

IRIS CORPORATION BERHAD

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

Interim Financial Report for the Second quarter ended 30th June 2011

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Condensed Consolidated Statement of Comprehensive IncomeFor the Second quarter ended 30th June 2011

	Individual 3 months ended		Cumulative 6 months ended	
	30 th June 2011 RM'000	30 th June 2010 RM'000	30 th June 2011 RM'000	30 th June 2010 RM'000
Revenue	95,305	95,861	168,364	189,800
Cost of sales	(64,492)	(64,939)	(110,037)	(131,224)
Depreciation and amortisation	(1,643)	(2,683)	(3,287)	(5,435)
Gross profit	29,170	28,239	55,040	53,141
Other income	292	891	865	1,099
Administrative and operating expenses	(13,011)	(11,111)	(22,796)	(21,515)
Depreciation and amortisation	(1,150)	(937)	(2,142)	(1,678)
Finance costs	(2,776)	(2,826)	(6,077)	(5,592)
Share of (loss)/profit of associates	(382)	145	(745)	202
Profit before taxation	12,143	14,401	24,145	25,657
Tax expense	(6,294)	(5,929)	(11,860)	(11,377)
Profit for the period	5,849	8,472	12,285	14,280
Other comprehensive income				
Foreign currency translation differences for foreign operations	-	(8)	-	4
Other comprehensive income for the period	-	(8)	-	4
Total comprehensive income for the period	5,849	8,464	12,285	14,284
Profit attributable to:				
Owners of the Company	5,849	8,458	12,285	14,263
Minority interest	-	14	-	17
Profit for the period	5,849	8,472	12,285	14,280

Condensed Consolidated Statement of Comprehensive IncomeFor the Second quarter ended 30th June 2011

(continued)

	Individual		Cumulative	
	3 months ended		6 months ended	
	30 th June	30 th June	30 th June	30 th June
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
<hr/>				
Total comprehensive income attributable to:				
Owners of the Company	5,849	8,450	12,285	14,267
Minority interest	-	14	-	17
Total comprehensive income for the period	<hr/> 5,849	<hr/> 8,464	<hr/> 12,285	<hr/> 14,284
<hr/>				
Earnings per share attributable to owners of the Company:				
Basic (Sen)	0.41	0.60	0.87	1.01
Diluted (Sen)	<hr/> 0.40	<hr/> 0.60	<hr/> 0.84	<hr/> 1.01
<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 30th June 2011

	30 th June 2011 RM'000	31 st December 2010 RM'000
ASSETS		
NON-CURRENT ASSETS		
Concession assets	9,361	8,720
Property, plant and equipment	113,930	114,876
Development Costs	1,363	2,048
Intellectual properties	10,043	10,799
Goodwill on consolidation	133,982	133,982
Investment in associates	41,751	42,497
Available-for-sale financial assets	406	406
Deferred tax assets	1,929	1,929
	312,765	315,257
CURRENT ASSETS		
Inventories	57,885	69,429
Trade receivables	106,343	140,995
Amount owing by contract customers	25,529	21,752
Other receivables, deposits & prepayments	48,523	42,837
Amount owing by associates	53,918	62,947
Amount owing by related parties	510	353
Tax refundable	-	338
Deposits with licensed banks	12,453	12,458
Cash and cash equivalents	33,470	19,218
	338,631	370,327
	651,396	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	27,479	27,642
Retained earnings	69,764	57,316
Total equity attributable to owners of the Company	358,809	346,524
Minority Interest	-	-
TOTAL EQUITY	358,809	346,524

Condensed Consolidated Statement of Financial PositionAs at 30th June 2011

(continued)

	30th June 2011	31st December 2010
	RM'000	RM'000
NON-CURRENT LIABILITIES		
Hire purchase & lease payables	3,841	4,148
Term loan	92,127	102,728
Deferred tax liabilities	15,288	15,288
	<u>111,256</u>	<u>122,164</u>
CURRENT LIABILITIES		
Trade payables	35,955	27,320
Other payables and accruals	60,986	68,730
Amount owing to an associate	7,220	19,191
Amount owing to related parties	211	235
Hire purchase & lease payables	1,180	1,345
Short-term borrowings	60,992	90,914
Provision for taxation	14,787	9,161
	<u>181,331</u>	<u>216,896</u>
TOTAL LIABILITIES	<u>292,587</u>	<u>339,060</u>
TOTAL EQUITY AND LIABILITIES	<u>651,396</u>	<u>685,584</u>
Net assets per ordinary share		
attributable to owners of the Company		
(RM)	<u>0.25</u>	<u>0.24</u>

