

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

THIRD QUARTER REPORT ENDED 31 DECEMBER 2010

**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE QUARTER ENDED 31 DECEMBER 2010**

	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 2010 RM'000	31 December 2009 RM'000	31 December 2010 RM'000	31 December 2009 RM'000
Revenue	32,714	34,449	105,090	95,790
Investment revenue	13	80	36	243
Other gains and losses	626	(401)	(1,546)	987
Changes in inventories of finished goods and work-in-progress	1,241	2,977	4,566	(5,469)
Raw materials and consumables used	(27,637)	(15,346)	(60,825)	(36,882)
Purchase of trading goods	6,716	(3,728)	(6,784)	(6,888)
Employee benefits expense	(7,511)	(6,553)	(22,592)	(18,989)
Depreciation of property, plant and equipment	(867)	(1,170)	(2,660)	(3,579)
Impairment loss on property, plant and equipment	(498)	-	(498)	-
Amortisation of prepaid lease payments	(12)	(12)	(36)	(36)
Amortisation of development costs	(460)	(490)	(1,337)	(1,414)
Finance costs	(41)	(7)	(116)	(75)
Other operating expenses	(5,339)	(8,030)	(20,014)	(21,510)
Share of profit/(loss) of joint venture	(232)	(125)	(764)	(125)
Profit/(loss) before tax	<u>(1,287)</u>	<u>1,644</u>	<u>(7,480)</u>	<u>2,053</u>
Tax income/(expense)	(343)	459	22	83
Net profit/(loss) after tax for the period	<u><u>(1,630)</u></u>	<u><u>2,103</u></u>	<u><u>(7,458)</u></u>	<u><u>2,136</u></u>
Basic earnings/(loss) per ordinary share (sen)	(1.92)	2.47	(8.77)	2.51
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 2010 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 31 DECEMBER 2010**

	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 2010 RM'000	31 December 2009 RM'000	31 December 2010 RM'000	31 December 2009 RM'000
Net profit/(loss) for the period	(1,630)	2,103	(7,458)	2,136
Exchange gain/(loss) on translation of foreign operations	24	(337)	(745)	(3,928)
Total comprehensive income/(loss) for the period	<u><u>(1,606)</u></u>	<u><u>1,766</u></u>	<u><u>(8,203)</u></u>	<u><u>(1,792)</u></u>

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 March 2010 and the accompanying explanatory notes attached to this interim financial report.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at end of current quarter 31 December 2010	Audited as at preceding financial year ended 31 March 2010
	RM'000	RM'000
Non-current assets		
Property, plant and equipment	18,044	19,958
Prepaid lease payments	1,863	1,900
Product development costs	9,426	8,402
Interest in a jointly controlled entity	879	1,643
Deferred tax assets	20	20
Total non-current assets	30,232	31,923
Current assets		
Inventories	41,907	35,557
Trade and other receivables	36,579	38,001
Other assets	3,138	3,526
Current tax assets	2,261	3,019
Short-term deposits with licensed banks	3,086	7,863
Cash and bank balances	8,905	14,101
Total current assets	95,876	102,067
Total assets	126,108	133,990
EQUITY AND LIABILITIES		
Share capital	85,000	85,000
Reserves	7,249	8,002
Retained earnings/(accumulated losses)	(3,396)	4,054
Total equity	88,853	97,056
Non-current liabilities		
Deferred tax liabilities	541	981
Total non-current liabilities	541	981
Current liabilities		
Trade and other payables	30,657	31,507
Bank borrowings	4,053	1,530
Provision for restructuring costs	1,186	2,005
Current tax liabilities	818	911
Total current liabilities	36,714	35,953
Total liabilities	37,255	36,934
Total equity and liabilities	126,108	133,990
Net assets per share (RM)	1.05	1.14

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 March 2010 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 2010**

