

**Focus Dynamics Technologies Berhad (“Focus” or the “Company”)
(Company No: 582924-P)**

Interim Financial Report for the six months period ended 30 June 2014

**PART A. EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING
STANDARD 134 (“MFRS 134”) INTERIM FINANCIAL REPORTING**

A1. BASIS OF PREPARATION

The interim financial statements are unaudited and have been prepared in accordance with the requirements outlined in the Malaysian Financial Reporting Standards (“MFRSs”) No. 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”), and Paragraph 9.22 of the Bursa Malaysia Securities Berhad (“Bursa Securities”) ACE Market Listing Requirements (“AMLR”) and should be read in conjunction with the audited financial statements of the Company and its subsidiaries (“Group”) for the financial year ended 31 December 2013. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2013.

The interim financial information for the six (6) months period ended 30 June 2014 has been reviewed by the Company’s auditors in accordance with International Standards on Review Engagement 2410- Review of Interim Financial Information by the Independent Auditor of the Company.

The accounting policies and methods of computation adopted by the Group in this interim financial statements are consistent with those adopted in the financial statements for the financial year ended 31 December 2013 except for the adoption of the following amendments to MFRSs issued by the MASB which are applicable to its financial statements.

Amendments to MFRS 10, MFRS 12 and MFRS 127	Investment Entities
Amendments to MFRS 132	Financial Instruments: Presentation -Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 136	Impairment of Assets
Amendments to MFRS 139	Financial Instruments: Recognition and Measurement -Novation of Derivatives and Continuation of Hedge Accounting
IC Interpretation 21	Levies

The adoption of the above amendments to MFRSs does not have any significant impact on the interim financial statements upon their initial application.

A2. AUDITORS’ REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report for the audited financial statements of the Company and its subsidiaries for the financial year ended 31 December 2013 were not subject to any qualification.

A3. COMMENTS ABOUT SEASONAL OR CYCLICAL FACTORS

The Group's business operational results were not materially affected by any major seasonal or cyclical factors.

A4. UNUSUAL ITEM DUE TO THEIR NATURE, SIZE OR INCIDENCE

During the current quarter under review, there were no unusual items or events that affecting the assets, liabilities, equity, net income or cash flows, to the effect that is unusual nature, size or incidence.

A5. MATERIAL ESTIMATES AND CHANGES IN ESTIMATES

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

A6. ISSUANCE OR REPAYMENT OF DEBT AND EQUITY SECURITIES

There were no issuances, repurchases and repayment of debt securities during the period under the review and up to the date of this report

A7. DIVIDEND DECLARED

No dividend has been declared or paid by the Company during the current quarter under review.

The Directors do not recommend the payment of any dividend in respect of the current financial period under review.

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A8. SEGMENT INFORMATION

Segment information is provided based on three (3) major business segments, i.e. engineering services, manufacturing and Food & Beverage. Expenses, assets and liabilities which are common and cannot be meaningfully allocated to the segments are presented under allocated expenses, assets and liabilities respectively.

Business segments in revenue and results of the Company and its subsidiaries ("Group") for the current quarter and current year to date for 30 June 2014 are as follows:-

	←-----Results for 6 months ended 30 June 2014-----→				Total RM
	Manufacturing RM	Engineering services RM	Food & Beverage RM	Others RM	
Revenue					
Segment revenue	13,136	2,144,464	3,593,192	-	5,750,792
Elimination- inter segment					-
Total revenue					<u>5,750,792</u>
Results from operating activities	(1,506,180)	90,714	(986,702)	(340,361)	(2,742,529)
Finance costs					(158,544)
Loss before taxation					<u>(2,901,073)</u>
Tax expense					(37,962)
Loss after taxation					<u>(2,939,035)</u>
Add: Non-controlling interest					116,195
					<u>(2,822,840)</u>
Assets and Liabilities					
Segment assets	7,190,932	7,437,958	6,787,139	170,073	21,586,102
Goodwill on consolidation					2,331,544
Cash in hand and at banks					1,307,782
Deposits with licensed banks					2,478,079
Tax recoverable					232,208
Consolidated total assets					<u>27,935,715</u>
Segment liabilities	6,517	1,203,696	2,061,500	1,123,933	4,395,646
Provision for taxation					33,462
Deferred tax liabilities					207,692
Borrowings					5,071,477
Total liabilities					<u>9,708,277</u>
Capital expenditure					266,194
Depreciation of property, plant and equipment					809,226

