

IRIS CORPORATION BERHAD

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

Interim Financial Report for the fourth quarter ended 31st December 2009

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Condensed Consolidated Income Statement

For the fourth quarter ended 31st December 2009

	Individual		Cumulative	
	3 months ended		12 months ended	
	31 st Dec	31 st Dec	31 st Dec	31 st Dec
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Revenue	132,548	91,656	331,728	285,600
Cost of sales	(109,343)	(67,396)	(242,615)	(208,331)
Depreciation and amortization	(1,690)	(3,600)	(11,427)	(13,879)
Gross profit	21,515	20,660	77,686	63,390
Other income	221	2,098	1,579	3,719
Operating expenses	(7,524)	(13,309)	(31,326)	(33,041)
Other operating expenses	-	-	(1,000)	-
Depreciation and amortization	(781)	(798)	(3,177)	(3,174)
Interest expenses	(2,836)	(3,301)	(12,686)	(15,059)
Share of profit / (loss) of associated companies	(109)	(361)	(537)	2
Profit before taxation	10,486	4,989	30,539	15,837
Tax expense	(7,344)	(3,188)	(14,840)	(5,206)
Profit after taxation	3,142	1,801	15,699	10,632
Attributable to:				
Equity holders of the Company	3,142	1,846	15,699	10,677
Minority Interest	-	45	-	45
	3,142	1,801	15,699	10,632
Earnings per ordinary share attributable to equity holders of the Company:				
Basic (Sen)	0.22	0.13	1.12	0.78
Diluted (Sen)	0.22	0.13	1.09	0.76

The Condensed Consolidated Income Statement should be read in conjunction with the audited financial statements of the Group for the year ended 31st December 2008 and the accompanying explanatory notes attached to this interim financial statement.

Condensed Consolidated Balance Sheet

As at 31st December 2009

	31 st December 2009 RM'000	31 st December 2008 RM'000
ASSETS		
NON-CURRENT ASSETS		
Concession assets	7,753	23,225
Property, plant and equipment	93,378	39,466
Research & development	3,417	7,355
Intellectual properties	12,179	13,496
Goodwill on consolidation	134,006	133,982
Investment in associated company	4,687	6,223
Other investments	406	406
	255,826	224,153
CURRENT ASSETS		
Inventories	64,348	69,980
Trade receivables	134,470	101,601
Amount owing by contract customers	6,985	6,783
Other receivables, deposits & prepayments	17,858	38,336
Amount owing by associates	21,245	2,428
Amount owing by related parties	381	249
Tax refundable	-	210
Deposits with licensed banks	17,035	17,428
Cash and cash equivalents	10,623	37,906
	272,945	274,921
Non-current assets held for sale	-	62,013
	272,945	336,934
TOTAL ASSETS	528,771	561,087
EQUITY AND LIABILITIES		
EQUITY		
Share capital	216,416	216,416
Share premium	35,052	35,052
Foreign exchange translation reserve	(27)	19
Reserve relating to assets held for sale	13,724	13,724
Retained profits	28,773	13,075
TOTAL EQUITY	293,938	278,286

Condensed Consolidated Balance Sheet

As at 31st December 2009

(continued)

	31 st December 2009 RM'000	31 st December 2008 RM'000
NON-CURRENT LIABILITIES		
Hire purchase & lease payables	990	2,309
Other payables	2,636	2,812
Bonds	-	88,875
Term loan	27,428	15,341
Deferred tax liabilities	8,587	7,587
	39,641	116,924
CURRENT LIABILITIES		
Trade payables	33,084	48,348
Amount owing to contract customers	23,261	8,515
Other payables and accruals	24,967	30,592
Amount owing to related parties	281	313
Amount owing to directors	-	378
Hire purchase & lease payables	1,787	5,458
Bonds	68,750	36,125
Short-term borrowings	38,561	34,894
Provision for taxation	4,501	1,254
	195,192	165,877
TOTAL LIABILITIES	234,833	282,801
TOTAL EQUITY AND LIABILITIES	528,771	561,087
Net assets per share attributable to equity holders of the Company (RM)	0.21	0.21

The Condensed Consolidated Balance Sheet should be read in conjunction with the audited financial statements of the Group for the year ended 31st December 2008 and the accompanying explanatory notes attached to this interim financial statement.

