

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

THIRD QUARTER REPORT ENDED 31 DECEMBER 2009

**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE QUARTER ENDED 31 DECEMBER 2009**

	Individual Quarter		Cumulative Quarter	
	Current year quarter ended	Preceding year corresponding quarter ended	Current year to-date for 9 months ended	Preceding year corresponding period of 9 months ended
	31 December 2009 RM'000	31 December 2008 RM'000	31 December 2009 RM'000	31 December 2008 RM'000
Revenue	34,449	51,064	95,790	108,493
Investment revenue	80	119	243	436
Other gains and losses	(401)	(6,779)	987	(7,038)
Changes in inventories of finished goods and work-in-progress	2,977	640	(5,469)	1,924
Raw materials and consumables used	(15,346)	(22,810)	(36,882)	(50,929)
Purchase of trading goods	(3,728)	(4,720)	(6,888)	(8,937)
Employee benefits expense	(6,553)	(6,443)	(18,989)	(18,606)
Depreciation of property, plant and equipment	(1,170)	(1,296)	(3,579)	(3,739)
Amortisation of prepaid lease payments	(12)	(12)	(36)	(36)
Amortisation of development costs	(490)	(631)	(1,414)	(1,608)
Finance costs	(7)	(30)	(75)	(109)
Other operating expenses	(8,030)	(8,358)	(21,510)	(21,342)
Share of profit/(loss) of joint venture	(125)		(125)	
Profit/(loss) before tax	1,644	744	2,053	(1,491)
Income tax expense	459	732	83	191
Net profit/(loss) after tax for the period	2,103	1,476	2,136	(1,300)
Basic earnings per ordinary share (sen)	2.47	1.74	2.51	(1.53)
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 2009 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 31 December 2009	Audited as at preceding financial year ended 31 March 2009
	RM'000	RM'000
Non-current assets		
Property, plant and equipment	22,578	24,476
Prepaid lease payments	1,912	1,948
Product development costs	9,671	8,122
Investment in joint venture	1,875	-
Deferred tax assets	98	88
Total non-current assets	<u>36,134</u>	<u>34,634</u>
Current assets		
Inventories	31,131	30,969
Trade and other receivables	41,133	40,807
Other assets	1,893	1,584
Current tax assets	2,397	1,435
Short-term deposits with licensed banks	16,529	18,960
Cash and bank balances	14,647	11,619
Total current assets	<u>107,730</u>	<u>105,374</u>
Total assets	<u>143,864</u>	<u>140,008</u>
EQUITY AND LIABILITIES		
Share capital	85,000	85,000
Reserves	8,908	12,854
Retained earnings	17,592	15,438
Total equity	<u>111,500</u>	<u>113,292</u>
Non-current liabilities		
Deferred tax liabilities	1,397	1,145
Long-term loan	-	-
Total non-current liabilities	<u>1,397</u>	<u>1,145</u>
Current liabilities		
Trade and other payables	30,145	22,493
Long-term loan	-	1,438
Current tax liabilities	822	1,640
Total current liabilities	<u>30,967</u>	<u>25,571</u>
Total liabilities	<u>32,364</u>	<u>26,716</u>
Total equity and liabilities	<u>143,864</u>	<u>140,008</u>
Net assets per share (RM)	1.31	1.33

The Condensed Consolidated Balance Sheet should be read in conjunction with the audited financial statements for the year ended 31 March 2009 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 31 DECEMBER 2009**

	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 2009	85,000	7,504	5,137	213	15,438	113,292
Exchange difference on translation of net assets of foreign subsidiary companies			(3,928)			(3,928)
Share-based payment forfeited				(18)	18	-
Net profit/(loss) after tax for the period					2,136	2,136
Recognition of share-based payment						-
Dividends						-
Balance as of 31 December 2009	85,000	7,504	1,209	195	17,592	111,500
Balance as of 1 April 2008	85,000	7,504	(3,175)	194	17,541	107,064
Prior year adjustment - Others					(21)	(21)
Exchange difference on translation of net assets of foreign subsidiary companies			5,911			5,911
Net profit/(loss) after tax for the period					(1,300)	(1,300)
Recognition of share-based payment				9		9
Dividends						-
Balance as of 31 December 2008	85,000	7,504	2,736	203	16,220	111,663

