

IRIS CORPORATION BERHAD

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

Interim Financial Report for the First quarter ended 31st March 2011

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Condensed Consolidated Statement of Comprehensive IncomeFor the First quarter ended 31st March 2011

| | Individual 3 months ended | | Cumulative 3 months ended | |
|---|--|--|--|--|
| | 31st March 2011 RM'000 | 31st March 2010 RM'000 | 31st March 2011 RM'000 | 31st March 2010 RM'000 |
| Revenue | 73,059 | 93,939 | 73,059 | 93,939 |
| Cost of sales | (45,545) | (66,285) | (45,545) | (66,285) |
| Depreciation and amortisation | (1,643) | (2,752) | (1,643) | (2,752) |
| Gross profit | 25,871 | 24,902 | 25,871 | 24,902 |
| Other operating income/(expenses) | (453) | (163) | (453) | (163) |
| Operating expenses | (8,759) | (9,446) | (8,759) | (9,446) |
| Depreciation and amortisation | (992) | (741) | (992) | (741) |
| Finance costs | (3,301) | (3,353) | (3,301) | (3,353) |
| Share of (loss)/profit of associates | (364) | 57 | (364) | 57 |
| Profit before taxation | 12,002 | 11,256 | 12,002 | 11,256 |
| Tax expense | (5,566) | (5,448) | (5,566) | (5,448) |
| Profit for the period | 6,436 | 5,808 | 6,436 | 5,808 |
| Other comprehensive income | | | | |
| Foreign currency translation differences for foreign operations | - | 12 | - | 12 |
| Other comprehensive income for the period | - | 12 | - | 12 |
| Total comprehensive income for the period | 6,436 | 5,820 | 6,436 | 5,820 |
| Profit attributable to: | | | | |
| Owners of the Company | 6,436 | 5,805 | 6,436 | 5,805 |
| Minority interest | - | 3 | - | 3 |
| Profit for the period | 6,436 | 5,808 | 6,436 | 5,808 |

Condensed Consolidated Statement of Comprehensive IncomeFor the First quarter ended 31st March 2011

(continued)

| | Individual 3 months ended | | Cumulative 3 months ended | |
|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | 31st March 2011 | 31st March 2010 | 31st March 2011 | 31st March 2010 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| <hr/> | | | | |
| Total comprehensive income attributable to: | | | | |
| Owners of the Company | 6,436 | 5,817 | 6,436 | 5,817 |
| Minority interest | - | 3 | - | 3 |
| | <hr/> | | <hr/> | |
| Total comprehensive income for the period | 6,436 | 5,820 | 6,436 | 5,820 |
| | <hr/> | | <hr/> | |
| Earnings per share attributable to owners of the Company: | | | | |
| Basic (Sen) | 0.45 | 0.41 | 0.45 | 0.41 |
| Diluted (Sen) | 0.44 | 0.41 | 0.44 | 0.41 |
| | <hr/> | | <hr/> | |

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements of the Group for the year ended 31st December 2010 and the accompanying explanatory notes attached to the interim financial report.

Condensed Consolidated Statement of Financial PositionAs at 31st March 2011

| | 31 st March 2011 RM'000 | 31 st December 2010 RM'000 |
|---|---------------------------------------|--|
| ASSETS | | |
| NON-CURRENT ASSETS | | |
| Concession assets | 9,078 | 8,720 |
| Property, plant and equipment | 113,528 | 114,876 |
| Development Costs | 1,705 | 2,048 |
| Intellectual properties | 10,454 | 10,799 |
| Goodwill on consolidation | 133,982 | 133,982 |
| Investment in associates | 42,133 | 42,497 |
| Available-for-sale financial assets | 406 | 406 |
| Deferred tax assets | 1,929 | 1,929 |
| | 313,215 | 315,257 |
| CURRENT ASSETS | | |
| Inventories | 74,864 | 69,429 |
| Trade receivables | 128,355 | 140,995 |
| Amount owing by contract customers | 11,821 | 21,752 |
| Other receivables, deposits & prepayments | 43,162 | 42,837 |
| Amount owing by associates | 76,009 | 62,947 |
| Amount owing by related parties | 373 | 353 |
| Tax refundable | - | 338 |
| Deposits with licensed banks | 12,453 | 12,458 |
| Cash and cash equivalents | 13,725 | 19,218 |
| | 360,762 | 370,327 |
| | 673,977 | 685,584 |
| TOTAL ASSETS | | |
| EQUITY AND LIABILITIES | | |
| EQUITY | | |
| Share capital | 216,416 | 216,416 |
| Share premium | 35,052 | 35,052 |
| Warrants reserve | 10,616 | 10,616 |
| Foreign exchange translation reserve | (518) | (518) |
| Revaluation reserve | 27,561 | 27,642 |
| Retained earnings | 63,833 | 57,316 |
| Total equity attributable to owners of the Company | 352,960 | 346,524 |
| Minority Interest | - | - |
| TOTAL EQUITY | 352,960 | 346,524 |

