

# IRIS CORPORATION BERHAD

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

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## Interim Financial Report for the First quarter ended 30<sup>th</sup> June 2012

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**Condensed Consolidated Statement of Comprehensive Income**For the First quarter ended 30<sup>th</sup> June 2012

|  | Individual<br>3 months ended            |   | Cumulative<br>3 months ended            |   |
|--|---|---|---|---|
|  | 30 <sup>th</sup> June<br>2012<br>RM'000 | 30 <sup>th</sup> June<br>2011<br>RM'000 | 30 <sup>th</sup> June<br>2012<br>RM'000 | 30 <sup>th</sup> June<br>2011<br>RM'000 |
| <b>Revenue</b>                                   | 102,466                                 | 95,305                                  | 102,466                                 | 95,305                                  |
| Cost of sales                                    | (74,739)                                | (64,492)                                | (74,739)                                | (64,492)                                |
| Depreciation and amortisation                    | (2,992)                                 | (1,643)                                 | (2,992)                                 | (1,643)                                 |
| <b>Gross profit</b>                              | 24,735                                  | 29,170                                  | 24,735                                  | 29,170                                  |
| Other income                                     | 2,052                                   | 292                                     | 2,052                                   | 292                                     |
| Administrative and operating expenses            | (12,510)                                | (13,011)                                | (12,510)                                | (13,011)                                |
| Depreciation and amortisation                    | (1,206)                                 | (1,150)                                 | (1,206)                                 | (1,150)                                 |
| Finance costs                                    | (2,498)                                 | (2,776)                                 | (2,498)                                 | (2,776)                                 |
| Share of (loss)/profit of associates             | (135)                                   | (382)                                   | (135)                                   | (382)                                   |
| <b>Profit before taxation</b>                    | 10,438                                  | 12,143                                  | 10,438                                  | 12,143                                  |
| Tax expense                                      | (3,153)                                 | (6,294)                                 | (3,153)                                 | (6,294)                                 |
| <b>Profit for the period</b>                     | 7,285                                   | 5,849                                   | 7,285                                   | 5,849                                   |
| <b>Total comprehensive income for the period</b> | 7,285                                   | 5,849                                   | 7,285                                   | 5,849                                   |
| <b>Profit attributable to:</b>                   |   |   |   |   |
| Owners of the Company                            | 8,334                                   | 5,849                                   | 8,334                                   | 5,849                                   |
| Non-controlling interests                        | (1,049)                                 | -                                       | (1,049)                                 | -                                       |
| <b>Profit for the period</b>                     | 7,285                                   | 5,849                                   | 7,285                                   | 5,849                                   |

**Condensed Consolidated Statement of Comprehensive Income**For the First quarter ended 30<sup>th</sup> June 2012

(continued)

|  | Individual<br>3 months ended            |   | Cumulative<br>3 months ended            |   |
|--|---|---|---|---|
|  | 30 <sup>th</sup> June<br>2012<br>RM'000 | 30 <sup>th</sup> June<br>2011<br>RM'000 | 30 <sup>th</sup> June<br>2012<br>RM'000 | 30 <sup>th</sup> June<br>2011<br>RM'000 |
| <b>Total comprehensive income attributable to:</b>                   |   |   |   |   |
| Owners of the Company  | 8,334                                   | 5,849                                   | 8,334                                   | 5,849                                   |
| Non-controlling interests  | (1,049)                                 | -                                       | (1,049)                                 | -                                       |
| <b>Total comprehensive income for the period</b>                     | <b>7,285</b>                            | <b>5,849</b>                            | <b>7,285</b>                            | <b>5,849</b>                            |
| <b>Earnings per share attributable to owners of<br/>the Company:</b> |   |   |   |   |
| Basic (Sen)  | 0.53                                    | 0.41                                    | 0.53                                    | 0.41                                    |
| Diluted (Sen)  | 0.47                                    | 0.40                                    | 0.47                                    | 0.40                                    |

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements of the Group for the financial period from 1<sup>st</sup> January 2011 to 31<sup>st</sup> March 2012 and the accompanying explanatory notes attached to the interim financial report.

