

IRIS CORPORATION BERHAD

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

Interim Financial Report for the Third quarter ended 30th September 2011

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Condensed Consolidated Statement of Comprehensive IncomeFor the Third quarter ended 30th September 2011

	Individual		Cumulative	
	3 months ended		9 months ended	
	30th	30th	30th	30th
	September	September	September	September
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Revenue	103,373	100,837	271,737	290,637
Cost of sales	(72,102)	(71,549)	(182,139)	(202,773)
Depreciation and amortisation	(1,879)	(2,673)	(5,166)	(8,108)
Gross profit	29,392	26,615	84,432	79,756
Other income	3,446	417	4,311	1,515
Administrative and operating expenses	(12,676)	(11,019)	(35,472)	(32,533)
Depreciation and amortisation	(1,268)	(942)	(3,410)	(2,620)
Finance costs	(2,610)	(2,752)	(8,687)	(8,344)
Share of (loss)/profit of associates	(135)	(1,266)	(880)	(1,064)
Profit before taxation	16,149	11,053	40,294	36,710
Tax expense	(3,336)	(1,369)	(15,196)	(12,746)
Profit for the period	12,813	9,684	25,098	23,964
Other comprehensive income				
Foreign currency translation differences for foreign operations	-	20	-	24
Other comprehensive income for the period	-	20	-	24
Total comprehensive income for the period	12,813	9,704	25,098	23,988
Profit attributable to:				
Owners of the Company	13,132	9,687	25,417	23,950
Non-controlling Interest	(319)	(3)	(319)	14
Profit for the period	12,813	9,684	25,098	23,964

Condensed Consolidated Statement of Comprehensive IncomeFor the Third quarter ended 30th September 2011

(continued)

	Individual 3 months ended 30th		Cumulative 9 months ended 30th	
	September 2011 RM'000	September 2010 RM'000	September 2011 RM'000	September 2010 RM'000
Total comprehensive income attributable to:				
Owners of the Company	13,132	9,707	25,417	23,974
Non-controlling Interest	(319)	(3)	(319)	14
Total comprehensive income for the period	12,813	9,704	25,098	23,988
Earnings per share attributable to owners of the Company:				
Basic (Sen)	0.90	0.68	1.75	1.69
Diluted (Sen)	0.88	0.68	1.71	1.69

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 September 2011

	30th September 2011	31st December 2010
	RM'000	RM'000
ASSETS		
NON-CURRENT ASSETS		
Concession assets	9,736	8,720
Property, plant and equipment	114,864	114,876
Development Costs	1,021	2,048
Intellectual properties	9,697	10,799
Goodwill on consolidation	133,982	133,982
Investment in associates	42,542	42,497
Available-for-sale financial assets	406	406
Deferred tax assets	1,929	1,929
	<u>314,177</u>	<u>315,257</u>
CURRENT ASSETS		
Inventories	64,728	69,429
Trade receivables	156,913	140,995
Amount owing by contract customers	30,173	21,752
Other receivables, deposits & prepayments	43,628	42,837
Amount owing by associates	51,235	62,947
Amount owing by related parties	438	353
Tax refundable	-	338
Deposits with licensed banks	15,377	12,458
Cash and cash equivalents	98,522	19,218
	<u>461,014</u>	<u>370,327</u>
TOTAL ASSETS	<u>775,191</u>	<u>685,584</u>
EQUITY AND LIABILITIES		
EQUITY		
Share capital	236,257	216,416
Share premium	35,211	35,052
Warrants reserve	10,616	10,616
Foreign exchange translation reserve	(518)	(518)
Revaluation reserve	27,396	27,642
Retained earnings	75,892	57,316
Total equity attributable to owners of the Company	<u>384,854</u>	<u>346,524</u>
Non-controlling Interest	(269)	-
TOTAL EQUITY	<u>384,585</u>	<u>346,524</u>

Condensed Consolidated Statement of Financial PositionAs at 30th September 2011

(continued)