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 March 2009 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 31 DECEMBER 2009**

	Individual Quarter	
	Current year quarter ended 31 December 2009 RM'000	Preceding year corresponding quarter ended 31 December 2008 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	2,053	(1,491)
Adjustments for :		
Depreciation of property, plant and equipment	3,579	3,739
Amortisation of development costs	1,414	1,608
Product development cost written off	114	-
Interest expenses	75	109
Amortisation of prepaid lease payments	36	36
Property, plant and equipment written off	235	-
Equity-settled share-based payment	-	9
Unrealised loss/(gain) on foreign exchange	(4,686)	3,528
Interest income	(243)	(436)
(Gain)/Loss on disposal of property, plant and equipment	21	(36)
Inventories written off	-	25
Share of profit/(loss) of joint venture	125	-
Other non-cash items	-	(195)
Operating profit before working capital changes	2,723	6,896
(Increase) / Decrease in:		
Inventories	(162)	(3,702)
Trade and other receivables	(846)	(17,601)
Other assets	(310)	(3,204)
Increase / (Decrease) in:		
Trade and other payables	7,595	9,950
Cash generated from operations	9,000	(7,661)
Tax refunded	20	-
Tax paid	(1,387)	(1,427)
Net cash(used in)/generated from operating activities	7,633	(9,088)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	160	662
Interest received	259	436
Purchase of property, plant and equipment	(2,605)	(3,424)
Payment of capitalised development costs	(3,129)	(2,974)
Investment in joint venture	(2,000)	-
Net cash (used in)/generated from investing activities	(7,315)	(5,300)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bank borrowings	(1,529)	(253)
Interest paid	(75)	(109)
Net cash (used in)/generated from financing activities	(1,604)	(362)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(1,286)	(14,750)
Effect of foreign exchange rate changes	1,883	1,656
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	30,579	31,781
CASH AND CASH EQUIVALENTS AT END OF PERIOD	31,176	18,687
Cash and cash equivalents included in the consolidated cash flow statement comprise the following amount:		
Short term deposits with licensed banks	16,529	6,700
Cash and bank balances	14,647	11,987
	31,176	18,687

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the audited financial statements for the year ended 31 March 2009 and the accompanying explanatory notes attached to this interim financial report.

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THIRD QUARTER REPORT ENDED 31 DECEMBER 2009

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2009

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 2009 except for the accounting policy changes that are expected to be reflected in financial statement for the year ended 31 March 2010. 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 2009.

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 2010, except for FRS 8 which is effective for period beginning on or after 1 July 2009. The Group will apply these FRS for the financial period beginning from 1 April 2010.

- FRS 1 : First-time Adoption of Financial Reporting Standards (Amendments relating to cost of an investment in a subsidiary, jointly controlled entity or associate)
- FRS 2 : Share-based Payment (Amendments relating to vesting conditions and cancellations)
- FRS 4 : Insurance Contracts
- FRS 7 : Financial Instruments: Disclosures
- FRS 8 : Operating Segments
- FRS 123 : Borrowing Costs (Revised)
- FRS 127 : Consolidated and Separate Financial Statements (Amendments relating to cost of an investment in a subsidiary, jointly controlled entity or associate)
- FRS 139 : Financial Instruments: Recognition and Measurement
- IC Interpretation 9 : Reassessment of Embedded Derivatives
- IC Interpretation 10 : Interim Financial Reporting and Impairment
- IC Interpretation 11 : FRS 2 - Group and Treasury Share Transactions
- IC Interpretation 13 : Customer Loyalty Programmes
- IC Interpretation 14 : FRS 119 - The limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

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.

