

IQ GROUP HOLDINGS BERHAD
(Company No. 636944-U)
(Incorporated in Malaysia under the Companies Act, 1965)

SECOND QUARTER REPORT ENDED 30 SEPTEMBER 2008

**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE QUARTER ENDED 30 SEPTEMBER 2008**

	Individual Quarter		Cumulative Quarter	
	Current year quarter ended	Preceding year corresponding quarter ended	Current year to-date for 6 months ended	Preceding year corresponding period of 6 months ended
	30 September 2008	30 September 2007	30 September 2008	30 September 2007
	RM'000	RM'000	RM'000	RM'000
Revenue	30,788	30,567	57,429	63,662
Profit/(loss) from operations	(1,186)	(317)	(2,473)	256
Income from other investments	159	332	317	512
Finance cost	(36)		(79)	
Profit/(loss) before tax	(1,063)	15	(2,235)	768
Income tax expense	(464)	176	(541)	(213)
Net profit/(loss) after tax for the period	(1,527)	191	(2,776)	555
Basic earnings per ordinary share (sen)	(1.80)	0.22	(3.27)	0.65
Diluted earnings per ordinary share (sen)	N/A	N/A	N/A	N/A

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

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UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

	As at end of current quarter 30 September 2008	Audited as at preceding financial year ended 31 March 2008
	RM'000	RM'000
Non-current assets		
Property, plant and equipment	25,562	25,214
Prepaid lease payments	1,972	1,997
Product development costs	8,486	7,278
Deferred tax assets	105	107
Total non-current assets	36,125	34,596
Current assets		
Inventories	44,598	35,829
Trade and other receivables	32,937	30,875
Other assets	6,049	2,026
Current tax assets	2,917	2,121
Short-term deposits with licensed banks	10,786	15,839
Cash and bank balances	7,374	15,942
Total current assets	104,661	102,632
Total assets	140,786	137,228
EQUITY AND LIABILITIES		
Share capital	85,000	85,000
Reserves	7,505	4,523
Retained earnings	14,743	17,541
Total equity	107,248	107,064
Non-current liabilities		
Deferred tax liabilities	1,384	1,480
Long-term loan	1,727	1,764
Total non-current liabilities	3,111	3,244
Current liabilities		
Trade and other payables	28,476	25,403
Long-term loan	204	419
Current tax liabilities	1,747	1,098
Dividend payable	-	-
Total current liabilities	30,427	26,920
Total liabilities	33,538	30,164
Total equity and liabilities	140,786	137,228
Net assets per share (RM)	1.26	1.26

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

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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 30 SEPTEMBER 2008**

	Non-Distributable				Distributable	Total RM'000
	Share Capital RM'000	Share Premium RM'000	Translation Reserve RM'000	Share Option Reserve RM'000	Retained Earnings RM'000	
Balance as of 1 April 2008	85,000	7,504	(3,175)	194	17,541	107,064
Prior year adjustment - Others					(21)	(21)
Net profit/(loss) after tax for the period					(2,776)	(2,776)
Recognition of share-based payment						-
Dividends						-
Currency translation differences			2,981			2,981
Balance as of 30 September 2008	85,000	7,504	(194)	194	14,744	107,248

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 March 2008 and the accompanying explanatory notes attached to this interim financial report.

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**UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE QUARTER ENDED 30 SEPTEMBER 2008**

	Individual Quarter	
	Current year quarter ended 30 September 2008 RM'000	Preceding year corresponding quarter ended 30 September 2007 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	(2,235)	767
Adjustments for :		
Depreciation of property, plant and equipment	2,370	2,432
Amortisation of development costs	977	1,132
Inventories written off	24	964
Unrealised loss/(gain) on foreign exchange	(2,585)	12
Interest expenses	79	-
Interest income	(317)	(512)
Amortisation of prepaid lease payments	24	24
(Gain)/Loss on disposal of property, plant and equipment	24	21
Equity-settled share-based payment	-	23
Other non-cash items	(21)	(570)
Operating profit before working capital changes	<u>(1,660)</u>	<u>4,293</u>
(Increase) / Decrease in:		
Inventories	(8,793)	(5,435)
Trade and other receivables	(1,308)	7,624
Other assets	(4,023)	354
Increase / (Decrease) in:		
Trade and other payables	2,954	(8,175)
Cash generated from operations	<u>(12,830)</u>	<u>(1,339)</u>
Tax paid	(784)	(1,398)
Net cash generated from operating activities	<u>(13,614)</u>	<u>(2,737)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	380	125
Interest received	317	512
Purchase of property, plant and equipment	(2,317)	(5,419)
Payment of capitalised development costs	(2,131)	(1,960)
Net cash generated from investing activities	(3,751)	(6,742)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bank borrowings	(206)	-
Interest paid	(79)	-
Net cash generated from financing activities	(285)	-
Effect of foreign exchange rate changes	4,029	(27)
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>(13,621)</u>	<u>(9,506)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>31,781</u>	<u>36,631</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>18,160</u></u>	<u><u>27,125</u></u>
Cash and cash equivalents included in the consolidated cash flow statement comprise the following amount:		
Short term deposits with licensed banks	10,786	22,444
Cash and bank balances	7,374	4,681
	<u><u>18,160</u></u>	<u><u>27,125</u></u>

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the audited financial statements for the year ended 31 March 2008 and the accompanying explanatory notes attached to this interim financial report.