Condensed Consolidated Statement of Financial PositionAs at 31st March 2011

(continued)

| | 31 st March 2011 RM'000 | 31 st December 2010 RM'000 |
|---|---------------------------------------|--|
| NON-CURRENT LIABILITIES | | |
| Hire purchase & lease payables | 3,869 | 4,148 |
| Term loan | 97,428 | 102,728 |
| Deferred tax liabilities | 15,288 | 15,288 |
| | 116,585 | 122,164 |
| CURRENT LIABILITIES | | |
| Trade payables | 13,457 | 27,320 |
| Amount owing to contract customers | 1,615 | - |
| Other payables and accruals | 66,391 | 68,730 |
| Amount owing to an associate | 13,466 | 19,191 |
| Amount owing to related parties | 203 | 235 |
| Hire purchase & lease payables | 1,256 | 1,345 |
| Short-term borrowings | 96,914 | 90,914 |
| Provision for taxation | 11,130 | 9,161 |
| | 204,432 | 216,896 |
| TOTAL LIABILITIES | 321,017 | 339,060 |
| TOTAL EQUITY AND LIABILITIES | 673,977 | 685,584 |
| Net assets per ordinary share attributable to owners of the Company (RM) | 0.25 | 0.24 |

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements of the Group for the year ended 31st December 2010 and the accompanying explanatory notes attached to the interim financial report.

Condensed Consolidated Statement of Changes in Equity

For the First quarter ended 31st March 2011

| | ← 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 | Revaluation Reserve RM'000 | Retained Earnings RM'000 | Total RM'000 | Minority Interest RM'000 | Total Equity RM'000 |
| At 1 st January 2010 | 212,277 | 4,139 | 35,052 | - | (27) | 27,971 | 28,961 | 308,373 | - | 308,373 |
| Conversion of ICPS into ordinary shares | 50 | (50) | - | - | - | - | - | - | - | - |
| Total comprehensive income for the financial period | - | - | - | - | 12 | - | 5,805 | 5,817 | 3 | 5,820 |
| At 31st March 2010 | 212,327 | 4,089 | 35,052 | - | (15) | 27,971 | 34,766 | 314,190 | 3 | 314,193 |

Condensed Consolidated Statement of Changes in Equity

For the First quarter ended 31st March 2011

(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 | Revaluation Reserve RM'000 | Retained Earnings RM'000 | Total RM'000 | Minority Interest RM'000 | Total Equity RM'000 |
| At 1 st January 2011 | 212,566 | 3,850 | 35,052 | 10,616 | (518) | 27,642 | 57,316 | 346,524 | - | 346,524 |
| Conversion of ICPS into ordinary shares | 55 | (55) | - | - | - | - | - | - | - | - |
| Realisation on usage of property | - | - | - | - | - | (81) | 81 | - | - | - |
| Total comprehensive income for the financial period | - | - | - | - | - | - | 6,436 | 6,436 | - | 6,436 |
| At 31st March 2011 | 212,621 | 3,795 | 35,052 | 10,616 | (518) | 27,561 | 63,833 | 352,960 | - | 352,960 |

* 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 31st December 2010 and the accompanying explanatory notes attached to the interim financial report.

Condensed Consolidated Cash Flow StatementFor the First quarter ended 31st March 2011

| | Cumulative 31st March 2011 RM'000 | Cumulative 31st March 2010 RM'000 |
|--|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Profit before taxation | 12,002 | 11,256 |
| Adjustments for: | | |
| Non-Cash Items | 2,632 | 3,501 |
| Interest income | (18) | - |
| Finance costs | 3,301 | 3,353 |
| OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES | 17,917 | 18,110 |
| Changes in working capital | | |
| Net changes in current assets | 5,485 | (10,655) |
| Net changes in current liabilities | (20,344) | (4,975) |
| NET CASH GENERATED FROM OPERATIONS | 3,058 | 2,480 |
| Interest received | 18 | - |
| Interest paid | (3,301) | (2,022) |
| Tax paid | (3,259) | (4,035) |
| NET CASH USED IN OPERATING ACTIVITIES | (3,484) | (3,577) |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Proceeds from disposal of plant and equipment | - | - |
| Purchase of plant and equipment | (187) | (534) |
| Purchase of concession assets | (403) | (279) |
| Grants | - | - |
| NET CASH USED IN INVESTING ACTIVITIES | (590) | (813) |