	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 2010	85,000	7,504	304	194	4,054	97,056
Total comprehensive income/(loss) for the period			(745)		(7,458)	(8,203)
Transactions with owners:						
Share-based payment forfeited				(8)	8	-
Recognition of share-based payment						-
Balance as of 31 December 2010	<u>85,000</u>	<u>7,504</u>	<u>(441)</u>	<u>186</u>	<u>(3,396)</u>	<u>88,853</u>
Balance as of 1 April 2009	85,000	7,504	5,137	213	15,438	113,292
Total comprehensive income/(loss) for the period			(3,928)		2,136	(1,792)
Transactions with owners:						
Share-based payment forfeited				(18)	18	-
Recognition of share-based payment						-
Balance as of 31 December 2009	<u>85,000</u>	<u>7,504</u>	<u>1,209</u>	<u>195</u>	<u>17,592</u>	<u>111,500</u>

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 March 2010 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 31 DECEMBER 2010**

	Individual Quarter	
	Current year quarter ended 31 December 2010 RM'000	Preceding year corresponding quarter ended 31 December 2009 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	(7,480)	2,053
Adjustments for :		
Depreciation of property, plant and equipment	2,660	3,579
Allowance for slow moving inventories	1,313	-
Amortisation of development costs	1,337	1,414
Allowance for doubtful debts	-	-
Impairment loss on property, plant and equipment	498	-
Product development cost written off	2	114
Interest expenses	116	75
Amortisation of prepaid lease payments	36	36
Property, plant and equipment written off	171	235
Unrealised (gain)/loss on foreign exchange	(1,067)	(4,686)
Interest income	(36)	(243)
(Gain)/Loss on disposal of property, plant and equipment	-	21
Share of profit/(loss) of joint venture	764	125
Operating profit/(loss) before working capital changes	<u>(1,686)</u>	<u>2,723</u>
(Increase) / Decrease in:		
Inventories	(7,663)	(162)
Trade and other receivables	2,121	(846)
Other assets	387	(310)
Increase / (Decrease) in:		
Trade and other payables	(1,669)	7,595
Cash generated from operations	<u>(8,510)</u>	<u>9,000</u>
Tax refunded	989	20
Tax paid	(698)	(1,387)
Net cash (used in)/generated from operating activities	<u>(8,219)</u>	<u>7,633</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	69	160
Interest received	40	259
Purchase of property, plant and equipment	(1,668)	(2,605)
Payment of capitalised development costs	(2,378)	(3,129)
Investment in joint venture	-	(2,000)
Net cash (used in)/generated from investing activities	<u>(3,937)</u>	<u>(7,315)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bank borrowings	-	(1,529)
Proceeds from bank borrowings	2,557	-
Interest paid	(116)	(75)
Net cash (used in)/generated from financing activities	<u>2,441</u>	<u>(1,604)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>(9,715)</u>	<u>(1,286)</u>
Effect of foreign exchange rate changes	<u>(81)</u>	<u>1,883</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>18,701</u>	<u>30,579</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>8,905</u></u>	<u><u>31,176</u></u>
Cash and cash equivalents included in the consolidated cash flow statement comprise the following amount:		
Short term deposits with licensed banks	3,086	16,529
Cash and bank balances	8,905	14,647
	<u>11,991</u>	<u>31,176</u>
Less: Short-term deposits pledged as security value	(3,086)	-
	<u><u>8,905</u></u>	<u><u>31,176</u></u>

The Condensed Consolidated Statement of Cash Flow should be read in conjunction with the audited financial statements for the year ended 31 March 2010 and the accompanying explanatory notes attached to this interim financial report.

THIRD QUARTER REPORT ENDED 31 DECEMBER 2010

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2010

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 2010 except for the accounting policy changes that are expected to be reflected in financial statement for the year ended 31 March 2011. 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 2010.

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.

- 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 101 : Presentation of Financial Statements (Revised in 2009)
- 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 except for the changes arising from the adoption of the following:

a. FRS 101 : Presentation of Financial Statements (Revised in 2009)

FRS 101 introduces terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. There is no impact on the Group's financial statements as this change affects only the presentation of the Group's financial statements.

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 24 September 2010, 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 2010.