	30 th September 2011 RM'000	31 st December 2010 RM'000
NON-CURRENT LIABILITIES		
Hire purchase & lease payables	3,567	4,148
Term loan	90,078	102,728
Deferred tax liabilities	15,288	15,288
	108,933	122,164
CURRENT LIABILITIES		
Trade payables	42,291	27,320
Other payables and accruals	156,399	68,730
Amount owing to an associate	2,535	19,191
Amount owing to related parties	206	235
Hire purchase & lease payables	1,391	1,345
Short-term borrowings	70,605	90,914
Provision for taxation	8,246	9,161
	281,673	216,896
TOTAL LIABILITIES	390,606	339,060
TOTAL EQUITY AND LIABILITIES	775,191	685,584
Net assets per ordinary share attributable to owners of the Company (RM)	0.24	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 Third quarter ended 30th September 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	Non- controlling 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	230	(230)	-	-	-	-	-	-	-	-
Proceeds from issuance of Warrants	-	-	-	10,616	-	-	-	10,616	-	10,616
Total comprehensive income for the financial period	-	-	-	-	24	-	23,950	23,974	14	23,988
At 30th September 2010	212,507	3,909	35,052	10,616	(3)	27,971	52,911	342,963	14	342,977

Condensed Consolidated Statement of Changes in Equity

For the Third quarter ended 30th September 2011

(continued)

	← Attributable to the owners of the Company →									Total Equity RM'000
	← 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	Non- controlling Interest RM'000	
At 1 st January 2011	212,566	3,850	35,052	10,616	(518)	27,642	57,316	346,524	-	346,524
Issue of share capital	19,841	-	159	-	-	-	-	20,000	-	20,000
Acquisition/Issue of share in subsidiaries	-	-	-	-	-	-	-	-	50	50
Conversion of ICPS into ordinary shares	3,850	(3,850)	-	-	-	-	-	-	-	-
Realisation on usage of property	-	-	-	-	-	(246)	246	-	-	-
Dividend paid	-	-	-	-	-	-	(7,087)	(7,087)	-	(7,087)
Total comprehensive income for the financial period	-	-	-	-	-	-	25,417	25,417	(319)	25,098
At 30th September 2011	236,257	-	35,211	10,616	(518)	27,396	75,892	384,854	(269)	384,585

* 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 Third quarter ended 30th September 2011

	Cumulative 30th September 2011 RM'000	Cumulative 30th September 2010 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	40,294	36,710
Adjustments for:		
Non-Cash Items	9,600	11,982
Interest income	(395)	(74)
Finance costs	8,687	8,344
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	58,186	56,962
Changes in working capital		
Net changes in current assets	(8,801)	(55,749)
Net changes in current liabilities	85,956	24,107
NET CASH GENERATED FROM OPERATIONS	135,341	25,320
Dividend received	75	100
Interest received	395	74
Interest paid	(8,687)	(8,344)
Tax paid	(15,774)	(9,080)
NET CASH FROM OPERATING ACTIVITIES	111,350	8,070
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of investment in associates	(1,000)	(37,476)
Acquisition of subsidiaries, net of cash acquired	50	-
Proceeds from disposal of plant and equipment	1	137
Purchase of plant and equipment	(5,888)	(8,825)
Purchase of concession assets	(1,154)	(833)
Grants	-	-
NET CASH USED IN INVESTING ACTIVITIES	(7,991)	(46,997)

Condensed Consolidated Cash Flow StatementFor the Third quarter ended 30th September 2011

(continued)

	Cumulative 30th September 2011 RM'000	Cumulative 30th September 2010 RM'000
CASH FLOW FROM FINANCING ACTIVITIES		
Dividend paid to owners of the Company	(7,087)	-
Proceeds from issuance of ordinary share	20,000	-
Proceeds from issuance of Warrants	-	10,616
Net repayment of hire purchase and lease payables	(1,090)	(1,774)
Repayment of bonds	-	(68,750)
Net proceeds from short term borrowings	(1,593)	(15,169)
Proceeds from drawdown of trade and term loans	29,438	100,000
Repayment of term loans	(40,832)	(16,150)
NET CASH (USED IN)/FROM FINANCING ACTIVITIES	(1,164)	8,773
Net changes in cash and cash equivalents	102,195	(30,154)
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	113,899	(1,667)