**Condensed Consolidated Statement of Financial Position**As at 30<sup>th</sup> June 2012

|   | 30 <sup>th</sup> June 2012<br>RM'000 | 31 <sup>st</sup> March 2012<br>RM'000 |
|---|--------------------------------------|---------------------------------------|
| <b>ASSETS</b>   |                                      |                                       |
| <b>NON-CURRENT ASSETS</b>                                 |                                      |                                       |
| Concession assets   | 10,386                               | 10,229                                |
| Property, plant and equipment                             | 115,843                              | 117,146                               |
| Development Costs   | -                                    | 336                                   |
| Intellectual properties                                   | 8,663                                | 9,008                                 |
| Goodwill on consolidation                                 | 135,403                              | 135,403                               |
| Investment in associates                                  | 40,667                               | 40,802                                |
| Available-for-sale financial assets                       | 406                                  | 406                                   |
|   | 311,368                              | 313,330                               |
| <b>CURRENT ASSETS</b>                                     |                                      |                                       |
| Inventories   | 69,732                               | 57,411                                |
| Trade receivables   | 214,222                              | 210,542                               |
| Amount owing by contract customers                        | 48,514                               | 30,850                                |
| Other receivables, deposits & prepayments                 | 56,562                               | 66,652                                |
| Amount owing by associates                                | 17,632                               | 17,016                                |
| Amount owing by related parties                           | 195                                  | 176                                   |
| Tax refundable  | 3,102                                | 1,764                                 |
| Deposits with licensed banks                              | 28,661                               | 27,063                                |
| Cash and cash equivalents                                 | 48,066                               | 61,761                                |
|   | 486,686                              | 473,235                               |
|   | 798,054                              | 786,565                               |
| <b>TOTAL ASSETS</b>                                       |                                      |                                       |
| <b>EQUITY AND LIABILITIES</b>                             |                                      |                                       |
| <b>EQUITY</b>   |                                      |                                       |
| Share capital   | 236,257                              | 236,257                               |
| Share premium   | 35,211                               | 35,211                                |
| Warrants reserve  | 10,616                               | 10,616                                |
| Revaluation reserve                                       | 27,151                               | 27,233                                |
| Retained earnings   | 101,777                              | 93,361                                |
| <b>Total equity attributable to owners of the Company</b> | 411,012                              | 402,678                               |
| Non-controlling interests                                 | (2,049)                              | (1,000)                               |
| <b>TOTAL EQUITY</b>                                       | 408,963                              | 401,678                               |

**Condensed Consolidated Statement of Financial Position**As at 30<sup>th</sup> June 2012

(continued)

|  | <b>30<sup>th</sup> June 2012</b> | <b>31<sup>st</sup> March 2012</b> |
|--|----------------------------------|-----------------------------------|
|  | <b>RM'000</b>                    | <b>RM'000</b>                     |
| <b>NON-CURRENT LIABILITIES</b>               |                                  |                                   |
| Hire purchase & lease payables               | 3,599                            | 3,395                             |
| Term loan                                    | 66,994                           | 72,978                            |
| Deferred tax liabilities                     | 12,580                           | 12,580                            |
|  | <u>83,173</u>                    | <u>88,953</u>                     |
| <b>CURRENT LIABILITIES</b>                   |                                  |                                   |
| Trade payables                               | 44,373                           | 33,465                            |
| Other payables and accruals                  | 165,925                          | 182,308                           |
| Amount owing to an associate                 | 454                              | 36                                |
| Amount owing to related parties              | 5                                | 5                                 |
| Hire purchase & lease payables               | 1,249                            | 1,252                             |
| Short-term borrowings                        | 83,832                           | 72,753                            |
| Provision for taxation                       | 10,080                           | 6,115                             |
|  | <u>305,918</u>                   | <u>295,934</u>                    |
| <b>TOTAL LIABILITIES</b>                     | <u>389,091</u>                   | <u>384,887</u>                    |
| <b>TOTAL EQUITY AND LIABILITIES</b>          | <u>798,054</u>                   | <u>786,565</u>                    |
| <b>Net assets per ordinary share</b>         |                                  |                                   |
| <b>attributable to owners of the Company</b> |                                  |                                   |
| <b>(sen)</b>                                 | <u>26.10</u>                     | <u>25.50</u>                      |

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements of the Group for the financial period from 1<sup>st</sup> January 2011 to 31<sup>st</sup> March 2012 and the accompanying explanatory notes attached to the interim financial report.