Condensed Consolidated Cash Flow StatementFor the First quarter ended 31st March 2011

(continued)

| | Cumulative 31st March 2011 RM'000 | Cumulative 31st March 2010 RM'000 |
|---|---|---|
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Drawdown of term loans | 5,687 | - |
| Net repayment of hire purchase and lease payables | (2,123) | (809) |
| Net proceeds from short term borrowings | 9,687 | 15,907 |
| Repayment of bonds | - | (8,750) |
| Repayment of term loans | (14,675) | (5,473) |
| NET CASH (USED IN)/FROM FINANCING ACTIVITIES | (1,424) | 875 |
| Net changes in cash and cash equivalents | (5,498) | (3,515) |
| Effects of exchange rate changes | - | 12 |
| Cash and cash equivalents at beginning of the year | 11,704 | 28,487 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | 6,206 | 24,984 |

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

| | | |
|--|--------------|---------------|
| Deposits with licensed banks, cash and bank balances | 26,178 | 24,984 |
| Bank overdraft | (19,972) | - |
| | 6,206 | 24,984 |

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 2010 and the accompanying explanatory notes attached to the interim financial report.

Notes to the Interim Financial ReportFor the First quarter ended 31st March 2011**1. Basis of preparation**

This interim financial report is based on the unaudited financial statements for the quarter ended 31st March 2011 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 adopted the following accounting standards, amendments and interpretations (including the consequential amendments) that have been issued by the MASB:

| FRSs and IC Interpretations (including the Consequential Amendments) | Effective date |
|---|-----------------------|
| FRS 1 (Revised) First-time Adoption of Financial Reporting Standards | 1 July 2010 |
| FRS 3 (Revised) Business Combinations | 1 July 2010 |
| FRS 127 (Revised) Consolidated and Separate Financial Statements | 1 July 2010 |
| Amendments to FRS 1 (Revised): Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters | 1 January 2011 |
| Amendments to FRS 1: Additional Exemptions for First-time Adopters | 1 January 2011 |
| Amendments to FRS 2: Scope of FRS 2 and FRS 3 (Revised) | 1 July 2010 |
| Amendments to FRS 2: Group Cash-settled Share-based Payment Transactions | 1 January 2011 |
| Amendments to FRS 5: Plan to Sell the Controlling Interest in a Subsidiary | 1 July 2010 |
| Amendments to FRS 7: Improving Disclosures about Financial Instruments | 1 January 2011 |
| Amendments to FRS 138: Consequential Amendments Arising from FRS 3 (Revised) | 1 July 2010 |

1. Basis of preparation (Cont'd)

| FRSs and IC Interpretations (including the Consequential Amendments) (cont'd) | Effective date |
|--|-----------------------|
| Amendments to IC Interpretation 9: Scope of IC Interpretation 9 and FRS 3 (Revised) | 1 July 2010 |
| IC Interpretation 4 Determining Whether An Arrangement Contains a Lease | 1 January 2011 |
| IC Interprétation 12 Service Concession Arrangements | 1 July 2010 |
| IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation | 1 July 2010 |
| IC Interpretation 17 Distributions of Non-cash Assets to Owners | 1 July 2010 |
| IC Interpretation 18 Transfers of Assets from Customers | 1 January 2011 |
| Annual Improvements to FRSs (2010) | 1 January 2011 |

The above accounting standards and interpretations (including the consequential amendments) are not relevant to the Group's operations except as follows:-

- (i) FRS 3 (Revised) introduces significant changes to the accounting for business combinations, both at the acquisition date and post acquisition, and requires greater use of fair values. In addition, all transaction costs, other than share and debt issue costs, will be expensed as incurred. This revised standard will be applied prospectively and therefore there will not have any financial impact on the financial statements of the Group for the current financial year but may impact the accounting for future transactions or arrangements.
- (ii) FRS 127 (Revised) requires accounting for changes in ownership interests by the group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The revised standard also requires all losses attributable to the minority interest to be absorbed by the minority interest instead of by the parent. The Group will apply the major changes of FRS 127 (Revised) prospectively and therefore there will be no financial impact on the financial statements of the Group for the current financial year but may impact the accounting of its future transactions or arrangements.

