

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

FIRST QUARTER REPORT ENDED 30 JUNE 2019

**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE QUARTER AND THREE MONTHS ENDED 30 JUNE 2019**

	Individual Quarter		Cumulative Quarter	
	Current year quarter ended	Preceding year corresponding quarter ended	Current year to-date for 3 months ended	Preceding year corresponding period of 3 months ended
	30 June 2019 RM'000	30 June 2018 RM'000	30 June 2019 RM'000	30 June 2018 RM'000
Revenue	30,428	36,817	30,428	36,817
Investment revenue	80	140	80	140
Other gains and losses	866	1,033	866	1,033
Changes in inventories of finished goods and work-in-progress	(1,754)	1,212	(1,754)	1,212
Raw materials and consumables used	(9,331)	(17,808)	(9,331)	(17,808)
Purchase of trading goods	(4,620)	(7,493)	(4,620)	(7,493)
Employee benefits expense	(10,205)	(10,896)	(10,205)	(10,896)
Depreciation and amortisation of non-current assets	(1,633)	(1,114)	(1,633)	(1,114)
Finance costs	(53)	-	(53)	-
Other operating expenses	(6,798)	(1,983)	(6,798)	(1,983)
Profit/(loss) before tax	(3,020)	(92)	(3,020)	(92)
Tax income/(expense)	(118)	302	(118)	302
Profit/(loss) for the period	(3,138)	210	(3,138)	210
Profit/(loss) for the period attributable to:				
Owners of the Company	(3,138)	210	(3,138)	210
Non-controlling interests	-	-	-	-
	(3,138)	210	(3,138)	210
Earnings/(loss) per ordinary share attributable to owners of the Company (sen):				
Basic	(3.56)	0.24	(3.56)	0.24
Diluted	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 2019 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 AND THREE MONTHS ENDED 30 JUNE 2019**

	Individual Quarter		Cumulative Quarter	
	Current year quarter ended	Preceding year corresponding quarter ended	Current year to-date for 3 months ended	Preceding year corresponding period of 3 months ended
	30 June 2019 RM'000	30 June 2018 RM'000	30 June 2019 RM'000	30 June 2018 RM'000
Net profit/(loss) for the period	(3,138)	210	(3,138)	210
Exchange differences on translating foreign operations	(91)	830	(91)	830
Total comprehensive income/(loss) for the period	<u>(3,229)</u>	<u>1,040</u>	<u>(3,229)</u>	<u>1,040</u>
Total comprehensive income/(loss) attributable to:				
Owners of the Company	(3,229)	1,040	(3,229)	1,040
Non-controlling interests	-	-	-	-
	<u>(3,229)</u>	<u>1,040</u>	<u>(3,229)</u>	<u>1,040</u>

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 March 2019 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 June 2019 Unaudited RM'000	As at preceding financial year ended 31 March 2019 Audited RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	13,505	13,173
Prepaid lease payments on leasehold land	1,451	1,464
Investment properties	1,660	1,664
Product development costs	16,533	16,405
Right-of-use assets	4,717	-
Deferred expenses	738	-
Deferred tax assets	1,231	764
Total non-current assets	39,835	33,470
Current assets		
Inventories	48,602	51,819
Trade and other receivables	42,519	48,540
Current tax assets	4,824	4,779
Other assets	5,138	2,447
Short-term deposits with licensed banks	12,625	4,400
Cash and bank balances	13,208	19,793
Total current assets	126,916	131,778
Total assets	166,751	165,248
EQUITY AND LIABILITIES		
Capital and reserves		
Issued capital	96,177	96,177
Reserves	3,533	3,624
Retained earnings/(accumulated losses)	37,079	40,355
Total equity attributable to Owners of the Company	136,789	140,156
Non-controlling interest	-	-
Total equity	136,789	140,156
Non-current liabilities		
Deferred tax liabilities	-	8
Lease liabilities	4,862	-
Total non-current liabilities	4,862	8
Current liabilities		
Trade and other payables	24,103	23,181
Other financial liabilities	-	-
Tax liabilities	997	1,903
Total current liabilities	25,100	25,084
Total liabilities	29,962	25,092
Total equity and liabilities	166,751	165,248
Net assets per share attributable to owners of the Company (RM)	1.55	1.59

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 March 2019 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 THREE MONTHS ENDED 30 JUNE 2019**

	-----Attributable to owners of the Company -----				
	Non-Distributable			Distributable	
	Issued Capital RM'000	Translation Reserve RM'000	Legal Reserve RM'000	Retained Earnings RM'000	Total RM'000
Balance as of 1 April 2019	96,177	3,499	125	40,355	140,156
Effects of changes in accounting policies	96,177	3,499	125	(138)	(138)
				40,217	140,018
Profit/(Loss) for the year				(3,138)	(3,138)
Other comprehensive income/(loss) for the period		(91)			(91)
Total comprehensive income/(loss) for the period		(91)		(3,138)	(3,229)
Dividends paid				-	-
Balance as of 30 June 2019	96,177	3,408	125	37,079	136,789
Balance as of 1 April 2018	96,177	2,291	125	46,932	145,525
Profit/(Loss) for the year				210	210
Other comprehensive income/(loss) for the period		830			830
Total comprehensive income/(loss) for the period		830		210	1,040
Dividends paid				-	-
Balance as of 30 June 2018	96,177	3,121	125	47,142	146,565

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 March 2019 and the accompanying explanatory notes attached to this interim financial report.