**Condensed Consolidated Statement of Changes in Equity**

For the First quarter ended 30<sup>th</sup> June 2012

|  |                                  |                 | ← Non-Distributable →   |                            |  |                               | Distributable               | Attributable to the owners of the Company<br>RM'000 | Non-controlling Interests<br>RM'000 | Total Equity<br>RM'000 |
|--|----------------------------------|-----------------|-------------------------|----------------------------|--|-------------------------------|-----------------------------|---|-------------------------------------|------------------------|
|  | Ordinary Share Capital<br>RM'000 | ICPS*<br>RM'000 | Share Premium<br>RM'000 | Warrants Reserve<br>RM'000 | Foreign Exchange Translation Reserve<br>RM'000 | Revaluation Reserve<br>RM'000 | Retained Earnings<br>RM'000 |   |                                     |                        |
| At 1 <sup>st</sup> April 2011 (as previously reported) | 212,621                          | 3,795           | 35,052                  | 10,616                     | (518)  | 27,561                        | 63,833                      | 352,960   | -                                   | 352,960                |
| Effect of adopting MFRS                                | -                                | -               | -                       | -                          | 518  | (518)                         | -                           | -   | -                                   | -                      |
| At 1 <sup>st</sup> April 2011 (as adjusted)            | 212,621                          | 3,795           | 35,052                  | 10,616                     | -  | 27,043                        | 63,833                      | 352,960   | -                                   | 352,960                |
| Conversion of ICPS into ordinary shares                | 3,795                            | (3,795)         | -                       | -                          | -  | -                             | -                           | -   | -                                   | -                      |
| Realisation on usage of property                       | -                                | -               | -                       | -                          | -  | (82)                          | 82                          | -   | -                                   | -                      |
| Total comprehensive income for the financial period    | -                                | -               | -                       | -                          | -  | -                             | 5,849                       | 5,849   | -                                   | 5,849                  |
| <b>At 30<sup>th</sup> June 2011 (as adjusted)</b>      | <b>216,416</b>                   | <b>-</b>        | <b>35,052</b>           | <b>10,616</b>              | <b>-</b>                                       | <b>26,961</b>                 | <b>69,764</b>               | <b>358,809</b>                                      | <b>-</b>                            | <b>358,809</b>         |

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

**Condensed Consolidated Statement of Changes in Equity**

For the First quarter ended 30<sup>th</sup> June 2012

(continued)

|  | ← Non-Distributable →            |                         |                            |  | Distributable                 |                             | Attributable to the owners of the Company<br>RM'000 | Non-controlling Interests<br>RM'000 | Total Equity<br>RM'000 |
|--|----------------------------------|-------------------------|----------------------------|--|-------------------------------|-----------------------------|---|-------------------------------------|------------------------|
|  | Ordinary Share Capital<br>RM'000 | Share Premium<br>RM'000 | Warrants Reserve<br>RM'000 | Foreign Exchange Translation Reserve<br>RM'000 | Revaluation Reserve<br>RM'000 | Retained Earnings<br>RM'000 |   |                                     |                        |
| At 1 <sup>st</sup> April 2012 (as previously reported) | 236,257                          | 35,211                  | 10,616                     | (930)  | 27,233                        | 94,291                      | 402,678   | (1,000)                             | 401,678                |
| Effect of adopting MFRS                                | -                                | -                       | -                          | 930  | -                             | (930)                       | -   | -                                   | -                      |
| At 1 <sup>st</sup> April 2011 (as adjusted)            | 236,257                          | 35,211                  | 10,616                     | -  | 27,233                        | 93,361                      | 402,678   | (1,000)                             | 401,678                |
| Realisation on usage of property                       | -                                | -                       | -                          | -  | (82)                          | 82                          | -   | -                                   | -                      |
| Total comprehensive income for the financial period    | -                                | -                       | -                          | -  | -                             | 8,334                       | 8,334   | (1,049)                             | 7,285                  |
| <b>At 30<sup>th</sup> June 2012</b>                    | <b>236,257</b>                   | <b>35,211</b>           | <b>10,616</b>              | <b>-</b>                                       | <b>27,151</b>                 | <b>101,777</b>              | <b>411,012</b>                                      | <b>(2,049)</b>                      | <b>408,963</b>         |

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements of the Group for the financial period from 1<sup>st</sup> January 2011 to 31<sup>st</sup> March 2012 and the accompanying explanatory notes attached to the interim financial report.