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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 25 September 2009, 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 31 December 2009.

8. DIVIDENDS PAID

No interim dividend was paid by the Company for the quarter ended 31 December 2009.

9. SEGMENT REPORTING

**Cumulative quarter
ended 31 December 2009**

	Investment holding RM'000	Manufacturing RM'000	Trading RM'000	Eliminations RM'000	Total RM'000
Revenue					
External sales	-	49,243	46,547		95,790
Inter-segment sales	7,728	49,877	43,570	(101,175)	-
Total revenue	<u>7,728</u>	<u>99,120</u>	<u>90,117</u>	<u>(101,175)</u>	<u>95,790</u>

	Investment holding RM'000	Manufacturing RM'000	Trading RM'000	Eliminations RM'000	Total RM'000
Results					
Profit from operations	3,569	(1,734)	2,394	(2,219)	2,010
Investment revenue	52	191			243
Finance cost					(75)
Share of profit/(loss) of joint venture					<u>(125)</u>
Profit/(loss) before tax					2,053
Income tax expense					83
Profit/(loss) after tax					<u>2,136</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 31 December 2009 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 31 DECEMBER 2009

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 decreased by RM16.61 million or 32.5% as compared to the third quarter ended 31 December 2008. The decrease was mainly due to changes in pricing structure for the UK customers as a result of change in the UK trading to a direct supply model and the launching of a new range of products to existing customers in Europe and Japan in the third quarter ended 31 December 2008.

The Group recorded a profit before taxation of RM1.64 million for the quarter under review. Despite decrease in sales, the Group profit before tax for the quarter improved by RM0.9 million or 121.1% as compared to the third quarter ended 31 December 2008. This was due to the lower operating expenses by RM2.3 million in the current quarter, mainly as a result of the streamlining in the operation of the UK subsidiary and lower foreign exchange loss by RM6.69 million as compared to foreign exchange loss of RM7.04 million in third quarter ended 31 December 2008.

2. COMPARISON WITH THE IMMEDIATE PRECEDING QUARTER'S RESULTS

The Group's revenue for the current quarter was RM34.45 million, representing an increase of RM2.64 million or 8.3% as compared to that of the immediate preceding quarter ended 30 September 2009.

The Group's profit before taxation for the current quarter increased by RM2.36 million as compared to that of the immediate preceding quarter. This was mainly due to higher revenue and lower foreign exchange loss by RM0.62 million in the current quarter.

3. COMMENTARY ON PROSPECTS

Barring any unforeseen circumstances, the Directors expect continued demand for the Group's products in the next 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 31 Dec 2009 RM'000	Current year- to-date ended 31 Dec 2009 RM'000
Estimated income tax expense:		
Current tax expense	(19)	91
Under/(over)-provision in prior year	(398)	(421)
Deferred tax	(42)	247
	<u>(459)</u>	<u>(83)</u>

The Group's income tax for the current quarter and financial year to-date reflects an effective tax rate which is lower than the statutory income tax rate mainly due to over-provision of income tax in previous quarter and prior year.

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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. The Board of Directors has announced the change in utilisation of the Initial Public Offering (IPO) proceeds on 26 February 2009. As at the date of this report, the utilisation of the IPO proceeds of RM23,410,800 are as follows.

Purpose	Revised 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	5,669	5,669		-		
(b) R& D expenditure	3,670	3,670		-		
ii. Working capital	11,171	11,171		-		
iii. Estimated Listing expenses	2,901	2,901		-		
Total	<u>23,411</u>	<u>23,411</u>		<u>-</u>		

9. GROUP BORROWINGS AND DEBT SECURITIES

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

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.

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12. DIVIDENDS DECLARED OR PAYABLE

No interim dividend has been declared by the Company for the quarter ended 31 December 2009.

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 31 Dec 2009	Current year- to-date ended 31 Dec 2009
Net profit/(loss) for the period (RM'000)	<u>2,103</u>	<u>2,136</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>2.47</u>	<u>2.51</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.