	←-----Results for 6 months ended 30 June 2013-----→				
	Manufacturing RM	Engineering services RM	Food & Beverage RM	Others RM	Total RM
Revenue					
Segment revenue	10,690	2,987,158	-	-	2,997,848
Elimination- inter segment	-	-	-	-	-
Total revenue	<u>10,690</u>	<u>2,987,158</u>		-	<u>2,997,848</u>
Results from operating activities	(327,113)	(722,944)	(774,630)	(275,467)	(2,100,154)
Finance costs					<u>(27,640)</u>
Loss before taxation					(2,127,794)
Tax expense					<u>(35,808)</u>
					<u>2,163,602</u>
Assets and Liabilities					
Segment assets	7,729,445	8,669,785	6,850,277	101,460	23,350,967
Goodwill on consolidation					2,827,104
Cash in hand and at banks					744,260
Deposits with licensed banks					2,641,474
Tax recoverable					403,635
Consolidated total assets					<u>29,967,440</u>
Segment liabilities	10,293	1,204,019	1,050,361	1,117,572	3,382,245
Provision for taxation					132,738
Borrowings					<u>5,551,562</u>
Total liabilities					<u>9,066,545</u>
Capital expenditure					568,182
Depreciation of property, plant and equipment					482,064

A9 SUBSEQUENT EVENTS

There were no other material events during the current quarter of 30 June 2014 and up to the date of this report, which is likely to substantially affect the results of the operations of the Company.

A10. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

During the current quarter, the land and building held by Focus Dynamics Drives Sdn Bhd ("FDD") were valued downwards to RM7.2 million by an independent firm of valuers. As a result of the valuation, the deficit arising from the valuation of RM0.38 million has been charged out to Income Statements during the quarter.

A11. CHANGES IN THE COMPOSITION OF THE GROUP

There are no changes in the composition of the Group during the quarter under review

A12. CONTINGENT ASSETS AND LIABILITIES

There were no changes in contingent liabilities or contingent assets, since the last financial year ended 31 December 2013.

A13. CAPITAL COMMITMENTS

Capital expenditure commitments contracted and not provided for in the interim financial statements as at 30 June 2014 are as follows:-

	As at 30.06.2014 RM
Property, plant and equipment	<u>588,110</u>

A14 LIMITED REVIEW BY AUDITORS ON FOUR (4) QUARTERLY REPORTS

On 11 June 2014, Bursa Securities publicly reprimanded Focus and its directors for breaching of AMLR and its executive chairman was fined RM25,000. It was reprimanded for failing to ensure that the company's announcement dated Feb 28, 2012 on the quarterly report for the 17 months financial period ended ("FPE") Dec 31, 2011, took into account the adjustment as stated on the company's announcement dated April 30, 2012.

On Feb 28, 2012, Focus had reported an unaudited loss after tax and minority interest of RM4.496 million in its unaudited results. However, on April 30, 2012, Focus announced an audited loss after tax and minority interest of RM7.952 million in its annual audited accounts for the FPE Dec 31, 2011. The difference of RM3.456 million between Focus' unaudited and audited results for the FPE Dec 31, 2011 represented a variance of 76.86%. The variance of RM3.456 million was mainly due to the provision for impairment losses on trade receivables and products development expenditure (PDE) amounting to RM2.901 million and RM546,000 respectively in the audited results subsequently.

Following the reprimand, Bursa Securities required Focus to engage an external auditors to carry out a limited review on its quarterly report submission ("Limited Review") to ensure the adequacy and effectiveness of its financial reporting function. The limited review must be performed by external auditors for four quarterly reports commencing no later from the quarterly report for the financial period ended March 31, 2014.