**Condensed Consolidated Cash Flow Statement**For the First quarter ended 30<sup>th</sup> June 2012

|  | <b>Cumulative<br/>30<sup>th</sup> June<br/>2012<br/>RM'000</b> | <b>Cumulative<br/>30<sup>th</sup> June<br/>2011<br/>RM'000</b> |
|--|--|--|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                 |  |  |
| Profit before taxation                                     | 10,438   | 12,143   |
| Adjustments for:   |  |  |
| Non-Cash Items   | 4,533  | 3,713  |
| Interest income  | (55)   | (165)  |
| Finance costs  | 2,498  | 4,846  |
| <b>OPERATING PROFIT BEFORE WORKING<br/>CAPITAL CHANGES</b> | <b>17,414</b>  | <b>20,537</b>  |
| Changes in working capital                                 |  |  |
| Net changes in current assets                              | (23,491)   | 40,119   |
| Net changes in current liabilities                         | (5,057)  | 9,239  |
| <b>NET CASH (FOR)/GENERATED FROM OPERATIONS</b>            | <b>(11,134)</b>  | <b>69,895</b>  |
| Interest received  | 55   | 165  |
| Interest paid  | (2,498)  | (4,846)  |
| Tax paid   | (525)  | (2,637)  |
| <b>NET CASH (FOR)/FROM OPERATING<br/>ACTIVITIES</b>        | <b>(14,102)</b>  | <b>62,577</b>  |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>                 |  |  |
| Purchase of plant and equipment                            | (995)  | (2,653)  |
| Purchase of concession assets                              | (173)  | (341)  |
| <b>NET CASH FOR INVESTING ACTIVITIES</b>                   | <b>(1,168)</b>   | <b>(2,994)</b>   |



**Condensed Consolidated Cash Flow Statement**For the First quarter ended 30<sup>th</sup> June 2012

(continued)

|   | <b>Cumulative<br/>30<sup>th</sup> June<br/>2012<br/>RM'000</b> | <b>Cumulative<br/>30<sup>th</sup> June<br/>2011<br/>RM'000</b> |
|---|--|--|
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>  |  |  |
| Net repayment of hire purchase and lease payables   | (1,924)  | 1,383  |
| Net repayment of short term borrowings  | (17,133)   | (14,636)   |
| Proceeds from drawdown of trade and term loans  | 47,739   | 9,062  |
| Repayment of borrowings   | (25,509)   | (15,675)   |
|   | <hr/>  | <hr/>  |
| <b>NET CASH FROM/(FOR) FINANCING<br/>ACTIVITIES</b>   | <b>3,173</b>   | <b>(19,866)</b>  |
|   | <hr/>  | <hr/>  |
| Net changes in cash and cash equivalents  | (12,097)   | 39,717   |
| Effects of exchange rate changes  | -  | -  |
| Cash and cash equivalents at beginning of the period  | 88,824   | 6,206  |
|   | <hr/>  | <hr/>  |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE<br/>PERIOD</b>   | <b>76,727</b>  | <b>45,923</b>  |
|   | <hr/>  | <hr/>  |
| <b>Cash and cash equivalents at end of the period comprise the following balance sheet amounts:</b> |  |  |
| Deposits with licensed banks, cash and bank balances  | 76,727   | 45,923   |
|   | <hr/>  | <hr/>  |

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the audited financial statements of the Group for the financial period from 1<sup>st</sup> January 2011 to 31 March 2012 and the accompanying explanatory notes attached to the interim financial report.

## Notes to the Interim Financial Report

For the First quarter ended 30<sup>th</sup> June 2012

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### 1. Basis of preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 30<sup>th</sup> June 2012 and has been prepared in compliance with Malaysian Financial Reporting Standards (“MFRS”) 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”). For the periods up to and including the financial period ended 31 March 2012, the Group prepared its financial statements in accordance with Financial Reporting Standards (“FRS”).

The Group has adopted the Malaysian Financial Reporting Standards (“MFRS”) framework issued by the Malaysian Accounting Standards Board (“MASB”) with effective from 1<sup>st</sup> April 2012. This condensed consolidated interim financial report is the Group’s first MFRS compliant condensed report. The transition from FRS framework to MFRS framework under the MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards does not have any significant financial impact on to the financial statements of the Group, except as disclosed in Note 1(a) below.

This interim financial report should be read in conjunction with the audited financial statements of the Group for the financial period from 1<sup>st</sup> January 2011 to 31 March 2012. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial period ended 31<sup>st</sup> March 2012.

