

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

SECOND QUARTER REPORT ENDED 30 SEPTEMBER 2011

**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE QUARTER ENDED 30 SEPTEMBER 2011**

	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 2011 RM'000	30 September 2010 RM'000	30 September 2011 RM'000	30 September 2010 RM'000
Revenue	41,059	34,456	77,446	72,376
Investment revenue	3	7	63	23
Other gains and losses	3,630	(2,149)	4,035	(2,172)
Changes in inventories of finished goods and work-in-progress	(1,487)	186	(2,057)	3,325
Raw materials and consumables used	(26,694)	(16,473)	(40,210)	(33,188)
Purchase of trading goods	4,561	(5,296)	(1,528)	(13,500)
Employee benefits expense	(7,798)	(7,601)	(16,265)	(15,081)
Depreciation and amortisation of non-current assets	(1,223)	(1,333)	(2,399)	(2,694)
Finance costs	(101)	(39)	(184)	(75)
Other operating expenses	(6,712)	(5,701)	(13,158)	(14,675)
Share of results of jointly controlled entity	(290)	(295)	(555)	(532)
Profit/(loss) before tax	4,948	(4,238)	5,188	(6,193)
Tax income/(expense)	(756)	357	(559)	365
Net profit/(loss) after tax for the period	4,192	(3,881)	4,629	(5,828)
Basic earnings/(loss) per ordinary share (sen)	4.93	(4.57)	5.45	(6.86)
Diluted earnings/(loss) 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 2011 and the accompanying explanatory notes attached to this interim financial report.

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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER ENDED 30 SEPTEMBER 2011**

	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 2011	30 September 2010	30 September 2011	30 September 2010
	RM'000	RM'000	RM'000	RM'000
Net profit/(loss) for the period	4,192	(3,881)	4,629	(5,828)
Exchange differences on translating foreign operations	1,465	(708)	(107)	(769)
Total comprehensive income/(loss) for the period	<u>5,657</u>	<u>(4,589)</u>	<u>4,522</u>	<u>(6,597)</u>

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 March 2011 and the accompanying explanatory notes attached to this interim financial report.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at end of current quarter 30 September 2011 Unaudited RM'000	Audited as at preceding financial year ended 31 March 2011 Audited RM'000
Non-current assets		
Property, plant and equipment	16,186	17,885
Prepaid lease payments	1,827	1,851
Product development costs	9,741	9,004
Interest in a jointly controlled entity	2,099	655
Deferred tax assets	99	99
Total non-current assets	29,952	29,494
Current assets		
Inventories	38,961	37,880
Trade and other receivables	47,024	37,938
Other assets	4,944	2,030
Income tax recoverable	1,771	2,082
Short-term deposits with licensed banks	3,189	3,025
Cash and bank balances	4,632	7,118
Total current assets	100,521	90,073
Total assets	130,473	119,567
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	85,000	85,000
Reserves	6,663	6,786
Retained earnings/(accumulated losses)	(4,729)	(9,374)
Total equity	86,934	82,412
Non-current liabilities		
Deferred tax liabilities	749	72
Total non-current liabilities	749	72
Current liabilities		
Trade and other payables	35,554	29,403
Bank borrowings	4,448	4,098
Other financial liabilities	326	-
Provision for restructuring costs	1,091	1,707
Current tax liabilities	1,371	1,875
Total current liabilities	42,790	37,083
Total liabilities	43,539	37,155
Total equity and liabilities	130,473	119,567
Net assets per share (RM)	1.02	0.97

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 March 2011 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 2011**

	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 2011	85,000	7,504	(901)	183	(9,374)	82,412
Total comprehensive income/(loss) for the period			(107)		4,629	4,522
Transactions with owners:						
Share-based payment forfeited				(16)	16	-
Recognition of share-based payment						-
Balance as of 30 September 2011	85,000	7,504	(1,008)	167	(4,729)	86,934
Balance as of 1 April 2010	85,000	7,504	304	194	4,054	97,056
Total comprehensive income/(loss) for the period			(769)		(5,828)	(6,597)
Transactions with owners:						
Share-based payment forfeited				(8)	8	-
Recognition of share-based payment						-
Balance as of 30 September 2010	85,000	7,504	(465)	186	(1,766)	90,459

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 March 2011 and the accompanying explanatory notes attached to this interim financial report.

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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE QUARTER ENDED 30 SEPTEMBER 2011**

