases	4
	<hr/>

**15. Comparative figures**

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

	<b>At restated</b> 31 <sup>st</sup> December 2009 RM'000	<b>At previously stated</b> 31 <sup>st</sup> December 2009 RM'000
<i>Consolidated Statement of Financial Position</i>		
Property, plant and equipment	112,813	107,162
Prepaid land lease payments	-	5,651
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 twelve (12) months ended 31<sup>st</sup> December 2010, the Group recorded a revenue of RM366.1 million representing an increase of 10.4% as compared to the revenue of RM331.7 million for the previous comparable financial year ended (“FYE”) 31<sup>st</sup> December 2009. With the improved revenue, the Group recorded a higher profit before taxation of RM41.6 million for the FYE 31<sup>st</sup> December 2010 representing an increase of 36.8% as compared to profit before taxation of RM30.4 million in the previous comparable FYE 31<sup>st</sup> December 2009.

For the current financial quarter ended 31<sup>st</sup> December 2010, the Group recorded revenue of RM75.5 million and profit before taxation of RM4.9 million from RM132.6 million and RM10.4 million in the previous comparable quarter ended 31<sup>st</sup> December 2009 which is 43.1% and 52.9% lower 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 and Nigeria e-Passport Project.

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

For the current financial quarter ended 31<sup>st</sup> December 2010, the Group recorded revenue of RM75.5 million and profit before taxation of RM4.9 million from RM100.8 million and RM11.1 million in the preceding financial quarter ended 30<sup>th</sup> September 2010, which is 25.1% and 55.9% lower respectively.

The decrease of revenue was mainly attributable to lower delivery of MyKad and Nigeria e-passport to Malaysia and Nigeria respectively.

### **17. Prospects**

For the financial year 2011, the Group’s revenue is expected to be derived 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 2011.

### **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 additional investment in a subsidiary as disclosed in the Note 7.

**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 31 <sup>st</sup> Dec 2010 <b>RM'000</b>
Investment in XID Technologies Pte Ltd	2,378
Golf Club Membership	406
(Less): Allowance for diminution in value	<u>(2,378)</u>
	<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 16<sup>th</sup> February 2011, 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 16<sup>th</sup> February 2011 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	70,942	102,727	173,669
Unsecured – bank overdraft	19,972	-	19,972
<b>Total</b>	<b>90,914</b>	<b>102,727</b>	<b>193,641</b>

All of the above borrowings are denominated in Ringgit Malaysia.

**24. Off Balance Sheet Financial Instruments**

There were no financial instruments with off balance sheet risk as at 16<sup>th</sup> February 2011 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 16<sup>th</sup> February 2011:

- (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.

Regarding the bankruptcy proceedings, on 1<sup>st</sup> November 2010, JAL stated that the stay issued by the US Bankruptcy Court remains in effect. The reorganization proceedings in Tokyo District Court are ongoing. The Debtors filed a Proposed Reorganization Plan on 31<sup>st</sup> August 2010 and the Tokyo District Court has not yet acted with respect to such plan. In short, the bankruptcy proceedings are still in progress and there is no outcome as yet.

- (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.

On 23<sup>rd</sup> March 2010, 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.

On 5<sup>th</sup> October 2010, JV Company had submitted new evidences for the case. The Courts accepted JV Company's submission and ordered EGM to reply to the new evidences submitted by JV Company within 20 days from 5<sup>th</sup> October 2010. However, no decision was granted at this stage to the EGM for their claims of refund of YTL 5.25 million they paid for the completion of phase 1 of the Project (for hardware and equipments delivered). At the same hearing, the Courts appointed three expert witnesses to study and analyze the case and the submissions of both Parties on commercial and technical grounds since the case is highly technical in nature. The Courts then fixed 23<sup>rd</sup> December 2010 to hear the reports from the Court's appointed specialists or expert witnesses before giving out further directions. On 23<sup>rd</sup> December 2010, the Court heard that the expert witnesses are yet to deliver their expert report or analysis of the case and stated to the Court that they need more time to analyse. The Ankara Court then fixed a new hearing date of 24<sup>th</sup> March 2011 to hear the matter.

In parallel, EGM filed additional claims of loss of opportunity amounting to YTL 13.041 million against the JV Company on 14<sup>th</sup> September 2010. On 30<sup>th</sup> November 2010, JV Company submitted evidences substantiating grounds for the rebuttal of this EGM's additional claims. On 8<sup>th</sup> February 2011's hearing, the Court granted 20 days for EGM to respond to the JV Company's earlier submitted rebuttal. The Court then fixed a new hearing date on the 12<sup>th</sup> April 2011 for the matter.

Messrs Sen & Arpacı 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 & Arpacı is also of the view that the counter claim filed by EGM is likely to be rejected by the Ankara Court.

## 26. Realised and Unrealised retained earnings

Breakdown of retained earnings of the Group is as follows:

	As at 31 <sup>st</sup> December 2010 RM'000	As at 30 <sup>th</sup> September 2010 RM'000
Total retained earnings:		
i) The Company and its subsidiaries		
- Realised profits/(losses)	17,712	13,453
- Unrealised profits/(losses)	(18,354)	(18,825)
	(642)	(5,372)
ii) Associates		
- Realised profits/(losses)	(3,116)	(2,514)
- Unrealised profits/(losses)	(5)	(2)
	(3,121)	(2,516)
	(3,763)	(7,888)
iii) Group consolidated adjustments	60,003	60,799
Total retained earnings of the Group	56,240	52,911

**27. Dividend**

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

**28. Earnings Per Share**

	<b>Individual</b>		<b>Cumulative</b>	
	<b>3 months ended</b>	<b>3 months ended</b>	<b>12 months ended</b>	<b>12 months ended</b>
	<b>31<sup>st</sup> Dec</b>	<b>31<sup>st</sup> Dec</b>	<b>31<sup>st</sup> Dec</b>	<b>31<sup>st</sup> Dec</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)	3,333	3,024	27,283	15,581
Weighted average number of ordinary shares ('000)	1,416,073	1,407,313	1,416,073	1,407,313
<b>Basic earnings per ordinary share (Sen)</b>	<b>0.24</b>	<b>0.22</b>	<b>1.93</b>	<b>1.11</b>
<b>(b) Diluted earnings per ordinary share</b>				
Profit attributable to owners of the Company for the period (RM'000)	3,333	3,024	27,283	15,581
Adjustment for after tax effects of interest on ICPS (RM'000)	-	-	-	-
Adjusted net profit for the period (RM'000)	3,333	3,024	27,283	15,581
Weighted average number of ordinary shares ('000)	1,416,073	1,407,313	1,416,073	1,407,313
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)	1,416,073	1,407,313	1,416,073	1,407,313
<b>Diluted earnings per ordinary share (Sen)</b>	<b>0.24</b>	<b>0.22</b>	<b>1.93</b>	<b>1.11</b>