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 Second quarter ended 30th June 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 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	88	(88)	-	-	-	-	-	-	-	-
Proceeds from issuance of Warrants	-	-	-	10,616	-	-	-	10,616	-	10,616
Total comprehensive income for the financial period	-	-	-	-	4	-	14,263	14,267	17	14,284
At 30th June 2010	212,365	4,051	35,052	10,616	(23)	27,971	43,224	333,256	17	333,273

Condensed Consolidated Statement of Changes in Equity

For the Second quarter ended 30th June 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	3,850	(3,850)	-	-	-	-	-	-	-	-
Realisation on usage of property	-	-	-	-	-	(163)	163	-	-	-
Total comprehensive income for the financial period	-	-	-	-	-	-	12,285	12,285	-	12,285
At 30th June 2011	216,416	-	35,052	10,616	(518)	27,479	69,764	358,809	-	358,809

* 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 Second quarter ended 30th June 2011

	Cumulative 30th June 2011 RM'000	Cumulative 30th June 2010 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	24,145	25,657
Adjustments for:		
Non-Cash Items	6,345	7,295
Interest income	(183)	(39)
Finance costs	8,147	8,548
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	38,454	41,461
Changes in working capital		
Net changes in current assets	45,604	(32,482)
Net changes in current liabilities	(11,105)	21,579
NET CASH GENERATED FROM OPERATIONS	72,953	30,558
Interest received	183	39
Interest paid	(8,147)	(8,548)
Tax paid	(5,896)	(6,463)
NET CASH FROM OPERATING ACTIVITIES	59,093	15,586
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of investment in associates	-	(37,476)
Proceeds from disposal of plant and equipment	-	-
Purchase of plant and equipment	(2,840)	(956)
Purchase of concession assets	(744)	(514)
Grants	-	-
NET CASH USED IN INVESTING ACTIVITIES	(3,584)	(38,946)

Condensed Consolidated Cash Flow StatementFor the Second quarter ended 30th June 2011

(continued)

	Cumulative 30th June 2011 RM'000	Cumulative 30th June 2010 RM'000
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of Warrants	-	10,616
Net repayment of hire purchase and lease payables	(740)	(1,449)
Repayment of bonds	-	(8,750)
Net proceeds from short term borrowings	(4,949)	17,271
Proceeds from drawdown of trade loans	14,749	-
Repayment of term loans	(30,350)	(4,100)
NET CASH (USED IN)/FROM FINANCING ACTIVITIES	(21,290)	13,588
Net changes in cash and cash equivalents	34,219	(9,772)
Effects of exchange rate changes	-	-
Cash and cash equivalents at beginning of the year	11,704	28,487
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	45,923	18,715

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

Deposits with licensed banks, cash and bank balances	45,923	32,737
Bank overdraft	-	(14,022)
	45,923	18,715

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 Report

For the Second quarter ended 30th June 2011

1. Basis of preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 30th June 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 Second quarter.

4. Segment information

The Group's operating segments information for the interim financial report to 30th June 2011 was as follows:-

	Digital Identity & Business Solutions RM'000	Others RM'000	Inter- segment Elimination RM'000	Group RM'000
Revenue	167,221	1,143	-	168,364
Segment results	56,325	(1,285)	-	55,040
Unallocated corporate expenses				(24,938)
Other income				865
Operating profit				30,967
Finance costs				(6,077)
				24,890
Share of loss of associates				(745)
Profit before taxation				24,145
Income tax expense				(11,860)
Profit after taxation				12,285

5. Capital Commitments

	As at 30 th June 2011 RM'000
Authorised and contracted for:-	
Purchase of property, plant and equipment	341

6. Debt and equity securities

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

(a) Maturity and full conversion of Non-Cumulative Irredeemable Convertible Preference Shares ("ICPS")

For the financial period from 1st January 2011 up to the maturity date of ICPS on 24th June 2011, a total of 25,666,204 units of ICPS have been converted into ordinary shares of RM0.15 each.