In addition, Focus must ensure all its directors and relevant personnel attend a training programme on compliance with the AMLR pertaining to financial statements. Bursa Securities views the contravention seriously as the requirement for listed companies to submit financial statements that are factual, clear, unambiguous, accurate, succinct and contained sufficient information to enable investors to make informed investment decisions is of paramount importance in ensuring the integrity and reliability of financial statements and a fair and orderly market for securities that are traded on Bursa Securities.

On 7 August 2014, the Appeal Committee of Bursa Securities has decided that Focus be required to carry out the limited review for four (4) quarterly reports commencing from the quarterly report for the FPE 30 June 2014 instead of 31 March 2014, following an appeal made by Focus to Bursa Securities on 9 July 2014.

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B. ADDITIONAL INFORMATION REQUIRED BY “BURSA SECURITIES”

B1. REVIEW OF PERFORMANCE

CURRENT QUARTER COMPARED TO THE CORRESPONDING QUARTER OF LAST YEAR (2Q 14 vs 2Q 13)

	3 months ended	
	30.06.2014	30.06.2013
	RM	RM
Revenue	2,909,503	1,494,828
Loss before taxation (“LBT”)	1,615,961	1,118,659

For the 2nd quarter ended 30 June 2014, the Group achieved sales revenue of RM2.91 million as against RM1.49 million of the corresponding quarter of last year. The increase in revenue is mainly due to the contribution of RM1.88 million from MWSB, the newly acquired subsidiary, which is engaged in the restaurant, food and beverage (“F&B”) business.

With the new line of business, the gross profit (“GP”) margin for the current quarter rose to 58.00% from 17.99% in the corresponding quarter in 2013. The higher GP margin is mainly contributed from F&B business.

Despite the increase in revenue and higher GP margin, the Group suffered a higher LBT of RM1.62 million in the current quarter as against RM1.12 million of the corresponding quarter of last year due to the higher operating and interest expenses and deficit of RM0.38 million arising from the valuation of land and building held by FDD has been charged out to Income Statements during the quarter.

B2. COMPARISON OF CURRENT QUARTER RESULTS WITH THE PRECEDING QUARTER

2Q 14 vs 1Q 14

	3 months ended	3-months ended
	30.06.2014	31.03.2014
	RM	RM
Revenue	2,909,503	2,841,289
LBT	1,615,961	1,285,112

For the three months period ended 30 June 2014, the Group registered a 2.40% increase in revenue from RM2.84 million in the previous quarter to RM2.91 million in the current quarter.

Despite the increase in revenue, the Group suffered a higher LBT of RM1.62 million in the current quarter as against RM1.29 million in the previous quarter due to the deficit of RM0.38 million arising from the valuation of land and building held by FDD has been charged out to Income Statements during the quarter.

B3. COMMENTARY ON PROSPECTS

The Group continues to expect Energy Efficiency Systems & Solutions to be the main contributor to its revenue. The Group had diversified into the Food and beverage (“F&B”) business aimed to enhance its revenue stream and earnings base, thereby reducing reliance on its existing core business.

Moving forward, the Group intends to utilise major portion of the proceeds from the Proposed Rights Issue with Warrants for the expansion in the F&B business to open additional new outlets for both Stream Room Restaurants and LAVO Restaurant & Wine Bar of which the Group believes that the diversification and expansion into the food service industry will be beneficial to the Group’s future prospects and barring unforeseen circumstances, will be adequate to improve the Group’s financial condition.

B4. PROFIT FORECAST OR PROFIT GUARANTEE

Not applicable as the Group did not publish any profit forecast or profit guarantee

B5. NOTES TO CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	30.06.2014 RM	30.06.2013 RM
Loss for the period is arrived at after charging		
Amortisation and depreciation	404,875	251,607
Interest expense	78,171	16,844
And after crediting		
Interest income	9,860	15,201

B6. INCOME TAX EXPENSE

	3 months ended	
	30.06.2014 RM	30.06.2013 RM
Deferred tax		
Current tax	16,302	19,565
Tax Expenses	16,302	19,565

The income tax expense at the rate of 25% is chargeable on DPC’s net profit for the current quarter.