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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE THREE MONTHS ENDED 30 JUNE 2019**

	Individual Quarter	
	Current year quarter ended 30 June 2019 RM'000	Preceding year corresponding quarter ended 30 June 2018 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) for the year	(3,138)	210
Adjustments for :		
Tax expense recognised in profit or loss	118	(302)
Depreciation and amortisation of non-current assets	1,633	1,114
Unrealised (gain)/loss on foreign exchange	(161)	135
Net fair value (gain)/loss on other financial assets/ liabilities	-	105
(Gain)/Loss on disposal of property, plant and equipment	(1)	12
Finance costs	53	-
Interest income	(48)	(111)
Operating profit/(loss) before working capital changes	(1,544)	1,163
(Increase) / Decrease in:		
Inventories	3,217	(5,109)
Trade and other receivables	6,341	(5,826)
Other assets	(2,691)	(472)
Increase / (Decrease) in:		
Trade and other payables	762	7,233
Cash generated from operations	6,085	(3,011)
Tax refunded	77	-
Tax paid	(1,614)	(514)
Net cash (used in)/generated from operating activities	4,548	(3,525)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	48	111
Proceeds from disposal of property, plant and equipment	1	206
Purchase of property, plant and equipment	(1,053)	(1,732)
Addition to deferred expenses	(741)	-
Addition to capitalised development costs	(698)	(1,009)
Net cash (used in)/generated from investing activities	(2,443)	(2,424)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	-	-
Repayment of lease liabilities	(352)	-
Interest on lease liabilities	(53)	-
Net cash (used in)/generated from financing activities	(405)	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,700	(5,949)
Effect of foreign exchange rate changes	(60)	948
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	24,193	50,270
CASH AND CASH EQUIVALENTS AT END OF PERIOD	25,833	45,269

The Condensed Consolidated Statement of Cash Flow should be read in conjunction with the audited financial statements for the year ended 31 March 2019 and the accompanying explanatory notes attached to this interim financial report.

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NOTES TO THE INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 JUNE 2019

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

1. BASIS OF PREPARATION

The interim financial report is unaudited and has been prepared in accordance with MFRS 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 2019 except for the accounting policy changes that are expected to be reflected in financial statement for the year ended 31 March 2020.

The preparation of an interim financial report in conformity with MFRS 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.

At the transition date, the Group reviewed its accounting policies and the adoption of MFRS has no significant impact on the financial statements.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 March 2019.

2. CHANGES IN ACCOUNTING POLICIES

At the date of authorisation of these interim financial statements, the following MFRSs and Amendments to MFRS were issued but not yet effective and have not been applied by the Group.

MFRS and Amendments to MFRS	Effective for annual period beginning on or after
Amendments to MFRSs References to the Conceptual Framework in MFRS Standards	1 January 2020
Amendments to MFRS 3 Definition of a Business	1 January 2020
Amendments to MFRS 101 Definition of Material and MFRS 108	1 January 2020

During the current financial year, the Group and the Company has adopted MFRS 16, Leases that is relevant and effective for an accounting period that begins on or after 1 January 2019 as follows:

MFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both leases. MFRS 16 supersedes the previous guidance including MFRS 117 *Leases* and the related interpretations.

MFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed of lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under MFRS 117 are presented as operating cash flows; whereas under MFRS 16 model, the lease payments will be split into a principal and interest portion which will be presented as financing and operating cash flows respectively.

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In contrast to lessee accounting, MFRS 16 substantially carries forward the lessor accounting requirements in MFRS 117, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

The Group adopted the modified retrospective approach when applying MFRS 16 to lease commitments on April 1, 2019 and elects to adjust the opening balance of retained earnings for any financial impact.

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, Australasia and USA with localised seasonal and model mix requirements. Hence fluctuations in demand during the year are normal and expected.

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 29 August 2018, the shareholders of the Company had granted a mandate for the Company to purchase its own ordinary shares 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 cancellations, repurchases, resale and repayment of debt and equity securities, share buy-back or shares held as treasury shares during the quarter ended 30 June 2019.

8. DIVIDENDS PAID

No dividend has been paid by the Company for the quarter ended 30 June 2019.