8. DIVIDENDS PAID

No interim dividend was paid by the Company for the quarter ended 31 December 2010.

9. SEGMENT REPORTING

**Cumulative quarter ended
31 December 2010**

	Investment holding RM'000	Manufacturing RM'000	Trading RM'000	Eliminations RM'000	Total RM'000
Revenue					
External sales	-	67,468	37,622		105,090
Inter-segment sales	4,747	56,709	69,995	(131,451)	-
Total revenue	<u>4,747</u>	<u>124,177</u>	<u>107,617</u>	<u>(131,451)</u>	<u>105,090</u>

	Investment holding RM'000	Manufacturing RM'000	Trading RM'000	Eliminations RM'000	Total RM'000
Results					
Profit from operations	(118)	(9,201)	2,889	(206)	(6,636)
Investment revenue	1	28			36
Finance cost					(116)
Share of profit/(loss) of joint venture					<u>(764)</u>
Profit/(loss) before tax					(7,480)
Income tax expense					22
Profit/(loss) after tax					<u><u>(7,458)</u></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 2010 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 2010

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 RM1.73 million or 5.0% as compared to the third quarter ended 31 December 2009.

The Group's loss before tax for the quarter increased by RM2.93 million as compared to the third quarter ended 31 December 2009. This was mainly due to the decrease in sales and gross margin as a result of the appreciation of Ringgit Malaysia against US Dollar by around 9% as compared to preceeding year corresponding quarter ended 31 December 2009.

2. COMPARISON WITH THE IMMEDIATE PRECEDING QUARTER'S RESULTS

The Group's revenue for the current quarter was RM32.71 million, representing a decrease of RM1.74 million or 5.1% as compared to that of the immediate preceding quarter ended 30 September 2010.

The Group recorded a loss before taxation of RM1.29 million for the quarter under review. There was a decrease in loss by RM2.95 million as compared to that of the immediate preceding quarter. This was mainly due to the Group achieving foreign exchange gain of RM0.86 million in the current quarter as compared to foreign exchange loss of RM2.22 million in second quarter ended 30 September 2010.

3. COMMENTARY ON PROSPECTS

Barring any unforeseen circumstances, the Directors expect continued high demand for the Group's products in the next quarter whilst tackling the foreign exchange issue via company restructuring which is already in progress.

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 2010 RM'000	Current year- to-date ended 31 Dec 2010 RM'000
Estimated income tax expense:		
Current tax expense	396	486
Under/(over)-provision in prior year	-	(68)
Deferred tax	(54)	(441)
	<u>342</u>	<u>(23)</u>

The Group's current quarter income tax 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. The Group's financial year-to-date income tax reflects an effective tax rate which is lower than the statutory income tax rate mainly due to reduction in deferred tax liability.

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

The retained profits/(accumulated losses) as at 31 December 2010 and 30 September 2010 is analysed as follows:

	As at 31 Dec 2010 RM'000	As at 30 Sep 2010 RM'000
Total retained profits/(accumulated losses) of the Company and its subsidiaries		
Realised profit/(loss)	(1,990)	72
Unrealised profit/(loss)	3,663	1,332
	<u>1,673</u>	<u>1,404</u>
Less: Consolidation adjustments	(5,069)	(3,170)
Total Group retained profits/(accumulated losses) as per consolidated accounts	<u><u>(3,396)</u></u>	<u><u>(1,766)</u></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 31 December 2010 are as follows:

	Included in the total borrowings are amounts denominated in foreign currency	Quarter ended 31 Dec 2010
	RMB	RM
Bank borrowings:		
Short term - unsecured	6,300,000	2,944,620
Short term - unsecured	-	1,109,000
		<u><u>4,053,620</u></u>

11. 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.

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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 31 December 2010.

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 31 Dec 2010	Current year- to-date ended 31 Dec 2010
Net profit/(loss) for the period (RM'000)	<u>(1,630)</u>	<u>(7,458)</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>(1.92)</u>	<u>(8.77)</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 Feb 2011