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SECOND QUARTER REPORT ENDED 30 SEPTEMBER 2008

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2008

PART A : EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD (FRS) 134 - INTERIM FINANCIAL REPORTING

1. BASIS OF PREPARATION

The interim financial report is unaudited and has been prepared in accordance with FRS 134: Interim Financial Reporting, Paragraph 9.22 and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Securities).

The accounting policies and methods of computation adopted by the Group for the interim financial report are consistent with those adopted in the audited financial statements for the year ended 31 March 2008 except for the accounting policy changes that are expected to be reflected in financial statement for the year ended 31 March 2009. Details of these changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with FRS 134, Interim Financial Reporting requires management to make judgement, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 March 2008.

2. CHANGES IN ACCOUNTING POLICIES

The MASB has issued a number of new and revised Financial Reporting Standards (FRS) that are effective for financial period beginning on or after 1 July 2007. The Group will apply these FRS for the financial period beginning from 1 April 2008.

FRS 107 : Cash Flow Statements

FRS 112 : Income Taxes

FRS 118 : Revenue

Amendments to FRS 121 : The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation

FRS 134 : Interim Financial Reporting

FRS 137 : Provisions, Contingent Liabilities and Contingent Assets

IC Interpretation 1 : Changes in Existing Decommissioning, Restoration and Similar Liabilities

IC Interpretation 8 : Scope of FRS 2

The above FRS do not have significant impact on the financial statements of the Group.

3. AUDIT REPORT ON THE PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report of the preceding annual financial statements was not subject to any qualification.

4. SEASONAL OR CYCLICAL FACTORS

The Group serves a wide customer base in Europe, Japan and USA. The demand for the Group's products in the normal course of event is seasonal with demand peaking during the third and fourth quarter of the financial year.

5. UNUSUAL ITEMS AFFECTING ASSETS, LIABILITIES, EQUITY, NET INCOME OR CASH FLOWS

There was no unusual material event during the reporting quarter.

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6. MATERIAL CHANGES IN ESTIMATES

There were no changes in estimates that have a material effect in the current quarter and financial year-to-date results.

7. CHANGES IN DEBT AND EQUITY SECURITIES

Proposed Authority for the Company to purchase its own shares

At the Annual General Meeting of the Company held on 26 September 2008, the shareholders of the Company had granted a mandate for the Company to purchase its own ordinary shares of RM1.00 each as may be determined by the Directors of the Company up to maximum of 10% of the issued and paid-up capital of the Company. The mandate will expire upon the conclusion of the next Annual General Meeting of the Company.

There were no issuance, cancellations, repurchases, resale and repayment of debt and equity securities, share buy-back or shares held as treasury shares during the quarter ended 30 September 2008.

8. DIVIDENDS PAID

No interim dividend was paid by the Company for the quarter ended 30 September 2008.

9. SEGMENT REPORTING

Cumulative quarter ended 30 Sep 2008

	Investment holding RM'000	Manufacturing RM'000	Trading RM'000	Eliminations RM'000	Total RM'000
Revenue					
External sales	-	33,544	23,885		57,429
Inter-segment sales	3,195	26,269	29,395	(58,859)	-
Total revenue	<u>3,195</u>	<u>59,813</u>	<u>53,280</u>	<u>(58,859)</u>	<u>57,429</u>

	Investment holding RM'000	Manufacturing RM'000	Trading RM'000	Eliminations RM'000	Total RM'000
Results					
Profit from operations	601	(5,670)	2,543	53	(2,473)
Investment revenue	106	173	38		317
Finance cost					<u>(79)</u>
Profit/(loss) before tax					(2,235)
Income tax expense					<u>(541)</u>
Profit/(loss) after tax					<u>(2,776)</u>

10. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation. There was no revaluation of property, plant and equipment for the current quarter.

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11. MATERIAL SUBSEQUENT EVENT

There were no material events subsequent to the end of the current quarter.

12. CHANGES IN THE COMPOSITION OF THE GROUP

On 21 July 2008, the Company has increased the registered capital of its subsidiary, IQ Group (Dongguan) Ltd. (IQD) from USD 1,750,000 to USD 2,750,000. As at to-date, a total amount of USD 2,750,000 has been remitted to IQD as paid-up capital.

13. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no material contingent liabilities or contingent assets as at date of issue of this interim financial report.

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2008

PART B : EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

1. PERFORMANCE REVIEW

For the current quarter under review, the Group's revenue increased by RM0.22 million or 0.7% as compared to the second quarter ended 30 September 2007.