B7. STATUS OF CORPORATE PROPOSALS

There are no corporate proposals announced but not completed as at the reporting date save and except for the following:-

- (i) On 3 March 2014, M& A Securities Sdn Bhd (“M&A Securities”), on behalf of the Board, announced that the Company proposes to undertake the following Proposals:-
 - (a) Proposed renounceable rights issue of up to 449,143,740 new ordinary shares of RM0.10 each in Focus (“Rights Shares”) together with up to 299,429,160 free detachable warrants (“Warrants”) at an issue price of RM0.10 per Rights Share on the basis of three (3) Rights Shares for every three (3) existing ordinary shares of RM0.10 each held in Focus (“Focus Shares” or “Shares”) together with two (2) Warrants for every three (3) Rights Shares subscribed at an entitlement date to be determined later (“Entitlement Date”) (“Proposed Rights Issue with Warrants”);
 - (b) Proposed diversification of the business of Focus into the food and beverage (“F&B”) business (“Proposed Diversification”);
 - (c) Proposed establishment and implementation of an employees’ share option scheme (“ESOS”) for eligible employees and directors of Focus and its subsidiaries (“Focus Group” or “Group”) (“Proposed ESOS”);
 - (d) Proposed increase in the authorised share capital of the Company from RM100,000,000 comprising 1,000,000,000 Focus Shares to RM250,000,000 comprising 2,500,000,000 Focus Shares (“Proposed IASC”); and
 - (e) Proposed amendments to the Memorandum and Articles of Association of the Company for the Proposed IASC (“Proposed Amendments”).

On 9 May 2014, M&A Securities, on behalf of the Board, announced that Bursa Securities had, vide its letter dated 9 May 2014, resolved to approve the following:-

- (a) Admission to the Official List and the listing of and quotation for up to 290,429,160 Warrants to be issued pursuant to the Proposed Rights Issue with Warrants;
- (b) Listing of up to 748,572,900 new Focus Shares arising from the following:-
 - Up to 449,143,740 Rights Shares to be issued pursuant to the Proposed Rights Issue with Warrants;
 - Up to 299,429,160 new Focus Shares to be issued pursuant to the exercise of Warrants
- (c) Listing of such number of new Focus Shares representing up to 30% of the issued and paid-up ordinary share capital of Focus (excluding treasury shares) to be issued pursuant to the exercise of ESOS options under the Proposed ESOS.

The approval of Bursa Securities for the Proposed Rights Issue with Warrants is subject to the following conditions:-

- (a) Focus and M&A Securities must fully comply with the relevant provisions under the ACE Market Listing Requirements (“AMLR”) pertaining to the implementation of the Proposed Rights Issue with Warrants;
- (b) Focus and M&A Securities to inform Bursa Securities upon the completion of the Proposed Rights Issue with Warrants;
- (c) Focus to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities’ approval once the Proposed Rights Issue with Warrants is completed;
- (d) Focus to furnish Bursa Securities on a quarterly basis a summary of the total number of shares listed (pursuant to the exercise of Warrants) as at the end of each quarter together with a detailed computation of listing fees payable; and
- (e) Focus to furnish Bursa Securities with a certified true copy of the resolution passed by the shareholders in general meeting approving the Proposed Rights Issue with Warrants.

The approval by Bursa Securities for the Proposed ESOS is subject to the following conditions:-

- (a) M&A Securities is required to submit a confirmation to Bursa Securities of full compliance of the ESOS pursuant to Rule 6.44 (1) of the ALMR and stating the effective date of implementation together with a certified true copy of the resolution passed by the shareholders approving the Proposed ESOS in general meeting; and
- (b) Focus is required to furnish Bursa Securities on a quarterly basis a summary of the total number of ESOS shares listed as at the end of each quarter together with a detailed computation of listing fees payable.