	Individual Quarter	
	Current year quarter ended 30 September 2011 RM'000	Preceding year corresponding quarter ended 30 September 2010 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	5,188	(6,193)
Adjustments for :		
Depreciation and amortisation of non-current assets	2,399	2,694
Interest expenses recognised in profit and loss	184	75
Property, plant and equipment written off	-	191
Unrealised (gain)/loss on foreign exchange	(1,745)	1,098
Interest revenue recognised in profit and loss	(5)	(23)
(Gain)/Loss on disposal of property, plant and equipment	3	(1)
Unrealised (gain)/loss arising from forward contract	327	-
Share of results of jointly controlled entity	555	532
Operating profit/(loss) before working capital changes	6,906	(1,627)
(Increase) / Decrease in:		
Inventories	(1,080)	(4,887)
Trade and other receivables	(6,934)	1,559
Other assets	(2,915)	2,074
Increase / (Decrease) in:		
Trade and other payables	5,743	(4,060)
Cash generated from operations	1,720	(6,941)
Tax refunded	633	982
Tax paid	(829)	(232)
Net cash (used in)/generated from operating activities	1,524	(6,191)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	1,553	69
Interest received	5	27
Purchase of property, plant and equipment	(944)	(934)
Payment of capitalised development costs	(1,599)	(1,660)
Investment in joint venture	(2,000)	-
Short-term deposits held as security value	(3,189)	(3,086)
Net cash (used in)/generated from investing activities	(6,174)	(5,584)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank borrowings	120	1,948
Interest paid	(184)	(75)
Net cash (used in)/generated from financing activities	(64)	1,873
NET INCREASE IN CASH AND CASH EQUIVALENTS	(4,714)	(9,902)
Effect of foreign exchange rate changes	(797)	(1,962)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	10,143	21,964
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4,632	10,100
Cash and cash equivalents included in the consolidated cash flow statement comprise the following amount:		
Short term deposits with licensed banks	3,189	4,086
Cash and bank balances	4,632	9,100
	7,821	13,186
Less: Short-term deposits pledged as security value	(3,189)	(3,086)
	4,632	10,100

The Condensed Consolidated Statement of Cash Flow should be read in conjunction with the audited financial statements for the year ended 31 March 2011 and the accompanying explanatory notes attached to this interim financial report.

SECOND QUARTER REPORT ENDED 30 SEPTEMBER 2011

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2011

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 2011 except for the accounting policy changes that are expected to be reflected in financial statement for the year ended 31 March 2012. 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 2011.

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 January 2011.

FRS 1 :	First-time Adoption of Financial Reporting Standards (revised)
FRS 1 :	First-time Adoption of Financial Reporting Standards (Amendments relating to limited exemption from Comparative FRS 7 Disclosures for First-time Adopters)
FRS 1 :	First-time Adoption of Financial Reporting Standards (Amendments relating to additional exemptions for first-time adopters)
FRS 2 :	Share-based Payment (Amendments relating to group cash-settled share-based payment transactions)
FRS 2 :	Share-based Payment (Amendments relating to scope of FRS 2 and revised FRS 3)
FRS 3 :	Business Combinations (revised)
FRS 5 :	Non-current Assets Held for Sale and Discontinued Operations (Amendments relating to plan to sell controlling interest in a subsidiary)
FRS 7 :	Financial Instruments: Disclosures (Amendments relating to improving disclosures about financial instruments)
FRS 124 :	Related Party Disclosures (revised)
FRS 127 :	Consolidated and Separate Financial Statements (revised)
FRS 128 :	Investments in Associates (revised)
FRS 138 :	Intangible Assets (Amendments relating to additional consequential amendments arising from revised FRS 3)
FRS 139 :	Financial Instruments: Recognition and Measurement (Amendments relating to additional consequential amendments arising from revised FRS 3 and revised FRS 127)

Improvements to FRSs 2010

IC Interpretation 4 :	Determining whether an Arrangement contains a Lease
IC Interpretation 9 :	Reassessment of Embedded Derivatives (Amendments relating to additional consequential amendments arising from revised FRS 3)
IC Interpretation 12 :	Service Concession Arrangements
IC Interpretation 14 :	FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction (Amendments relating to prepayments of a minimum funding requirement)
IC Interpretation 16 :	Hedges of a Net Investment in a Foreign Operation

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IC Interpretation 17 : Distributions of Non-cash Assets to Owners

IC Interpretation 18 : Transfer of Assets from Customers

The above FRS do not have significant impact on the financial statements of the Group except for the changes arising from the adoption of the following:

- a. FRS 3 Business Combinations (Revised in 2010)
- b. FRS 127 Consolidated and Separate Financial Statements (Revised in 2010)

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 events 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.

6. MATERIAL CHANGES IN ESTIMATES

There were no changes in estimates that have a material effect in the current quarter 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 23 September 2011, 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 2011.

8. DIVIDENDS PAID

No interim dividend was paid by the Company for the quarter ended 30 September 2011.

9. SEGMENT REPORTING

**Cumulative quarter ended
30 September 2011**

	Investment holding RM'000	Manufacturing RM'000	Trading RM'000	Eliminations RM'000	Total RM'000
Revenue					
External revenue	-	49,692	27,754		77,446
Inter-segment revenue	3,164	30,047	43,359	(76,570)	-
Total revenue	<u>3,164</u>	<u>79,739</u>	<u>71,113</u>	<u>(76,570)</u>	<u>77,446</u>

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	Investment holding RM'000	Manufacturing RM'000	Trading RM'000	Eliminations RM'000	Total RM'000
<u>Results</u>					
Profit/(loss) from operations	3,141	1,865	394	464	5,864
Investment revenue	58	4	1		63
Finance cost					(184)
Share of results of jointly controlled entity					<u>(555)</u>
Profit/(loss) before tax					5,188
Income tax income/(expense)					<u>(559)</u>
Profit/(loss) after tax					<u><u>4,629</u></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.