7. Changes in the composition of the Group

(a) Acquisition of the issued and paid-up share capital of IRIS Healthcare Sdn Bhd, formerly known as Peacock Conglomerate Sdn Bhd (“IRIS Healthcare”)

The Company had on 18th April 2011 acquired 60 ordinary shares of RM1.00 each in IRIS Healthcare, representing 60% of its issued and paid-up share capital for a total cash consideration of RM60.

(b) Acquisition of the issued and paid-up share capital of Warisan Atlet (M) Sdn Bhd, formerly known as My Conquest Sdn Bhd (“Warisan Atlet”)

The Company had on 18th April 2011 acquired 4,900 ordinary shares of RM1.00 each in Warisan Atlet, representing 49% of its issued and paid-up share capital for a total cash consideration of RM1.

(c) Acquisition of the issued and paid-up share capital of Epoch Energy Technology Sdn Bhd, formerly known as Ritz Ringgit Sdn Bhd (“Epoch Energy”)

The Company had on 23rd May 2011 acquired 700 ordinary shares of RM1.00 each in Epoch Energy, representing 70% of its issued and paid-up share capital for a total cash consideration of RM700.

(d) Acquisition of the issued and paid-up share capital of Ubud Tower Sdn Bhd, formerly known as Ubud Tower Sdn Bhd (“Ubud Tower”)

IRIS Agrotech Sdn Bhd, a wholly owned subsidiary of IRIS Corporation Berhad, had on 25th May 2011 acquired 50 ordinary shares of RM1.00 each in Ubud Tower, representing 50% of its issued and paid-up share capital for a total cash consideration of RM50.

(e) Acquisition of the issued and paid-up share capital of IRIS Koto (M) Sdn Bhd, formerly known as Penguin Corporation Sdn Bhd (“IRIS Koto”)

The Company had on 6th June 2011 acquired 5,100 ordinary shares of RM1.00 each in IRIS Koto, representing 51% of its issued and paid-up share capital for a total cash consideration of RM5,100.

(f) Acquisition of the issued and paid-up share capital of IPE Insulation (M) Sdn Bhd. (“IPE Insulation”)

IRIS Koto (M) Sdn Bhd, a subsidiary of IRIS Corporation Berhad, had on 30th June 2011 acquired 2 ordinary shares of RM1.00 each in IPE Insulation, representing 100% of its issued and paid-up share capital for a total cash consideration of RM2.

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) Private placement

The Company had on 8th August 2011 issued new 132,275,100 ordinary shares of RM0.15 each pursuant to the announcement in relation to the Proposed Private Placement dated 27th June 2011.

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 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 and the instalment plan was re-scheduled to be repayable until end of October 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 17th August 2011, the total amount paid to PJT was Thai Baht 325 million (equivalent to RM33.90 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 30th June 2011 RM'000	30th June 2010 RM'000	6 months ended 30th June 2011 RM'000	30th June 2010 RM'000
Income tax				
- Current financial year	(6,294)	(5,929)	(11,860)	(11,377)
- Over/(Under) provision in prior years	-	-	-	-
	<u>(6,294)</u>	<u>(5,929)</u>	<u>(11,860)</u>	<u>(11,377)</u>
Deferred tax				
- Current financial year	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total tax expense	<u>(6,294)</u>	<u>(5,929)</u>	<u>(11,860)</u>	<u>(11,377)</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 6 months period ended 30th June 2011 were as follows:

	RM'000
(a) Associates	
GMPC Corporation Sdn Bhd	
- Sales	42,968
- Rental received	<u>3</u>
PJT Technology Co. Ltd	
- Sales	<u>4,698</u>
(b) A company in which a director/substantial shareholder of the Company has financial interest	
MCS Microsystems Sdn Bhd	
- Rental received	39
Versatile Paper Boxes Sdn Bhd	
- Purchases	<u>6</u>

15. Comparative figures

Certain comparative figures as shown in the condensed consolidated statement of comprehensive income have been reclassified in order to conform with the current financial period's presentation.