Condensed Consolidated Statement of Changes in Equity

For the fourth quarter ended 31st December 2009

	← Non-Distributable			→ Distributable			Minority Interest RM'000	Total Equity RM'000	
	Share Capital RM'000	ICPS RM'000	Share Premium RM'000	Translation Reserve RM'000	Reserve Relating to Asset Held for sale RM'000	Revaluation Reserve RM'000			Accumulated (Loss)/Profit RM'000
At 1 st January 2008	205,296	11,120	35,052	-	-	13,516	2,231	-	267,215
Conversion of ICPS into ordinary shares	5,382	(5,382)	-	-	-	-	-	-	-
Overprovision of deferred taxation	-	-	-	-	-	375	-	-	375
Realisation on usage of property	-	-	-	-	-	(167)	167	-	-
Amount recognized directly in equity relating to assets held for sales	-	-	-	-	13,724	(13,724)	-	-	-
Incorporation of a subsidiary	-	-	-	-	-	-	-	45	45
Profit after taxation	-	-	-	-	-	-	10,677	(45)	10,632
Currency translation difference	-	-	-	19	-	-	-	-	19
At 31st December 2008	210,678	5,738	35,052	19	13,724	-	13,075	-	278,286
At 1 st January 2009	210,678	5,738	35,052	19	13,724	-	13,075	-	278,286
Conversion of ICPS into ordinary shares	1,598	(1,598)	-	-	-	-	-	-	-
Profit after taxation	-	-	-	-	-	-	15,698	-	15,698
Currency translation difference	-	-	-	(46)	-	-	-	-	(46)
At 31st December 2009	212,276	4,139	35,052	(27)	13,724	-	28,773	-	293,938

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 2008 and the accompanying explanatory notes attached to this interim financial statement.

Condensed Consolidated Cash Flow Statement

For the fourth quarter ended 31st December 2009

	Cumulative 31st December 2009 RM'000	Cumulative 31st December 2008 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	30,539	15,838
Adjustments for:		
Non-Cash Items	18,447	33,099
Interest expenses	12,686	14,286
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	61,672	63,223
Changes in working capital		
Net changes in current assets	3,511	(27,886)
Net changes in current liabilities	(19,295)	31,776
NET CASH (USED IN) / GENERATED FROM OPERATIONS	45,888	67,113
Interest paid	(13,214)	(14,286)
Tax paid	(10,383)	(1,475)
NET CASH (USED IN) / GENERATED FROM OPERATING ACTIVITIES	22,291	51,352
CASH FLOW FROM INVESTING ACTIVITIES		
Intellectual properties	(63)	-
Development expenditure	-	(4)
Proceeds from disposal of fixed assets	50	606
Proceeds from withdrawal of fixed deposit pledged	-	-
Purchase of fixed assets	(2,800)	(3,101)
Purchase of concession assets	(1,140)	(7,715)
Grants	2	371
Investment in associated company	-	-
NET CASH USED IN INVESTING ACTIVITIES	(3,951)	41,509

Condensed Consolidated Cash Flow Statement

For the fourth quarter ended 31st December 2009
(continued)

	Cumulative 31st December 2009 RM'000	Cumulative 31st December 2008 RM'000
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	-	-
Repayment of hire purchase and lease payables	(5,477)	(6,389)
Repayment of bond	(56,250)	(25,000)
Short term borrowings	(334)	(12,608)
Long term borrowings	16,086	29,855
NET CASH (USED IN) / GENERATED FROM FINANCING ACTIVITIES	(45,975)	(14,142)
Net changes in cash and cash equivalents	(27,635)	27,367
Effects of exchange rate changes	(41)	19
Cash and cash equivalents at beginning of the year	55,334	27,948
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	27,658	55,334

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 2008 and the accompanying explanatory notes attached to this interim financial statement.

Notes to the Interim Financial Report

For the fourth quarter ended 31st December 2009

1. Basis of preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 31st December 2009 and has been prepared in compliance with FRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB") and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for the ACE Market ("AMLR").

The accounting policies and methods of computation adopted by the Group in this report are consistent with those adopted in the financial statements for the year ended 31st December 2008.

2. Audit report of preceding annual financial statement

The preceding year audited financial statements were not subject to any qualifications.

3. Seasonal or cyclical factors

The business of the Group was not affected by any significant seasonal or cyclical factors in the fourth quarter.

4. Segment information

The Group's segment information for the interim financial report to 31st December 2009 was as follows:-

	Digital Identity & Business Solutions RM'000	Others RM'000	Inter- segment Elimination RM'000	Group RM'000
Revenue	305,298	26,430	-	331,728
Segment results	87,845	(10,158)	-	77,686
Unallocated corporate expenses				(35,503)
Other operating expenses				-
Operating profit				42,183
Other income				1,579
Finance cost				(12,686)
				31,076
Share of profit / (loss) of associated companies				(537)
Profit before taxation				30,539
Income tax expenses				(14,840)
Profit after taxation				15,699

5. Non Current Assets Held for Sale

IRIS Technologies (M) Sdn Bhd (“IRIS Tech”), a wholly-owned subsidiary of ICB, had on 11th July 2007 accepted a Conditional Letter of Offer issued by Mapletree dated 9th July 2007 for the proposed disposal and leaseback of two plots of leasehold land and a four (4) and a half storey office and manufacturing building bearing the postal address Lot 8 & 9, IRIS Smart Technology Complex, Technology Park Malaysia, Bukit Jalil, 57000 Kuala Lumpur with an estimated land area of approximately 188,179 sq ft to Mapletree for a consideration of RM91.5 million.