- (a) As the requirements of FRSs are equivalent to the MFRSs, the significant accounting policies adopted by the Group for this interim financial report are consistent with those adopted in the Group’s audited financial statements for the financial period from 1<sup>st</sup> January 2011 to 31<sup>st</sup> March 2012 except as discussed below:

#### **Foreign currency translation reserves**

Prior to 1<sup>st</sup> April 2012, the Group recognised translation differences on foreign operations as a separate component of equity. Upon the changes in Framework effective 1<sup>st</sup> April 2012, the Group used the transitional provision of first-time adoption whereby the cumulative foreign currency translation differences on all foreign operations are deemed to be zero at the date of transition as of 1 January 2011 to MFRS. Accordingly, at the date of transition to MFRS the cumulative foreign currency translation differences were adjusted to retained earnings and the impact of adopting this accounting policy is disclosed as below:

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

The reconciliation of equity for comparative periods and of equity at the date of transition reported under FRS for those periods and at the date of transition under MFRS are shown as below:

|  | As<br>previously<br>report<br>“FRS”<br>RM’000 | Adjustment<br>RM’000 | As<br>restated<br>“MFRS”<br>RM’000 |
|--|---|----------------------|------------------------------------|
| <i>Statements of Financial Position /<br/>Statement of Changes in Equity</i> |   |                      |                                    |
| <u>As at 1<sup>st</sup> January 2011</u>                                     |   |                      |                                    |
| Foreign currency translation reserve   | (518)   | 518                  | -                                  |
| Retained earnings  | 63,833  | (518)                | 63,315                             |
| <u>As at 1<sup>st</sup> April 2012</u>                                       |   |                      |                                    |
| Foreign currency translation reserve   | (930)   | 930                  | -                                  |
| Retained earnings  | 94,291  | (930)                | 93,361                             |

- (b) The Group has not applied in advance the accounting standards (and its consequential amendments) and interpretations that have been issued by the MASB but are not yet effective for the current financial year. The initial application of the above mentioned standards (and its consequential amendments) and interpretations are not expected to have material financial impacts on the financial statements of the Group upon their first adoption.

**2. Audit report of preceding annual financial statement**

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

**3. Seasonal or cyclical factors**

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

**4. Segment information**

The Group's operating segments information for the interim financial report to 30<sup>th</sup> June 2012 was as follows:-

|                                | <b>Trusted Identity<br/>&amp; Business<br/>Solutions<br/>RM'000</b> | <b>Others<br/>RM'000</b> | <b>Inter-<br/>segment<br/>Elimination<br/>RM'000</b> | <b>Group<br/>RM'000</b> |
|--------------------------------|---|--------------------------|--|-------------------------|
| Revenue                        | 98,847  | 3,619                    | -  | 102,466                 |
| Segment results                | 26,802  | (2,067)                  | -  | 24,735                  |
| Unallocated corporate expenses |   |                          |  | (13,716)                |
| Other income                   |   |                          |  | 2,052                   |
| Operating profit               |   |                          |  | 13,071                  |
| Finance costs                  |   |                          |  | (2,498)                 |
|                                |   |                          |  | 10,573                  |
| Share of loss of associates    |   |                          |  | (135)                   |
| Profit before taxation         |   |                          |  | 10,438                  |
| Income tax expense             |   |                          |  | (3,153)                 |
| Profit after taxation          |   |                          |  | 7,285                   |

**5. Capital Commitments**

|   |   |
|---|---|
|   | As at<br>30 <sup>th</sup> June<br>2012<br><b>RM'000</b> |
| <b>Authorised and contracted for:-</b>    |   |
| Purchase of property, plant and equipment | 250   |

**6. Debt and equity securities**

There were no issuances, cancellations, repurchases, resale and repayments of debts and equity securities.

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

There was no change in the composition of the Group in the current financial period.

**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 First quarter.

**11. Valuations of property, plant and equipment**

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

**12. Changes in contingent liabilities and contingent assets****Contingent Liabilities**

On 14<sup>th</sup> May 2010, the Company had entered into a Guarantee Agreement with PJT as the guarantor of PJT for the benefit of Government Savings Bank in Thailand (“The Bank”) for up to Thai Baht 640 million (equivalent to RM64.5 million), which is equivalent to the facilities limit of the Credit Facilities Agreement dated 14<sup>th</sup> May 2010 that has been entered into between PJT and the Bank.