1. Basis of preparation (Cont'd)

The Group has not applied in advance the following accounting standards and interpretations (including the consequential amendments) that have been issued by the MASB but are not yet effective for the current financial year:-

| FRSs and IC Interpretations (including the Consequential Amendments) | Effective date |
|--|-----------------------|
| FRS 124 (Revised) Related Party Disclosures | 1 January 2012 |
| Amendments to IC Interpretation 14: Prepayments of a Minimum Funding Requirement | 1 July 2011 |
| IC Interpretation 15 Agreements for the Construction of Real Estate | 1 January 2012 |
| IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments | 1 July 2011 |

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 First quarter.

4. Segment information

The Group's operating segments information for the interim financial report to 31st March 2011 was as follows:-

| | Digital Identity & Business Solutions RM'000 | Others RM'000 | Inter- segment Elimination RM'000 | Group RM'000 |
|--------------------------------|---|--------------------------|--|-------------------------|
| Revenue | 72,717 | 342 | - | 73,059 |
| Segment results | 27,205 | (1,334) | - | 25,871 |
| Unallocated corporate expenses | | | | (9,751) |
| Other operating expenses | | | | (453) |
| Operating profit | | | | 15,667 |
| Finance costs | | | | (3,301) |
| | | | | 12,366 |
| Share of loss of associates | | | | (364) |
| Profit before taxation | | | | 12,002 |
| Income tax expense | | | | (5,566) |
| Profit after taxation | | | | 6,436 |

5. Capital Commitments

| | |
|---|--|
| | As at 31 st March 2011 RM'000 |
| Authorised and contracted for:- | |
| Purchase of property, plant and equipment | 1,382 |

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 2011 to 31st March 2011, a total of 365,100 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 current quarter under review.

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 April 2011 to 12th May 2011, the Company had issued 175,200 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 First 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 19th 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 12th May 2011, the total amount paid to PJT was Thai Baht 250 million (equivalent to RM26.09 million).

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

13. Taxation

| | Individual | | Cumulative | |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
| | 3 months ended | | 3 months ended | |
| | 31st March | 31st March | 31st March | 31st March |
| | 2011 | 2010 | 2011 | 2010 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Income tax | | | | |
| - Current financial year | (5,566) | (5,448) | (5,566) | (5,448) |
| - Over/(Under) provision in prior years | - | - | - | - |
| | <u>(5,566)</u> | <u>(5,448)</u> | <u>(5,566)</u> | <u>(5,448)</u> |
| Deferred tax | | | | |
| - Current financial year | - | - | - | - |
| Total tax expense | <u>(5,566)</u> | <u>(5,448)</u> | <u>(5,566)</u> | <u>(5,448)</u> |

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 3 months period ended 31st March 2011 were as follows:

| | RM'000 |
|--|---------------|
| (a) Associates | |
| GMPC Corporation Sdn Bhd | |
| - Sales | 19,178 |
| - Rental received | <u>2</u> |
| PJT Technology Co. Ltd | |
| - Sales | <u>2,368</u> |
| (b) A company in which a director of the Company has financial interest | |
| MCS Microsystems Sdn Bhd | |
| - Purchases | - |
| - Rental received | 20 |
| Versatile Paper Boxes Sdn Bhd | |
| - Purchases | <u>-</u> |

Additional information required by the AMLR

15.1 Review of Performance

For the current financial quarter ended 31st March 2011, the Group recorded revenue of RM73.1 million, which is 22.2% lower when compared to RM93.9 million achieved in the previous comparable quarter ended 31st March 2010.

Whilst the current financial quarter recorded lower revenue, profit before taxation increased to RM12.0 million from RM11.3 million recorded in the previous comparable quarter ended 31st March 2010.

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.

15.2 Comparison with Preceding Quarter

For the current financial quarter ended 31st March 2011, the Group recorded revenue of RM73.1 million, which is 3.2% lower when compared to RM75.5 million achieved in the preceding financial quarter ended 31st December 2010.

Whilst the current financial quarter recorded lower revenue, profit before taxation increased to RM12.0 million from RM5.9 million, which is 103.4% higher when compared to the preceding financial quarter ended 31st December 2010. Higher profit recorded in the current financial quarter was mainly attributable to the better project margins from the digital identity division and lower operating expenses in the current financial quarter.

16. 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, Bangladesh and Tanzania.

In view of the on-going contracts, the Group is optimistic that its performance will be satisfactory for the financial year ending 31st December 2011.

17. Variance between actual results and forecasted profit and shortfall in profit guarantee

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

18. Unquoted Securities and/or Properties

There were no purchases or disposals of unquoted securities and/or properties for the current quarter and financial 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. Available-for-sale financial assets

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

| | |
|---|--|
| | At 31 st March 2011 RM'000 |
| 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.

21. Status of Corporate Proposals and utilisation of proceeds

There were no corporate proposals announced but not completed as at 12th May 2011, being the latest practicable date which is not earlier than seven (7) days from the date of issue of this quarterly report.