9. SEGMENT REPORTING

**Cumulative quarter ended
30 June 2019**

	Investment holding RM'000	Manufacturing RM'000	Trading RM'000	Eliminations RM'000	Total RM'000
<u>Revenue</u>					
External revenue	-	23,218	7,210		30,428
Inter-segment revenue	1,856	25,106	27,179	(54,141)	-
Total revenue	<u>1,856</u>	<u>48,324</u>	<u>34,389</u>	<u>(54,141)</u>	<u>30,428</u>
<u>Results</u>					
Profit/(loss) from operations	394	(2,243)	(1,421)	170	(3,100)
Investment revenue	70	7	3		80
Profit/(loss) before tax					(3,020)
Income tax income/(expense)					(118)
Profit/(loss) after tax					<u>(3,138)</u>

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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 June 2019 up to the date of this report.

12. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the current quarter.

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 JUNE 2019

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

1. PERFORMANCE REVIEW

Financial review for current quarter and financial year to date

	Individual Quarter		Changes	Cumulative Quarter		Changes
	Current year quarter ended	Preceding year corresponding quarter ended		Current year to-date for 3 months ended	Preceding year corresponding period of 3 months ended	
	30 June 2019	30 June 2018		30 June 2019	30 June 2018	
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue	30,428	36,817	-17%	30,428	36,817	-17%
Operating Profit	(3,913)	(1,265)	209%	(3,913)	(1,265)	209%
Profit/(Loss) Before Interest and Tax	(2,967)	(92)	3125%	(2,967)	(92)	3125%
Profit/(Loss) Before Tax	(3,020)	(92)	3183%	(3,020)	(92)	3183%
Profit/(Loss) After Tax	(3,138)	210	-1594%	(3,138)	210	-1594%
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	(3,138)	210	-1594%	(3,138)	210	-1594%

For the current quarter under review, the Group's revenue decreased by RM6.39 million or 17.4% as compared to the first quarter ended 30 June 2018. This is mainly due to a delay in product shipments to customers with sales value of approximately RM 2.2 million as a result of labour shortages in the Dongguan, China manufacturing plant. The Group has addressed the labour shortage by taking the approved steps to relocate the majority of its manufacturing operation in Dongguan to a newly incorporated subsidiary in Wuning, China where stable workforce is more easily achieved.

The Group recorded a loss before taxation of RM3.02 million for the quarter under review, representing an increase in loss by RM2.93 million as compared to that of the preceding year quarter, resulting primarily from a reduction in sales due to a notable slow down within the industry which is being experienced in the midst of the current global economic uncertainties and to a lesser extent the one-off set up costs and related delays from moving manufacturing operations from Dongguan to Wuning.

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Segmental Analysis

The performance of the respective operating segments are analysed as follows:-

	Individual Quarter		Cumulative Quarter	
	Current year quarter ended	Preceding year corresponding quarter ended	Current year to-date for 3 months ended	Preceding year corresponding period of 3 months ended
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
	RM'000	RM'000	RM'000	RM'000
<u>Revenue</u>				
Investment holding	1,856	1,840	1,856	1,840
Manufacturing	48,325	53,949	48,325	53,949
Trading	34,389	43,685	34,389	43,685
Total	84,570	99,474	84,570	99,474
Eliminations	(54,142)	(62,657)	(54,142)	(62,657)
Revenue after eliminations	<u>30,428</u>	<u>36,817</u>	<u>30,428</u>	<u>36,817</u>
<u>Profit/(loss) before tax</u>				
Investment holding	464	749	464	749
Manufacturing	(2,236)	(829)	(2,236)	(829)
Trading	(1,418)	(44)	(1,418)	(44)
Total	(3,190)	(124)	(3,190)	(124)
Eliminations	170	32	170	32
Profit/(loss) before tax after eliminations	<u>(3,020)</u>	<u>(92)</u>	<u>(3,020)</u>	<u>(92)</u>

Investment Holdings

Q1 FY2020 vs. Q1 FY2019

The investment holding segment profit decreased by RM0.28 million in the current quarter as compared to preceding year quarter, mainly due to lower foreign exchange gain by RM0.27 million in current quarter as compared to preceding year quarter.

Manufacturing

Q1 FY2020 vs. Q1 FY2019

The manufacturing segment loss increased by RM1.41 million, mainly due to the following:

- a. Lower gross profit due to lower revenue in current quarter as compared to preceding year quarter.
- b. Higher operating expenses in current quarter as compared to preceding year quarter due to some duplication and one-off set up cost from moving manufacturing operations from Dongguan to Wuning.

Trading

Q1 FY2020 vs. Q1 FY2019

The trading segment loss increased by RM1.37 million in the current year quarter as compared to preceding year quarter, mainly due to lower gross profit as a result of lower revenue and change in sales model mixes.