11. MATERIAL SUBSEQUENT EVENT

There were no material events subsequent to the current financial quarter ended 30 September 2011 up to the date of this report.

12. CHANGES IN THE COMPOSITION OF THE GROUP

On 24 May 2011, the Company has increased the registered capital of its subsidiary, IQ Group (Dongguan) Ltd. ("IQD") from USD 3,750,000 to USD 4,950,000. As at to-date, a total amount of USD 4,950,000 had 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 2011

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 RM6.6 million or 19.2% as compared to the second quarter ended 30 September 2010, mainly due to new product launching to some existing customers.

The Group's profit before tax for the quarter increased by RM9.2 million as compared to the second quarter ended 30 September 2010. This was mainly due to the increase in gross profit by RM5.2 million as a result of higher revenue and improved gross margin for new products. Moreover, due to the appreciation of US Dollar against Ringgit, there is a foreign exchange gain amounting RM3.28 million in the current quarter as compared to foreign exchange loss of RM2.22 million in the second quarter ended 30 September 2010. Out of this foreign exchange gain of RM3.28 million, RM0.06 million is related to realised foreign exchange gain and RM3.22 million is related to unrealised foreign exchange gain which is mainly the impact of revaluations of trade debts which are nominated in foreign currencies such as US Dollar.

2. COMPARISON WITH THE IMMEDIATE PRECEDING QUARTER'S RESULTS

The Group's revenue for the current quarter was RM41.06 million, representing an increase of RM4.67 million or 12.8% as compared to that of the immediate preceding quarter ended 30 June 2011.

The Group recorded a profit before taxation of RM4.95 million for the quarter under review. There was an increase in profit by RM4.71 million as compared to that of the immediate preceding quarter. This was due to increase in revenue and foreign exchange gain of RM3.28 million in the current quarter as compared to foreign exchange gain of RM0.32 million in first quarter ended 30 June 2011.

3. COMMENTARY ON PROSPECTS

Barring any unforeseen circumstances, the Directors expect continuing demand for the Group's products in the next financial quarter.

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 2011 RM'000	Current year- to-date ended 30 Sep 2011 RM'000
Estimated income tax expense:		
Current tax expense/income)	206	810
Under/(over)-provision in prior quarter/ year	(222)	(927)
Deferred tax	772	676
	<u>756</u>	<u>559</u>

The Group's current quarter and year to-date income tax reflects an effective tax rate which is lower than the statutory income tax rate mainly due to adjustment for over-provision of tax in prior year and unabsorbed losses b/f which off-set against current period's statutory income.

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6. DISCLOSURE ON REALISED AND UNREALISED PROFITS/(LOSSES)

The breakdown of the retained earnings/(accumulated losses) are as follows:

	As at 30 Sep 2011 RM'000	As at 30 Jun 2011 RM'000
Total retained earnings/(accumulated losses) of the Company and its subsidiaries		
Realised	8,115	7,570
Unrealised	1,478	(2,369)
	<u>9,593</u>	<u>5,201</u>
Total share of accumulated losses from jointly controlled entity		
Realised	(1,890)	(1,609)
Unrealised	(10)	(1)
	<u>(1,900)</u>	<u>(1,610)</u>
Add: Consolidation adjustments	(12,422)	(12,512)
Total Group retained earnings/(accumulated losses) as per statement of financial position	<u>(4,729)</u>	<u>(8,921)</u>

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

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

8. QUOTED INVESTMENTS

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

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

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

10. GROUP BORROWINGS AND DEBT SECURITIES

Group borrowing as of 30 September 2011 are as follows:

	Included in the total borrowings are amounts denominated in foreign currency RMB	Quarter ended 30 Sep 2011 RM
Bank borrowings:		
Short term - unsecured	6,100,000	3,048,170
Short term - unsecured	-	1,400,000
		<u>4,448,170</u>

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11. FINANCIAL INSTRUMENTS

As at 30 September 2011, the foreign currency contracts which have been entered into by the Group to hedge its foreign receivables in US Dollar are as follows:

	Contract value	Notional value	Financial liabilities carried at fair value
	USD'000	RM'000	RM'000
Forward Foreign Currency Contracts			
Less than 1 year	<u>2,800</u>	<u>8,603</u>	<u>326</u>

Financial instruments are classified as Financial assets/liabilities at fair value through profit or loss (FVTPL).

Financial assets/liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in the "other gains and losses" line item in the statement of comprehensive income.

12. MATERIAL LITIGATION

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

13. DIVIDENDS DECLARED OR PAYABLE

No interim dividend has been declared by the Company for the quarter ended 30 September 2011.

14. 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 2011	Current year-to-date ended 30 Sep 2011
Net profit/(loss) for the period (RM'000)	<u>4,192</u>	<u>4,629</u>
Weighted average number of ordinary shares in issue ('000)	<u>85,000</u>	<u>85,000</u>
Basic earnings/(loss) per share (sen)	<u>4.93</u>	<u>5.45</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.

Date: 24 November 2011