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

Deposits with licensed banks, cash and bank balances	113,899	18,301
Bank overdraft	-	(19,968)
	113,899	(1,667)

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 Third quarter ended 30th September 2011**1. Basis of preparation**

This interim financial report is based on the unaudited financial statements for the quarter ended 30th September 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 non-controlling interest to be absorbed by the non-controlling 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 Third quarter.

4. Segment information

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

	Digital Identity & Business Solutions RM'000	Others RM'000	Inter- segment Elimination RM'000	Group RM'000
Revenue	269,650	2,087	-	271,737
Segment results	85,821	(1,389)	-	84,432
Unallocated corporate expenses				(38,882)
Other income				4,311
Operating profit				49,861
Finance costs				(8,687)
				41,174
Share of loss of associates				(880)
Profit before taxation				40,294
Income tax expense				(15,196)
Profit after taxation				25,098

5. Capital Commitments

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

6. Debt and equity securities

There were no issuances, cancellations, repurchases, resale and repayments of debts and equity securities in the current financial period.

7. Changes in the composition of the Group

(a) Increase in the issued and paid-up share capital of IRIS Land Sdn Bhd (formerly known as Peak Structure Sdn Bhd) ("IRIS Land")

During the financial period, IRIS Land had issued new ordinary shares by 99,998 ordinary shares of RM1.00 each, of which 59,998 ordinary shares was subscribed by the Company.

Previously, IRIS Land was a wholly-owned subsidiary of the Company. After the increase in the issued and paid-up share capital from 2 ordinary shares to 100,000 ordinary shares, IRIS Land is now a 60% owned subsidiary of the Company.

The dilution in the equity interest of IRIS Land does not have material financial impact to the Company as IRIS Land is still in dormant.

7. Changes in the composition of the Group (Cont'd)

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

IRIS Koto (M) Sdn Bhd (formerly known as Penguin Corporation Sdn Bhd), a subsidiary of IRIS Corporation Berhad, had on 1st July 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 RM2.00.

(c) Acquisition of the issued and paid-up share capital of RB Biotech Sdn Bhd (“RB Biotech”)

The Company had on 22nd August 2011 entered into a Subscription Agreement for the proposed subscription of 2,000,000 ordinary shares of RM1.00 each in RB Biotech for a total cash consideration of RM2,000,000. The proposed subscription will be breakdown into 2 tranches with 1,000,000 ordinary shares for each tranche.

As of 22nd August 2011, the Company subscribed 1,000,000 ordinary shares of RM1.00 each in RB Biotech for a total cash consideration of RM1,000,000.

And, the second subscription of 1,000,000 ordinary shares of RM1.00 each in RB Biotech for a total cash consideration of RM1,000,000 will only be taken place at a later date that to be mutually determined by ICB and RB Biotech.

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.

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 Third 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 16th November 2011, the total amount of Thai Baht 360 million has been fully paid to PJT.

- (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	9 months ended	9 months ended
	30th	30th	30th	30th
	September	September	September	September
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Income tax				
- Current financial year	(3,336)	(4,817)	(15,196)	(16,194)
- Over/(Under) provision in prior years	-	3,448	-	3,448
	(3,336)	(1,369)	(15,196)	(12,746)
Deferred tax				
- Current financial year	-	-	-	-
Total tax expense	(3,336)	(5,929)	(15,196)	(11,377)

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 9 months period ended 30th September 2011 were as follows:

	RM'000
(a) Associates	
GMPC Corporation Sdn Bhd	
- Sales	60,081
- Rental received	5
	<hr/>
PJT Technology Co. Ltd	
- Sales	6,896
	<hr/>
(b) A company in which a director/substantial shareholder of the Company has financial interest	
MCS Microsystems Sdn Bhd	
- Rental received	59
Versatile Paper Boxes Sdn Bhd	
- Purchases	6
Imagescan Creative Sdn Bhd	
- Purchases	31
	<hr/>

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 September 2011, the Group recorded revenue of RM103.4 million and profit before taxation of RM16.1 million from RM100.8 million and RM11.1 million in the previous comparable quarter ended 30th September 2010, which is 2.6% and 45.0% higher respectively.

