

IRIS CORPORATION BERHAD

(Company No. 302232-X)

(Incorporated in Malaysia)

Interim Financial Report For the second quarter ended 30th June 2009

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Condensed Consolidated Income StatementFor the second quarter ended 30th June 2009

	Individual		Cumulative	
	3 months ended		6 months ended	
	30th June	30th June	30th June	30th June
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Revenue	66,376	71,995	126,537	130,937
Cost of sales	(44,752)	(57,410)	(83,246)	(98,009)
Depreciation and amortization	(2,878)	(3,388)	(5,768)	(6,900)
Gross profit	<u>18,746</u>	<u>11,197</u>	<u>37,523</u>	<u>26,028</u>
Other income	265	606	83	528
Operating expenses	(6,103)	(5,459)	(15,280)	(13,446)
Other operating expenses	(1,000)	-	(1,000)	-
Depreciation and amortization	(788)	(784)	(1,565)	(1,575)
Interest expenses	(3,451)	(3,932)	(7,106)	(7,654)
Share of profit / (loss) of associated companies	(495)	58	(484)	163
Profit before taxation	<u>7,174</u>	<u>1,686</u>	<u>12,171</u>	<u>4,044</u>
Tax expense	(2,522)	(0.06)	(4,520)	(993)
Profit after taxation	<u>4,652</u>	<u>1,680</u>	<u>7,651</u>	<u>3,051</u>
Attributable to:				
Equity holders of the Company	4,652	1,680	7,651	3,051
Minority Interest	-	-	-	-
	<u>4,652</u>	<u>1,680</u>	<u>7,651</u>	<u>3,051</u>
Earnings per ordinary share attributable to equity holders of the Company:				
Basic (Sen)	<u>0.33</u>	<u>0.12</u>	<u>0.54</u>	<u>0.22</u>
Diluted (Sen)	<u>0.33</u>	<u>0.12</u>	<u>0.54</u>	<u>0.22</u>

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 SheetAs at 30th June 2009

	30 th June 2009 RM'000	31 st December 2008 RM'000
ASSETS		
NON-CURRENT ASSETS		
Concession assets	23,571	23,225
Property, plant and equipment	35,588	39,466
Research & development	6,347	7,355
Intellectual properties	12,806	13,496
Goodwill on consolidation	133,982	133,982
Investment in associated company	4,739	6,223
Other investments	406	406
	217,439	224,153
CURRENT ASSETS		
Inventories	71,828	69,980
Trade receivables	87,653	101,601
Amount owing by contract customers	21,914	6,783
Other receivables, deposits & prepayments	21,044	38,336
Amount owing by associates	8,054	2,428
Amount owing by related parties	291	249
Tax refundable	-	210
Deposits with licensed banks	15,215	17,428
Cash and cash equivalents	16,520	37,906
	242,519	274,921
Non-current assets held for sale	61,290	62,013
	303,809	336,934
TOTAL ASSETS	521,248	561,087
EQUITY AND LIABILITIES		
EQUITY		
Share capital	216,416	216,416
Share premium	35,052	35,052
Foreign exchange translation reserve	15	19
Reserve relating to assets held for sale	13,724	13,724
Retained profits	20,725	13,075
TOTAL EQUITY	285,932	278,286

Condensed Consolidated Balance SheetAs at 30th June 2009

(continued)

	30th June 2009	31st December 2008
	RM'000	RM'000
NON-CURRENT LIABILITIES		
Hire purchase & lease payables	1,149	2,309
Other payables	2,812	2,812
Bonds	88,875	88,875
Term loan	13,241	15,341
Deferred tax liabilities	7,587	7,587
	<u>113,664</u>	<u>116,924</u>
CURRENT LIABILITIES		
Trade payables	37,019	48,348
Amount owing to contract customers	11,345	8,515
Other payables and accruals	21,220	30,592
Amount owing to related parties	306	313
Amount owing to directors	378	378
Hire purchase & lease payables	3,713	5,458
Bonds	875	36,125
Short-term borrowings	42,520	34,894
Provision for taxation	4,276	1,254
	<u>121,652</u>	<u>165,877</u>
TOTAL LIABILITIES	<u>235,316</u>	<u>282,801</u>
TOTAL EQUITY AND LIABILITIES	<u>521,248</u>	<u>561,087</u>
Net assets per share attributable to equity holders of the Company (RM)	<u>0.20</u>	<u>0.21</u>