Focus is required to ensure full compliance of all the requirements as provided under the AMLR at all times.

On 26 June 2014, M&A Securities, on behalf of the Board announced that the Proposals were duly approved by the shareholders at the extraordinary general meeting (“EGM”) held on 26 June 2014.

- (ii) On 10 June 2014, M&A Securities, on behalf of the Board announced that, Focus Dynamics Drive Sdn Bhd (“FDD”), the wholly-owned subsidiary of Focus, had on even day entered into a sale and purchase agreement (“SPA”) with Pan Asia Publications Sdn Bhd (“Pan Asia”) for the proposed disposal of a property bearing postal address no 2-16, Jalan Subang Utama 8, Taman Perindustrian Subang, Section 22, 40300 Shah Alam, Selangor Darul Ehsan (“Property”) for a cash consideration of RM7.2 million (“Proposed Disposal of Property”). The proposed disposal of property is conditional upon the approval being obtained from shareholders of Focus.

On 8 August 2014, M&A Securities, on behalf of the Board announced that the Proposed Disposal of Property was duly approved by the shareholders at the EGM held on 8 August 2014

B8. GROUP BORROWINGS AND DEBT SECURITIES

The details of the Group's borrowings as at 30 June 2014 are as follows:

	As at 30.06.2014 RM	As at 30.06.2013 RM
Current		
Term loan- secured	642,238	632,795
Bank overdraft- secured	1,475,294	1,673,954
Hire purchase unsecured	261,238	247,226
	<u>2,378,771</u>	<u>2,553,975</u>
Non-current		
Term loan-secured	2,182,062	2,231,736
Hire purchase-unsecured	510,644	765,851
	<u>2,692,706</u>	<u>2,997,587</u>
Total Bank borrowings	<u>5,071,477</u>	<u>5,551,562</u>

The Group does not have any foreign borrowings as at the date of this report.

B9. MATERIAL LITIGATION

Save for the following, the Group is not engaged in any litigation or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of the Company or its subsidiary companies and the Board does not know of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of the Company or its subsidiary companies as at the date of this report:-

(i) **Pan Asia Publications Sdn Bhd (“PAPSB” or “Plaintiff”) vs Focus Dynamics Drives Sdn Bhd (“FDD” or Defendant”) (High Court of Shah Alam Civil Suit No; 22-1424-2010)**

PAPSB initiated a legal action against FDD, a wholly-owned subsidiary of the Company, in the High Court of Malaya, Shah Alam on 3 November 2010. FDD filed the Memorandum of Appearance on 23 December 2010. PAPSB in this suit prays for a declaration that the Agreement to Purchase dated 26 April 2010 between PAPSB and FDD (“the said Agreement”) where FDD agreed to sell and PAPSB agreed to purchase a property known as industrial building with single storey warehouse and 3 storey office / assembly area located at No. 2-16, Jalan SU 8 (Lion Industrial Park), Seksyen 22, 40300 Shah Alam, Selangor held under individual title GRN177271, Lot 38170, Pekan Baru Hicom District of Petaling, State of Selangor (“Property”) in consideration of RM6,150,000 is a valid, binding and enforceable agreement. PAPSB also prays for a specific performance of the said Agreement and damages for breach of contract as PAPSB alleged that pursuant to the said Agreement PAPSB duly paid the earnest deposit of RM129,150.00 (2.1% of the sale and purchase price) to Reapfield Properties (S.J.) Sdn. Bhd., the so call agent of FDD (“Reapfield”) and yet FDD failed, neglected and / or refuse to respond on the draft formal Sale and Purchase Agreement which was prepared by their solicitors. The solicitors in charge of this matter are of the view that since Reapfield has no authority to act on FDD behalf and there was no board resolution to sell the said Property to PAPSB, FDD has an arguable dispute against the claim.

The Defendant had on 30 September 2013 filed an application to strike out the Plaintiff action but was dismissed by the Court with no order to costs. After several rounds of negotiation between the parties, as a full and final settlement of the suit, the Purchaser offered to purchase the Property at a price of RM7.2 million.