Both IRIS Tech and Mapletree Industrial Fund Ltd have mutually agreed to extend the negotiation period on the terms of the definitive Sale and Purchase Agreement to 17th February 2010.

The property at the balance sheet date was revalued in 5th February 2010 by an independent firm of professional valuers using the open market basis.

The property at the balance sheet date has been pledged as security for bank borrowings.

6. Capital Commitments

There were no capital commitments as at 16th February 2010.

7. 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 2009 to 31st December 2009, a total of 10,659,100 units of ICPS have been converted into ordinary shares of RM0.15 each.

8. Changes in the composition of the Group

There were no changes in the composition of the Group for the fourth quarter.

9. 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.

10. 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

As at 16th February 2010, the Company had issued 15,000 ordinary shares of RM0.15 each pursuant to the conversion of ICPS.

11. 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.

12. Valuations of property, plant and equipment

There were no valuations made on property, plant and equipment for this quarter.

13. Changes in contingent liabilities and contingent assets

On 12th July 2006, ICB entered into a Sales and Purchase Agreement with Enve Hitech Farming Solutions Sdn Bhd (“ENVE”) to purchase Capillary Agrotech (Malaysia) Sdn Bhd (“CA”) to which ENVE would guarantee ICB a profit before taxation of RM6 million before 30th June 2008.

In the event of CA’s inability to achieve the cumulative profit of RM6 million at the stipulated date, ENVE would be liable to compensate ICB for an amount of 70% of the shortfall in cumulative profit before tax.

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

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

a) Signing of supply agreement for farming system in Perak

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

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b) Sales of 600,000 units of AutoPots

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

Saved as disclosed above, there were no other changes in contingent liabilities and contingent assets since the last balance sheet date.

14. Taxation

	31st Dec 2009 RM'000	31st Dec 2008 RM'000
Deferred tax for current financial year	1,000	2,606
Current tax for current financial year	13,340	2,600
Under provision in previous financial year	500	-
	<u>14,840</u>	<u>5,206</u>

The Group's effective tax rate is higher than the statutory tax rate of 25% mainly due losses in subsidiaries which were not available for tax relief at Group and non-deductibility of certain operating expenses for tax purposes.

15. Related Party Transactions

	31st Dec 2009 RM'000
1. MCS Microsystems Sdn Bhd	
- Purchases	897
- Professional Services	-
- Rental received	78
2. Versatile Paper Boxes Sdn Bhd	
- Purchases	1

Additional information required by the AMLR

16.1 Review of Performance

For the twelve (12) months ended 31st December 2009, the Group recorded a revenue of RM331.7 million representing an increase of 16.1% as compared to the revenue of RM285.6 million for the previous comparable financial year ended (“FYE”) 31st December 2008. In line with the increase in revenue, the Group recorded an increase in the profit before taxation of RM30.5 million for the FYE 31st December 2009 representing an increase of 93% as compared to a profit before taxation of RM15.8 million in the previous comparable FYE 31st December 2008.

For the current financial quarter ended 31st December 2009, the Group recorded revenue of RM132.6 million and profit before taxation of RM10.5 million from RM91.7 million and RM5.0 million, which is 44.6% and 110.0% higher respectively when compared to the previous comparable financial quarter ended 31st December 2008.

The main contributions to the Group’s performance for the current financial quarter came from its ongoing projects, namely MyKad Project, Malaysia e-Passport Project, Senegal e-Passport Project, Nigeria e-Passport Project and Egypt CSO Project.

16.2 Comparison with Preceding Quarter

For the current financial quarter ended 31st December 2009, the Group recorded revenue of RM132.6 million and profit before taxation of RM10.5 million from RM72.6 million and RM7.8 million, which is 82.6% and 34.6% higher respectively when compared to the preceding financial quarter ended 30th September 2009. The increases were due to better performances of the trusted identity business segment from both local and overseas projects.

17. Prospects

For the financial year 2010, the Group’s revenue is expected to be contributed mainly by 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, Egypt and Bangladesh.

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

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

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

19. Unquoted Securities

There were no purchases or disposals of unquoted securities 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. Other Investments

Other investments represent deposits paid in respect of:

	31st Dec 2009 RM'000
Investment in XID Technologies Pte Ltd	2,378
Golf Club Membership	406
(Less) Provision for diminution in value	(2,378)
	<u>406</u>

XID Technologies Pte Ltd is an unquoted Singapore company.