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2. COMPARISON WITH THE IMMEDIATE PRECEDING QUARTER'S RESULTS

Financial review for current quarter compared to immediate preceding quarter

	Current Year Quarter ended 30 June 2019 RM'000	Immediate Preceding Quarter ended 31 March 2019 RM'000	Changes %
Revenue	30,428	30,452	0%
Operating Profit	(3,966)	(1,247)	218%
Profit/(Loss) Before Interest and Tax	(3,020)	(2,047)	48%
Profit/(Loss) Before Tax	(3,020)	(2,047)	48%
Profit/(Loss) After Tax	(3,138)	(2,632)	19%
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	(3,138)	(2,632)	19%

The Group's revenue for the current quarter was RM30.43 million, representing a decrease of RM0.02 million or 0.1% as compared to that of the immediate preceding quarter ended 31 March 2019.

The Group recorded a loss before taxation of RM3.02 million for the quarter under review. The Group's loss before tax increased by RM0.97 million as compared to that of the immediate preceding quarter. This is mainly due to some one-off set up costs from moving manufacturing operations from Dongguan to Wuning.

3. COMMENTARY ON PROSPECTS

As previously communicated, two major initiatives have been recently accomplished, i.e. the exercise of moving the majority of IQ Malaysia's manufacturing to our established facility in China and the subsequent step of establishing manufacturing operations further inland within China (IQ Wuning). Whilst these changes carried costs and introduced some temporary delays with resulting lower sales, these initiatives have been concluded in order to assist bottom line benefits as we go forward, with such positive benefit being all the more important given the current industry slowdown amidst the global economic uncertainty.

In addition to managing IQ's costs (as demonstrated by the manufacturing relocations), we remain very much focussed on the need to enable growing sales. Historically the core aspect of IQ-group's business has been focussed around an ODM business model and this is a business area which we still enjoy with on-going prospects and strong relationships. However, global market conditions have impacted the recent performance of IQ's ODM customers resulting in reduced sales with direct implications to IQ. Fortunately we have been embarking on a dual strategy for some time where we see growing prospects in non conflicting business areas which are more immediately under our control and influence. These areas include Industrial lighting, Big Box retail and Online retail sales. With promising prospects and progress becoming tangible in this transitional stage, we are increasingly well positioned to enjoy heightened levels of performance which we trust will also coincide with improved global economic conditions to permit ramping sales.

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.

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5. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

	Quarter ended 30 Jun 2019 RM'000	Current year- to-date ended 30 Jun 2019 RM'000
Interest income	(48)	(48)
Other income including investment income **	(106)	(106)
Interest expense	53	53
Depreciation and amortisation	1,633	1,633
Provision for and written off of receivables *	-	-
Provision for and written off of inventories	-	-
(Gain)/loss on disposal of quoted/unquoted investments *	-	-
(Gain)/Loss on disposal of properties *	-	-
Impairment of assets #	-	-
Foreign exchange (gain) or loss	(792)	(792)
(Gain) or loss on derivatives *	-	-
Exceptional item charged / (credited) *	-	-

* Not applicable during the period

Product development cost written off

** Exclude interest income

6. INCOME TAX EXPENSE

	Quarter ended 30 Jun 2019 RM'000	Current year- to-date ended 30 Jun 2019 RM'000
Estimated income tax expense:		
Current tax expense/(income)	573	573
Under/(over)-provision in prior year	22	22
Deferred tax	(477)	(477)
	<u>118</u>	<u>118</u>

The Group's current quarter and financial year to-date reflects an effective tax rate which is higher than the statutory income tax rate mainly due to losses of certain subsidiaries which cannot be offset against taxable profits made by other subsidiaries.

7. 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.

8. GROUP BORROWINGS AND DEBT SECURITIES

There were no group borrowings and debt securities as at the end of the reporting quarter.

9. FINANCIAL INSTRUMENTS

As at 30 June 2019, there is no foreign currency contract which have been entered into by the Group to hedge its foreign receivables.

10. MATERIAL LITIGATION

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

11. DIVIDENDS DECLARED OR PAYABLE

No interim dividend has been declared by the Company for the quarter ended 30 June 2019.

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12. 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 Jun 2019	Current year- to-date ended 30 Jun 2019
Profit/(loss) for the period attributable to the owners of the Company (RM'000)	<u>(3,138)</u>	<u>(3,138)</u>
Weighted average number of ordinary shares in issue ('000)	<u>88,028</u>	<u>88,028</u>
Basic earnings/(loss) per share (sen)	<u>(3.56)</u>	<u>(3.56)</u>

b. Diluted earnings per share

The Group has no dilution in its earnings per ordinary share for the current quarter and year to-date under review as the Group has no potential ordinary shares in issue.

Date: 28 August 2019