The Plaintiff and the Defendant have subsequently entered into a sale and purchase agreement for the sale of the Property on 10 June 2014 (“SPA”) and that the Defendant and the Plaintiff needs to satisfy a condition precedent in the SPA that is to obtain the approval of the shareholders of Focus at the EGM to be held on 8 August 2014 for the Proposed Disposal of Property. The proposed disposal were approved by the shareholders at the EGM held on 8 August 2014.

On 15 August 2014, the judge has been informed that the Defendant and its holding company, namely, Focus have obtained the necessary approval from their shareholders on 8 August 2014 for the Defendant to proceed with the SPA. In view of the above, the learned judge has recorded a consent judgement (“the Consent Judgement”) that the SPA entered into between the Plaintiff and Defendant for the sale and purchase of the Property shall proceed in accordance to the terms and conditions of the SPA and there is no order as to costs in respect of the Main Suit. The recording of the Consent Judgement before the judge constitutes a full and final settlement of the Main Suit and there shall be no further claim between the parties thereafter.

B10. PROPOSED DIVIDEND

No dividend has been declared or paid during the current quarter under review and financial year-to-date.

B11. EARNINGS/ (LOSS) PER SHARE

Basic

Basic loss per ordinary share is calculated by dividing the net loss for the financial period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial period.

	3 months ended		Current year to date	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
Loss attributable to equity holders of the parent (RM)	1,632,263	1,138,224	2,822,840	2,163,602
Weighted average number of Ordinary shares in issue	352,751,400	320,683,100	352,751,400	320,683,100
Basic Loss per Ordinary Share (sen)	0.46	0.35	0.80	0.67

The fully diluted loss per ordinary share for the Group for the current financial period is not presented as the warrants would be anti-dilutive as the exercise price is higher than the fair value of the Company’s shares.

B12. STATUS OF UTILISATION OF PROCEEDS

(a) Private placement 1

The status of the utilisation of the proceeds raised from the private placement of 29,153,050 Shares at an issue price of RM0.15 per share amounting to RM4,372,950 as at 30 June 2014 is as follows:-

	Proposed utilisation RM'000	Actual utilisation RM'000	Balance of proceeds RM'000	Time frame for the utilisation of proceeds RM'000
Working capital	4,273	3,792	481	31.12.2014
Defraying expenses	100	83	17	31.12.2014
	<u>4,373</u>	<u>3,875</u>	<u>498</u>	

The Board has on 30 December 2013 approved the utilisation of the proceeds derived from private placement to be extended to 31 December 2014.

(b) Private Placement 2

The status of the utilisation of the proceeds raised from the private placement of 32,068,300 Shares at an issue price of RM0.10 per share amounting to RM3,206,830 as at 30 June 2014 is as follows:-

	Proposed utilisation RM'000	Actual utilisation RM'000	Balance of proceeds RM'000	Time frame for the utilisation of proceeds RM'000
Working capital	3,107	1,000	2,107	27.12.2014
Defraying expenses	100	88	12	27.12.2014
	<u>3,207</u>	<u>1,088</u>	<u>2,119</u>	

B13. REALISED AND UNREALISED PROFIT OR LOSSES

Breakdown of the Group's realised profit or losses as at 30 June 2014 is as follows:-

	As at 30.06.2014 RM	As at 31.12.2013 RM
Total accumulated loss of the Company and its subsidiaries:-		
- Realised	(20,239,198)	(18,101,528)
- Unrealised	(73,193)	(73,193)
Total share of accumulated losses from associate		
- Realised	(200,000)	(200,000)
- Unrealised		
Less: Consolidation adjustments		-
Total accumulated loss as per statement of financial position	(20,512,391)	(18,374,721)

B14. AUTHORITY FOR ISSUE

The interim financial report were authorised for issue by the Board of Directors in accordance with a resolution of the Directors.

By order of the Board

TEO SOON MEI
Company Secretary