**13. Taxation**

|   | <b>Individual</b>           |                             | <b>Cumulative</b>           |                             |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | <b>3 months ended</b>       |                             | <b>3 months ended</b>       |                             |
|   | <b>30<sup>th</sup> June</b> | <b>30<sup>th</sup> June</b> | <b>30<sup>th</sup> June</b> | <b>30<sup>th</sup> June</b> |
|   | <b>2012</b>                 | <b>2011</b>                 | <b>2012</b>                 | <b>2011</b>                 |
|   | <b>RM'000</b>               | <b>RM'000</b>               | <b>RM'000</b>               | <b>RM'000</b>               |
| Income tax                              |                             |                             |                             |                             |
| - Current financial year                | (3,153)                     | (6,294)                     | (3,153)                     | (6,294)                     |
| - Over/(Under) provision in prior years | -                           | -                           | -                           | -                           |
|   | (3,153)                     | (6,294)                     | (3,153)                     | (6,294)                     |
| Deferred tax                            |                             |                             |                             |                             |
| - Current financial year                | -                           | -                           | -                           | -                           |
| Total tax expense                       | (3,153)                     | (6,294)                     | (3,153)                     | (6,294)                     |

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 significant transactions with related parties of the Group for the cumulative 3 months period ended 30<sup>th</sup> June 2012 were as follows:

|                        | <b>RM'000</b> |
|------------------------|---------------|
| <b>(a) Associates</b>  |               |
| PJT Technology Co. Ltd |               |
| - Sales                | <u>3,002</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 30<sup>th</sup> June 2012, the Group recorded revenue of RM102.5 million from RM95.3 million, which is 7.6% higher as compared to the previous comparable quarter ended 30<sup>th</sup> June 2011.

Whilst the current financial quarter recorded higher revenue, profit before taxation decreased to RM10.4 million, which is 14.1% lower as compared to profit before taxation of RM12.1 million recorded in the previous comparable quarter ended 30<sup>th</sup> June 2011. The decrease was mainly attributable to lower margin in certain overseas projects and additional costs incurred for new businesses.

The main contributions to the Group's performance for the current financial quarter came from its existing projects, namely Malaysian e-Passport Inlays and Tanzania e-ID cards and new project, namely the implementation of Malaysian e-Passport ICAO compliance project.

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

The Group recorded revenue of RM102.5 million and profit before taxation of RM10.4 million from RM76.6 million and RM5.0 million in the preceding financial quarter ended 31<sup>st</sup> March 2012, which is 33.8% and 108% higher respectively.

The increase in revenue and profit before taxation was mainly attributable to the implementation of Malaysian e-Passport ICAO compliance project and Tanzania e-ID cards project.

### **17. Prospects**

For the financial year 2013, the Group's revenue is expected to be derived mainly from the trusted identification's projects, namely Malaysia e-passport inlays, the implementation of Malaysian e-Passport ICAO compliance project, Nigeria e-Passport inlays, Tanzania e-ID cards project, Turkey inlays and Bangladesh MRP Passport project.

For Food and Agro Technology Division and Koto Industrialised Building Division, their results are expected to be satisfactory once the Rimbunan Kaseh Programme takes off in the 2<sup>nd</sup> quarter of financial year 2013. The Rimbunan Kaseh Programme is a modern rural project which consists of Koto houses and amenities, supported by modern and integrated farming activities.

In view of the on-going contracts and Rimbunan Kaseh Programme, the Group is optimistic that its performance will be satisfactory for the financial year ending 31<sup>st</sup> March 2013.

### **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 <sup>th</sup> June<br>2012<br><b>RM'000</b> |
| Investment in an unquoted shares in Malaysia  | 273   |
| Investment in an unquoted shares in Singapore | 2,378   |
| Investment in an unquoted shares in Hong Kong | 981   |
| Golf Club Membership                          | 406   |
| (Less): Allowance for diminution in value     | (3,632)   |
|   | <u>406</u>  |

**22. Status of Corporate Proposals and utilisation of proceeds**

There were no corporate proposals announced but not completed as at 17<sup>th</sup> August 2012, being the latest practicable date which is not earlier than seven (7) days from the date of issue of this quarterly report.

**23. Group Borrowings and Debt Securities**

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

|         | <b>Short Term<br/>RM'000</b> | <b>Long Term<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
|---------|------------------------------|-----------------------------|-------------------------|
| Secured | <u>83,832</u>                | <u>66,994</u>               | <u>150,826</u>          |

All of the above borrowings are denominated in Ringgit Malaysia other than a short term borrowing amounting to RM12.88 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 17<sup>th</sup> August 2012 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 17<sup>th</sup> August 2012:

- (a) On 29<sup>th</sup> November 2006, ICB had filed a lawsuit against Japan Air Lines (“JAL”) in the U.S. District Court, Eastern District of New York for JAL’s infringement of IRIS’s US patent. This claim is based on the allegation that JAL’s inspection of passports at United States airports infringes IRIS’s patent over a method of manufacturing a secure electronic passport.