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 EquityFor the second quarter ended 30th June 2009

	←		Non-Distributable			→		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		Minority Interest 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	1,511	(1,511)	-	-	-	-	-	-	-
Profit after taxation	-	-	-	-	-	-	7,651	-	7,651
Currency translation difference	-	-	-	(4)	-	-	-	-	(4)
At 30th June 2009	212,189	4,227	35,052	15	13,724	-	20,726	-	285,933

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 StatementFor the second quarter ended 30th June 2009

	Cumulative 30th June 2009 RM'000	Cumulative 30th June 2008 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	12,171	4,043
Adjustments for:		
Non-Cash Items	8,953	11,731
Interest expenses	7,106	7,655
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	28,230	23,429
Changes in working capital		
Net changes in current assets	10,607	(7,279)
Net changes in current liabilities	(19,725)	10,415
NET CASH (USED IN) /GENERATED FROM OPERATIONS	19,112	26,565
Interest paid	(7,274)	(7,474)
Tax paid	(1,287)	(12)
NET CASH (USED IN) /GENERATED FROM OPERATING ACTIVITIES	10,551	19,079
CASH FLOW FROM INVESTING ACTIVITIES		
Development expenditure	-	(1,107)
Proceeds from disposal of fixed assets	-	408
Proceeds from withdrawal of fixed deposit pledged	-	
Purchase of fixed assets	(800)	(684)
Purchase of concession assets	(481)	(2,172)
Grants	1	-
Investment in associated company	-	-
NET CASH USED IN INVESTING ACTIVITIES	(1,280)	(3,555)

Condensed Consolidated Cash Flow Statement

For the second quarter ended 30th June 2009
(continued)

	Cumulative 30th June 2009 RM'000	Cumulative 30st June 2008 RM'000
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	-	-
Repayment of hire purchase and lease payables	(3,146)	(3,075)
Repayment of bond	(35,250)	(10,000)
Short term borrowings	7,625	4,867
Long term borrowings	(2,100)	-
NET CASH (USED IN) / GENERATED FROM FINANCING ACTIVITIES	(32,871)	(8,208)
Net changes in cash and cash equivalents	(23,600)	7,316
Effects of exchange rate changes	1	-
Cash and cash equivalents at beginning of the year	55,334	27,948
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	31,735	35,264

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 ReportFor the second quarter ended 30th June 2009**1. Basis of preparation**

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

4. Segment information

The Group's segment information for the interim financial report to 30th June 2009 were as follows:-

	Digital Identity & Business Solutions RM'000	Others RM'000	Inter- segment Elimination RM'000	Group RM'000
Revenue	125,244	1,293	-	126,537
Segment results	39,871	(2,348)	-	37,523
Unallocated corporate expenses				(16,845)
Other operating expenses				(1,000)
Operating profit				19,678
Other income				83
Finance cost				(7,106)
				12,655
Share of profit / (loss) of associated companies				(484)
Profit before taxation				12,171
Income tax expenses				(4,520)
Profit after taxation				7,651

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 18th November 2009.

The property at the balance sheet date was revalued in 31st December 2004 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

Authorised and contracted for:-

	RM'000
Construction of greenhouse	3,006
Purchase of property, plant & equipment	165
	<u>3,171</u>

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 30th June 2009, a total of 10,073,200 units of ICPS have been converted into ordinary shares of RM0.15 each.

8. Changes in the composition of the Group

(a) Dilution of shareholding in Loyalty Wizards Sdn Bhd (“LWSB”)

On 14th May 2009, LWSB, an associated company of IRIS Technologies (M) Sdn Bhd (“IRIS Tech”), has increased its paid up capital from RM1,000,000 to RM1,683,502. As IRIS Tech did not subscribe to the additional capital in LWSB,

IRIS Tech's equity interest in LWSB has therefore diluted from 20% to 16.2%. Consequently, the Group's stake in LWSB is now classified as an investment of IRIS Tech.

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 19th August 2009, the Company had issued 93,800 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.

Other than above, there were no changes in contingent liabilities and contingent assets since the last balance sheet date.

14. Taxation

	30th June 2009 RM'000	30th June 2008 RM'000
Deferred tax liabilities – current year	-	986
Current year tax	4,520	6
	<u>4,520</u>	<u>992</u>

The Group's effective tax rate is lower than the statutory tax rate of 25% mainly due to the availability of capital allowances, investment tax allowances and reinvestment allowances.