Additional information required by the AMLR

16.1 Review of Performance

For the current financial quarter ended 30th June 2011, the Group recorded revenue of RM95.3 million and profit before taxation of RM12.1 million from RM95.9 million and RM14.4 million in the previous comparable quarter ended 30th June 2010, which is 0.6% and 16.0% 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 30th June 2011, the Group recorded revenue of RM95.3 million and profit before taxation of RM12.1 million from RM73.1 million and RM12.0 million in the preceding financial quarter ended 31st March 2011, which is 30.4% and 0.8% higher respectively.

The increase in revenue and profit before taxation were mainly attributable to the higher delivery of MyKad and Nigeria e-Passport inlays.

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 31st 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.

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 investment and deposits paid in respect of:

	At 30 th June 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.

22. Status of Corporate Proposals and utilisation of proceeds

There were no corporate proposals announced but not completed as at 17th August 2011, being the latest practicable date which is not earlier than seven (7) days from the date of issue of this quarterly report.

The corporate proposal carried out and completed during this quarterly report was disclosed as below:

Private Placement of new ordinary shares of RM0.15 each in the Company representing up to ten percent (10%) of the Company's issued and paid-up share capital ("Private Placement")

On 8th August 2011, 132,275,100 New Ordinary Shares were issued pursuant to the Private Placement and were subsequently listed and quoted on the ACE Market of Bursa Malaysia Securities Berhad on 11th August 2011, marking the completion of the Private Placement.

22. Status of Corporate Proposals and utilisation of proceeds (cont'd)

The details of the utilisation of the proceeds from the Private Placement up to 17th August 2011 are as follows:

Description	Proposed utilisation (RM'000)	Actual utilisation (RM'000)	Balance to be utilised (RM'000)	Intended Timeframe for Utilisation
Working capital for the Group's Trusted Identity ("TI") projects overseas	10,000	-	10,000	Within 12 months
Enhancement of the Group's TI business	10,000	-	10,000	Within 12 months
Total	20,000	-	20,000	

23. 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	60,992	92,127	153,119

All of the above borrowings are denominated in Ringgit Malaysia other than a short term borrowing amounting to RM8.98 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 17th August 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 17th August 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.

There was no progress on the hearing dated 14th June 2011. The next hearing date has then been postponed and fixed on 6th October 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.

There was no progress on the hearing dated 14th June 2011. The next hearing date has then been postponed and fixed on 6th October 2011.

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 30 th June 2011 RM'000	As at 31 st December 2010 RM'000
Total retained earnings:		
i) The Company and its subsidiaries		
- Realised profits/(losses)	27,133	17,966
- Unrealised profits/(losses)	(19,600)	(18,624)
	7,533	(2,658)
ii) Associates		
- Realised profits/(losses)	(1,227)	(482)
- Unrealised profits/(losses)	(511)	(511)
	(1,738)	(993)
	5,795	(3,651)
iii) Group consolidated adjustments	63,969	60,967
Total retained earnings of the Group	69,764	57,316

27. Dividend

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

28. Earnings Per Share

	Individual		Cumulative	
	3 months ended	3 months ended	6 months ended	6 months ended
	30th June	30th June	30th June	30th June
	2011	2010	2011	2010
(a) Basic earnings per ordinary share				
Profit attributable to owners of the Company for the period (RM'000)	5,849	8,458	12,285	14,263
Weighted average number of ordinary shares ('000)	1,418,442	1,415,576	1,418,442	1,415,406
Basic earnings per ordinary share (Sen)	0.41	0.60	0.87	1.01
(b) Diluted earnings per ordinary share				
Profit attributable to owners of the Company for the period (RM'000)	5,849	8,458	12,285	14,263
Adjustment for after tax effects of Warrants A (RM'000)	-	-	-	-
Adjustment for after tax effects of Warrants B (RM'000)	-	-	-	-
Adjusted net profit for the period (RM'000)	5,849	8,458	12,285	14,263
Weighted average number of ordinary shares ('000)	1,418,442	1,415,576	1,418,442	1,415,406
Adjustment for assumed exercise of Warrants A ('000)	7,770	-	7,770	-
Adjustment for assumed exercise of Warrants B ('000)	35,388	-	35,388	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share ('000)	1,461,600	1,415,576	1,461,600	1,415,406
Diluted earnings per ordinary share (Sen)	0.40	0.60	0.84	1.01