The main contributions to the Group's performance for the current financial quarter came from its ongoing projects, namely MyKad Project, Malaysia e-Passport Project, Automatic Fare Collection System (AFC) for the LRT project in Malaysia and the Bangladesh MRP passport project.

16.2 Comparison with Preceding Quarter

The Group recorded revenue of RM103.4 million and profit before taxation of RM16.1 million for the current financial quarter ended 30th September 2011, which is 8.5% and 33.1% higher respectively as compared to revenue of RM95.3 million and profit before taxation of RM12.1 million recorded in the preceding financial quarter ended 30th June 2011.

The increase in revenue and profit before taxation were mainly attributable to the higher revenue from Automatic Fare Collection System (AFC) for the LRT Project in Malaysia and the Bangladesh MRP passport project.

17. Prospects

For the financial year 2012, 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, Tanzania 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 March 2012.

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, except as disclosed in 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 investment and deposits paid in respect of:

	At 30 th September 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 16th November 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 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 16th November 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	70,605	90,078	153,119

All of the above borrowings are denominated in Ringgit Malaysia other than a short term borrowing amounting to RM8.76 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 16th November 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 16th November 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 6th October 2011. The next hearing date has then been postponed and fixed on 31st January 2012 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 6th October 2011. The next hearing date has then been postponed and fixed on 20th December 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.

26. Realised and Unrealised retained earnings

Breakdown of retained earnings of the Group is as follows:

	As at 30 th September 2011 RM'000	As at 31 st December 2010 RM'000
Total retained earnings:		
i) The Company and its subsidiaries		
- Realised profits/(losses)	32,187	17,966
- Unrealised profits/(losses)	(15,748)	(18,624)
	16,439	(2,658)
ii) Associates		
- Realised profits/(losses)	(437)	(482)
- Unrealised profits/(losses)	(511)	(511)
	(948)	(993)
	15,491	(3,651)
iii) Group consolidated adjustments	60,401	60,967
Total retained earnings of the Group	75,892	57,316

27. Dividend

Breakdown of dividend paid for the cumulative 9 months period ended 30th September 2011 were as follows:

	9-months ended 31 st September 2011 RM'000
2010 - First and final dividend of 0.45 sen per ordinary share	7,087

28. Earnings Per Share

	Individual		Cumulative	
	3 months ended 30th September 2011	30th September 2010	9 months ended 30th September 2011	30th September 2010
(a) Basic earnings per ordinary share				
Profit attributable to owners of the Company for the period (RM'000)	13,132	9,687	25,417	23,950
Weighted average number of ordinary shares ('000)	1,452,805	1,415,789	1,452,805	1,415,789
Basic earnings per ordinary share (Sen)	0.90	0.68	1.75	1.69
(b) Diluted earnings per ordinary share				
Profit attributable to owners of the Company for the period (RM'000)	13,132	9,687	25,417	23,950
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)	13,132	9,687	25,417	23,950
Weighted average number of ordinary shares ('000)	1,452,805	1,415,789	1,452,805	1,415,789
Adjustment for assumed exercise of Warrants A ('000)	5,484	-	5,484	-
Adjustment for assumed exercise of Warrants B ('000)	24,980	-	24,980	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share ('000)	1,483,269	1,415,789	1,483,269	1,415,789
Diluted earnings per ordinary share (Sen)	0.88	0.68	1.71	1.69