15. Related Party Transactions

	30th June 2009 RM'000
1. MCS Microsystems Sdn Bhd	
- Purchases	139
- Professional Services	-
- Rental received	39

Additional information required by the AMLR

16.1 Review of Performance

For the current financial quarter ended 30th June 2009, the Group posted a 326% increase in profit before taxation to RM7.2 million as compared to RM1.7 million for the previous comparable financial quarter ended 30th June 2008. The increase was contributed by better performances of the trusted identity business segment from overseas projects.

The Group's revenue, however declined 7.8% to RM66.4 million from RM72 million recorded in the previous comparable financial quarter ended 30th June 2008. This decrease was attributable to delay of progress billing for Turkey e-Passport system issuing project in the current financial quarter.

16.2 Comparison with Preceding Quarter

For the current financial quarter ended 30th June 2009, the Group recorded a revenue of RM66.4 million and profit before taxation of RM7.2 million from RM60.2 million and RM5.0 million, which is 10.3% and 44.0% higher respectively when compared to the preceding financial quarter ended 31st March 2009. The increase was contributed by better performances of the trusted identity business segment from both local and overseas projects.

17. Prospects

For the financial year ending 2009, the Group's expected revenue will be contributed 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 sales will be contributed by sales of passports to Nigeria and Senegal.

Based on the first half's result, the Group expects the performance for the financial year ending 2009 to be satisfactory.

18. Variance on actual results from forecast profit and shortfall in profit guarantee

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:

	30th June 2009 RM'000
Investment in XID Technologies Pte Ltd	2,378
Golf Club Membership	406
(Less) Provision for diminution in value	<u>(2,378)</u>
	<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 19th August 2009, being the latest practicable date which is not earlier than seven (7) days from the date of issue of this quarterly report:-

(a) Proposed Private Placement of up to 155,431,281 new ordinary shares of RM0.15 each in ICB (“Proposed Private Placement”)

On 16th May 2008, the Board had announced that the application to the Securities Commission and Foreign Investment Committee on the Proposed Private Placement of up to 155,431,281 new ordinary shares of RM0.15 each representing up to ten percent (10%) of the issued and paid-up share capital of the company to investors to be identified has been approved.

On 8th May 2009, Securities Commission had vide its letter approved the extension of time to 15th November 2009 for ICB to implement the Proposed Private Placement.

(b) 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

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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 18th November 2009.

23. Group Borrowings and Debt Securities

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

	Short Term RM'000	Long Term RM'000	Total RM'000
Secured	43,395	102,116	145,511
Unsecured	-	-	-
Total	<u>43,395</u>	<u>102,116</u>	<u>145,511</u>

24. Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risk as at 19th August 2009 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 19th August 2009:

- (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. The claim is in relation to the ICB US Patent No. 6,111,506, which claims among others, a method of manufacturing an electronic passport ("the ICB US patented process"). ICB's claim is based on allegation that JAL uses electronic passports that have been manufactured overseas by entities that practice the steps of the ICB US patented process, when checking in passengers at JAL's US passenger check-in facilities.

JAL has filed a motion to dismiss the claim. ICB's solicitors, Messrs Moses & Singer LLP, have opposed the motion to dismiss. The briefs on the motion had been filed in June 2007 and the matter is now pending a written decision and opinion by District Judge.

In this case, ICB is seeking monetary damages, the quantum of which has not been specified to date.

26. Dividend

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

27. Earnings Per Share

	Individual quarter ended	
	30th June 2009	30th June 2008
(a) Basic earnings per share		
Profit attributable to equity holders of the Company for the period (RM'000)	4,652	1,680
Weighted average number of ordinary shares ('000)	1,404,772	1,369,121
Basic earnings per share (Sen)	0.33	0.12
(b) Diluted earnings per share		
Profit attributable to equity holders of the Company for the period (RM'000)	4,652	1,680
Adjustment for after tax effects of interest on ICPS (RM'000)	-	-
Adjusted net profit for the period (RM'000)	4,652	1,680
Weighted average number of ordinary shares ('000)	1,404,772	1,369,121
Adjustment for assumed conversion of ICPS ('000)	-	16,190
Adjustment for assumed exercise of Warrants ('000)	-	10,292
Adjustment for assumed exercise of ESOS ('000)	-	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share ('000)	1,404,772	1,395,603
Diluted earnings per share (Sen)	0.33	0.12