22. Status of Corporate Proposals

Save as disclosed below, there were no corporate proposals announced but not completed as at 16th February 2010, being the latest practicable date which is not earlier than seven (7) days from the date of issue of this quarterly report:-

(a) Proposed disposal and leaseback of two plots of leasehold land located within Technology Park Malaysia, Kuala Lumpur and a four (4) and a half storey office and manufacturing building to Mapletree Industrial Fund Ltd (“Mapletree”) (“Proposed Disposal and Leaseback”)

IRIS Technologies (M) Sdn Bhd (“IRIS Tech”), a wholly-owned subsidiary of ICB, had on 11th July 2007 accepted a Conditional Letter of Offer issued by Mapletree dated 9th July 2007 for the proposed disposal and leaseback of two plots of leasehold land and a four (4) and a half storey office and manufacturing building bearing the postal address Lot 8 & 9, IRIS Smart Technology Complex, Technology Park Malaysia, Bukit Jalil, 57000 Kuala Lumpur with an estimated land area of approximately 188,179 sq ft to Mapletree for a consideration of RM91.5 million.

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Both IRIS Tech and Mapletree Industrial Fund Ltd have mutually agreed to extend the negotiation period on the terms of the definitive Sale and Purchase Agreement to 17th February 2010.

(b) Proposed renounceable rights issue of up to 223,408,274 new six (6)-year warrants

On 19th January 2010, the Company had proposed a renounceable rights issue of up to 223,408,274 new six (6)-year warrants ("New Warrants") on the basis of three (3) New Warrants for every twenty (20) existing ordinary shares of RM0.15 each in IRIS ("Shares" or "IRIS Shares") held at an indicative issue price of RM0.05 per New Warrant ("Proposed Warrants Issue"). In this respect, the circular to shareholders of IRIS and the Notice of Extraordinary General Meeting ("EGM") has been dispatched on 12 February 2010. The EGM has been proposed to be held on 3 March 2010.

On 12th February 2010, an application has been submitted to Bank Negara Malaysia for their approval on the issuance of the New Warrants to non-resident shareholders of the Company pursuant to the Proposed Warrants Issue and any additional New Warrants to be issued from time to time arising from any adjustments made pursuant to the provisions of the deed poll governing the New Warrants to be executed by the Company. In addition, on the same day, the listing application has also been submitted to Bursa Securities for the admission of the New Warrants to the Official List and the listing of and quotation for the New Warrants and the new IRIS shares to be issued upon exercise of the New Warrants on the ACE Market of Bursa Securities

23. Group Borrowings and Debt Securities

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

	Short Term	Long Term	Total
	RM'000	RM'000	RM'000
Secured	107,311	27,428	134,739
Unsecured	-	-	-
Total	107,311	27,428	134,739

24. Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risk as at 16th February 2010 being the latest practicable date which is not earlier than seven (7) days from date of issue of this quarterly report.

25. Material Litigation

Save for the outstanding material litigations as disclosed below, there are no other material litigations involving the Group as at 16th February 2010:

- (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.

- (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 18 September 2009) which is equivalent to the first phase payment received by the Joint Venture Company between ITSB and

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KUNT. Subsequently, all the hardware and equipment delivered shall be returned to the JV Company.

On 18th September 2009, Messrs Sen & Arpaci had on behalf of the JV Company, made an application to the Ankara Civil Court of Turkey (“**Court**”), for an injunction to restrain EGM from claiming on the performance bond submitted by the JV Company in 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 & Arpaci 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 22 December 2009. It is now fixed for second hearing on 23 March 2010.

26. Dividend

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

27. Earnings Per Share

	Individual quarter ended	
	31st Dec 2009	31st Dec 2008
(a) Basic earnings per share		
Profit attributable to equity holders of the Company for the period (RM'000)	3,142	1,846
Weighted average number of ordinary shares ('000)	1,407,313	1,375,043
Basic earnings per share (Sen)	0.22	0.13
(b) Diluted earnings per share		
Profit attributable to equity holders of the Company for the period (RM'000)	3,142	1,846
Adjustment for after tax effects of interest on ICPS (RM'000)	-	-
Adjusted net profit for the period (RM'000)	3,142	1,846
Weighted average number of ordinary shares ('000)	1,407,313	1,375,043
Adjustment for assumed conversion of ICPS ('000)	27,592	38,250
Adjustment for assumed exercise of Warrants ('000)	-	-
Adjustment for assumed exercise of ESOS ('000)	-	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share ('000)	1,434,905	1,413,293
Diluted earnings per share (Sen)	0.22	0.13