Despite increase in sales, the Group loss before taxation for the current quarter under review increased by RM1.08 million as compared to the second quarter ended 30 September 2007. This was mainly due to foreign exchange losses amounting RM1.02 million in the current quarter. These foreign exchange losses were the result of the appreciation of China Renminbi against US Dollar, appreciation of Ringgit Malaysia and USD against Sterling Pound during the quarter.

2. COMPARISON WITH THE IMMEDIATE PRECEDING QUARTER'S RESULTS

The Group's revenue for the current quarter was RM30.79 million, representing an increase of RM4.15 million or 15.6% as compared to that of the immediate preceding quarter ended 30 June 2008.

The Group recorded a loss before taxation of RM1.06 million for the quarter under review. Despite the increase in sales by 15.6%, there was only a marginal improvement in profit by RM0.11 million or 9.3% as compared to that of the immediate preceding quarter. This was mainly due to foreign exchange losses amounting RM1.02 million in the current quarter as compared to foreign exchange gain of RM0.855 million in the immediate preceding quarter.

3. COMMENTARY ON PROSPECTS

Barring any unforeseen circumstances, the Directors expect continued demand for the Group's products in this financial year. The Group expects continued pressure on profit for the next quarter due to gross margin erosion as a result of currency volatility .

4. VARIANCE OF ACTUAL AND FORECASTED PROFIT AND SHORTFALL IN PROFIT GUARANTEE

The disclosure requirements for explanatory notes for the variance of actual profit after tax and forecast profit after tax are not applicable.

The Group did not announce any profit guarantee.

5. INCOME TAX EXPENSE

	Quarter ended 30 Sep 2008 RM'000	Current year- to-date ended 30 Sep 2008 RM'000
Estimated income tax expense:		
Current tax expense	408	636
Under-provision in prior year	-	2
Deferred tax	56	(97)
	<u>464</u>	<u>541</u>

The Group's income tax for the current quarter reflects an effective tax rate which is higher than the statutory income tax rate mainly due to losses of certain subsidiaries which cannot be set off against taxable profits made by other subsidiaries.

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6. PROFITS ON SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

There was no sale of unquoted investment and/or properties during the current quarter.

7. QUOTED INVESTMENTS

There were no dealings in quoted securities for the current quarter.

8. STATUS OF CORPORATE PROPOSALS ANNOUNCED BUT YET TO BE COMPLETED

a. Status of Corporate Proposals

There were no corporate proposals announced but not completed as at the date of issue of this interim financial report.

b. Status of Utilisation of Proceeds

The Initial Public Offering (IPO) proceeds were received on 11 October 2005.
As at the date of this report, the utilisation of the IPO proceeds of RM23,410,800 are as follows.

Purpose	Proposed utilisation	Actual utilisation	Intended Timeframe for Utilisation	Deviation		Explanations
	RM'000	RM'000		RM'000	%	
i. Investment in the application of new technology/developing new products and enhancing existing products:-						
(a) Purchase of plant and equipment	11,405	5,115	by Sep 2009	6,290	55.2	R&D projects in-progress
(b) R& D expenditure	3,595	3,670		(75)		
ii. Working capital	5,711	5,711		-		
iii. Estimated Listing expenses	2,700	2,901		(201)		
Total	<u>23,411</u>	<u>17,397</u>		<u>6,014</u>		

9. GROUP BORROWINGS AND DEBT SECURITIES

Group borrowing as of 30 Sep 2008 are as follows:

	RM	Quarter ended 30 Sep 2008 Included in the total borrowings are amounts denominated in foreign currency GBP
Bank borrowings:		
Current/short term portion	203,927	32,801
Non-current/long term portion	<u>1,727,365</u>	<u>277,841</u>
	<u>1,931,292</u>	<u>310,642</u>

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10. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

As at date of issue of this interim financial report, the Group does not have any off balance sheet financial instruments.

11. MATERIAL LITIGATION

There was no material litigation pending as at date of issue of this interim financial report.

12. DIVIDENDS DECLARED OR PAYABLE

No interim dividend has been declared by the Company for the quarter ended 30 September 2008.

13. EARNINGS PER SHARE

a. Basic earnings per share

Basic earnings per share is calculated by dividing the net profit for the period by the weighted average number of ordinary shares in issue during the period.

	Current Quarter ended 30 Sep 2008	Current year- to-date ended 30 Sep 2008
Net profit for the period (RM'000)	<u>(1,527)</u>	<u>(2,776)</u>
Weighted average number of ordinary shares in issue ('000)	<u>85,000</u>	<u>85,000</u>
Basic earnings per share (sen)	<u>(1.80)</u>	<u>(3.27)</u>

b. Diluted earnings per share

The average fair value of the shares of the Company is lower than the average exercise price of the share options granted to employees. The effect of this would be anti-dilutive to the earnings per ordinary share.

27 Nov 2008