22. Group Borrowings and Debt Securities

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

| | Short Term RM'000 | Long Term RM'000 | Total RM'000 |
|----------------------------|------------------------------|-----------------------------|-------------------------|
| Secured | 76,942 | 97,428 | 174,370 |
| Unsecured – bank overdraft | 19,972 | - | 19,972 |
| Total | <u>96,914</u> | <u>97,428</u> | <u>194,342</u> |

All of the above borrowings are denominated in Ringgit Malaysia other than a short term borrowing amounting to RM4.69 million which is denominated in USD dollar.

23. Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risk as at 12th May 2011 being the latest practicable date which is not earlier than seven (7) days from date of issue of this quarterly report.

24. Material Litigation

Save for the material litigations as disclosed below, there are no other material litigations involving the Group as at 12th May 2011:

- (a) 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 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 30th 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 1st 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 31st 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 17th September 2009 received a Letter of Termination dated 14th 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 18th 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 18th September 2009, Messrs Sen & Arpacı 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 24th September 2009, an interlocutory injunction was obtained by the JV Company from the Court. Subsequently, on behalf of the JV Company, Messrs Sen & Arpacı had on 5th 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 22nd December 2009.

On 23rd 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 10th 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 5th 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 5th 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 23rd December 2010 to hear the reports from the Court’s appointed specialists or expert witnesses before giving out further directions. On 23rd 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 next hearing date has fixed on 14th June 2011 for the receipt of the experts’ report.

In parallel, EGM filed additional claims of loss of opportunity amounting to YTL 13.041 million against the JV Company on 14th September 2010. On 30th November 2010, JV Company submitted evidences substantiating grounds for the rebuttal of this EGM's additional claims. On 8th February 2011's hearing, the Court granted 20 days for EGM to respond to the JV Company's earlier submitted rebuttal. On 12th April 2011 hearing, the Court appointed two experts who are experienced in law and finance matters to prepare a report on the case.

The Court then fixed a new hearing date on 14th June 2011.

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.

25. Realised and Unrealised retained earnings

Breakdown of retained earnings of the Group is as follows:

| | As at 31 st March 2011 RM'000 | As at 31 st December 2010 RM'000 |
|--------------------------------------|---|--|
| Total retained earnings: | | |
| i) The Company and its subsidiaries | | |
| - Realised profits/(losses) | 22,606 | 15,966 |
| - Unrealised profits/(losses) | (19,646) | (18,624) |
| | 2,960 | (2,658) |
| ii) Associates | | |
| - Realised profits/(losses) | (846) | (482) |
| - Unrealised profits/(losses) | (511) | (511) |
| | (1,357) | (993) |
| iii) Group consolidated adjustments | 1,603 | (3,651) |
| | 62,230 | 60,967 |
| Total retained earnings of the Group | 63,833 | 57,316 |

26. Dividend

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

27. Earnings Per Share

| | Individual | | Cumulative | |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
| | 3 months ended | 3 months ended | 3 months ended | 3 months ended |
| | 31st March | 31st March | 31st March | 31st March |
| | 2011 | 2010 | 2011 | 2010 |
| (a) Basic earnings per ordinary share | | | | |
| Profit attributable to owners of the Company for the period (RM'000) | 6,436 | 5,805 | 6,436 | 5,805 |
| Weighted average number of ordinary shares ('000) | 1,417,257 | 1,415,185 | 1,417,257 | 1,415,185 |
| Basic earnings per ordinary share (Sen) | 0.45 | 0.41 | 0.45 | 0.41 |
| (b) Diluted earnings per ordinary share | | | | |
| Profit attributable to owners of the Company for the period (RM'000) | 6,436 | 5,805 | 6,436 | 5,805 |
| Adjustment for after tax effects of interest on ICPS (RM'000) | - | - | - | - |
| Adjustment for after tax effects of interest on Warrants (RM'000) | - | - | - | - |
| Adjusted net profit for the period (RM'000) | 6,436 | 5,805 | 6,436 | 5,805 |
| Weighted average number of ordinary shares ('000) | 1,417,257 | 1,415,185 | 1,417,257 | 1,415,185 |
| Adjustment for assumed conversion of ICPS ('000) | 2,977 | - | 2,977 | - |
| Adjustment for assumed exercise of Warrants ('000) | 30,464 | - | 30,464 | - |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share ('000) | 1,450,698 | 1,415,185 | 1,450,698 | 1,415,185 |
| Diluted earnings per ordinary share (Sen) | 0.44 | 0.41 | 0.44 | 0.41 |