JAL has filed a motion to dismiss the claim. IRIS’s solicitors, Messrs Moses & Singer LLP (the “**Solicitors**”), has opposed the motion to dismiss. The briefs on the motion had been filed in June 2007. The District Court had on 30<sup>th</sup> September 2009 granted JAL’s motion to dismiss the claim and the decision stated that the patent protections conferred on IRIS conflicted with, and were superseded by JAL’s federal legal obligation to inspect passenger passports. The Solicitors had, on behalf of IRIS, filed a notice to appeal to the United States Court of Appeals for the Federal Circuit in Washington and the matter is currently stayed pending the outcome of the JAL’s bankruptcy proceedings in Japan.

The Solicitors of the Company stated that there are no US case precedents to indicate the likelihood of success on appeal. However, by analogy, the Solicitors pointed out that there are many regulations affecting airlines, such as JAL, as well as affecting other commercial operations, requiring these commercial entities to use intellectual property and other property that they do not own. These commercial entities do not get such property for free, and must buy them, even though regulations require that they use them. The Solicitors argued further that JAL should not be able to use IRIS’ intellectual property for free, as part of their commercial operations.

The Solicitors further informed that in any event, it does not appear that this case will be heard within the next year or two, as the Federal Circuit in Washington proceedings are dependent upon the outcome of the Japanese bankruptcy proceedings. Until these proceedings are complete there is nothing for IRIS to do with respect to the JAL litigation.

Regarding the bankruptcy proceedings, pursuant to The Appellee’s Status Report dated 27 January 2012, JAL stated that the stay issued by the US Bankruptcy Court still remains in effect. On 28 March 2011, Japan Airlines completed its corporate reorganization proceedings in Japan.

- (b) IRIS Technologies (M) Sdn Bhd (“**ITSB**”), a wholly owned subsidiary of IRIS, and its joint venture Turkish partner Kunt Elektronik San.Ve Tic. A.S (“**KUNT**”) (“**JV Company**”) had on 17<sup>th</sup> September 2009 received a Letter of Termination dated 14<sup>th</sup> September 2009 (“**Letter of Termination**”), from Emniyet Genel Mudurlugu (“**EGM**”), known as General Directorate of Security in relation to the provision of Electronic Passport Issuing Systems in Turkey (“**The Agreement**”).

Pursuant to the Letter of Termination, EGM requested for refund of New Turkish Lira (“**YTL**”) 6.195 million (equivalent to approximately RM14.6 million at an exchange rate of YTL 1: RM2.36 as at 18<sup>th</sup> September 2009) which is equivalent to the first phase payment received by the Joint Venture Company between ITSB and KUNT. Subsequently, all the hardware and equipment delivered shall be returned to the JV Company.

On 18<sup>th</sup> September 2009, Messrs Sen & Arpaci had on behalf of the JV Company, made an application to the Ankara Civil Court of Turkey (“**Court**”), for an injunction to restrain EGM from claiming on the performance bond submitted by the JV Company in year 2007.

On 24<sup>th</sup> September 2009, an interlocutory injunction was obtained by the JV Company from the Court. Subsequently, on behalf of the JV Company, Messrs Sen & Arpaci had on 5<sup>th</sup> October 2009 filed a lawsuit against EGM in Ankara Court of First Instance (“**Ankara Court**”) for the unlawful termination of the Agreement. The JV Company is claiming a total of YTL 5 million from EGM and the return of the performance bond. This matter was first heard on 22<sup>nd</sup> December 2009.

On 23<sup>rd</sup> March 2010, EGM presented a counter claim, claiming approximately YTL 5.25 million from the JV Company. Specifically, the EGM is seeking to return all the hardware and equipments to the JV Company in exchange for a refund of YTL 5.25 million paid to the JV Company. The third hearing was held on 10<sup>th</sup> June 2010. The outcome of the hearing was that the judge had requested the JV Company to submit the precise damages amount(s) to be claimed against EGM so that the judge can decide which component court will hear the matter.

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

On 20<sup>th</sup> March 2012, the Expert Report submitted was unfavourable towards the JV Company. The JV Company proceeded to file an appeal against the findings of the said Expert Technical Report. The Court decided that the file is to be sent to the same Court Experts for an additional technical report to be prepared on the grounds that the appeal is to be evaluated. The next hearing is now fixed on 13<sup>th</sup> November 2012.

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

The Expert Report was submitted on 27<sup>th</sup> March 2012. The JV Company then appointed lawyers Messrs Sen & Arpacı to appeal against the submission of the negative indemnity provision reported in the said Expert Report. The Court has further adjourned pending the submission of an additional Expert Report and the next hearing is now fixed on 4<sup>th</sup> October 2012.

Messrs Sen & Arpacı is of opinion that the JV Company has a good chance of recovering the amount claimed. Messrs Sen & Arpacı is also of the view that the counter claim filed by EGM is likely to be rejected by the Ankara Court based on multiple legal issues that will be contemplated by the additional report.

## 26. Realised and Unrealised retained earnings

Breakdown of retained earnings of the Group is as follows:

|                                      | As at<br>30 <sup>th</sup> June<br>2012<br>RM'000 | As at<br>31 <sup>st</sup> March<br>2012<br>RM'000 |
|--------------------------------------|--|---|
| Total retained earnings:             |  |   |
| i) The Company and its subsidiaries  |  |   |
| - Realised profits/(losses)          | 72,482   | 47,359  |
| - Unrealised profits/(losses)        | (17,447)   | (19,330)  |
|                                      | 55,035   | 28,029  |
| ii) Associates                       |  |   |
| - Realised profits/(losses)          | (3,622)  | (3,487)   |
| - Unrealised profits/(losses)        | -  | -   |
|                                      | (3,622)  | (3,487)   |
|                                      | 51,413   | 24,542  |
| iii) Group consolidated adjustments  | 50,364   | 68,819  |
| Total retained earnings of the Group | 101,777  | 93,361  |

## 27. Dividend

At the forthcoming Annual General Meeting, a first and final tax-exempt dividend of 0.45 sen per ordinary share in respect of the current financial period will be proposed for shareholders' approval.

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

**28. Earnings Per Share**

|   | <b>Individual</b>           |                             | <b>Cumulative</b>           |                             |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | <b>3 months ended</b>       | <b>3 months ended</b>       | <b>3 months ended</b>       | <b>3 months ended</b>       |
|   | <b>30<sup>th</sup> June</b> | <b>30<sup>th</sup> June</b> | <b>30<sup>th</sup> June</b> | <b>30<sup>th</sup> June</b> |
|   | <b>2012</b>                 | <b>2011</b>                 | <b>2012</b>                 | <b>2011</b>                 |
| <b>(a) Basic earnings per ordinary share</b>  |                             |                             |                             |                             |
| Profit attributable to owners of the Company for the period (RM'000)                            | 8,334                       | 5,849                       | 8,334                       | 5,849                       |
| Weighted average number of ordinary shares ('000)   | 1,575,046                   | 1,418,442                   | 1,575,046                   | 1,418,442                   |
| <b>Basic earnings per ordinary share (Sen)</b>  | <b>0.53</b>                 | <b>0.41</b>                 | <b>0.53</b>                 | <b>0.41</b>                 |
| <b>(b) Diluted earnings per ordinary share</b>  |                             |                             |                             |                             |
| Profit attributable to owners of the Company for the period (RM'000)                            | 8,334                       | 5,849                       | 8,334                       | 5,849                       |
| 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)   | 8,334                       | 5,849                       | 8,334                       | 5,849                       |
| Weighted average number of ordinary shares ('000)   | 1,575,046                   | 1,418,442                   | 1,575,046                   | 1,418,442                   |
| Adjustment for assumed exercise of Warrants A ('000)  | 32,907                      | 7,770                       | 32,907                      | 7,770                       |
| Adjustment for assumed exercise of Warrants B ('000)  | 149,878                     | 35,388                      | 149,878                     | 35,388                      |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share ('000) | 1,757,831                   | 1,461,600                   | 1,757,831                   | 1,461,600                   |
| <b>Diluted earnings per ordinary share (Sen)</b>  | <b>0.47</b>                 | <b>0.40</b>                 | <b>0.47</b>                 | <b>0.40</b>                 |

**29. Profit before taxation**

|  | <b>Individual<br/>3 months<br/>ended<br/>30<sup>th</sup> June<br/>2012<br/>RM'000</b> | <b>Cumulative<br/>3 months<br/>ended<br/>30<sup>th</sup> June<br/>2012<br/>RM'000</b> |
|--|---|---|
| Profit before taxation is arrived at after charging/(crediting): |   |   |
| - Depreciation of property, plant and equipment                  | 3,700   | 3,700   |
| - Net foreign exchange (gain)/loss                               | (1,885)   | (1,885)   |
|  | <hr/>   | <hr/>   |