

NOTES TO THE INTERIM FINANCIAL STATEMENTS

A1. ACCOUNTING POLICIES

The interim financial statements are unaudited and have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards (“MFRS”) 134: Interim Financial Reporting and paragraph 9.22 of the Bursa Malaysia Securities Berhad Main Board Listing Requirements.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 October 2019.

The significant accounting policies and presentation adopted for the interim financial statements are consistent with those adopted in the audited financial statements of the Group for the financial year ended 31 October 2019 except for the changes in accounting policies and presentation resulting from the adoption of relevant MFRSs, Amendment to MFRSs and IC Interpretations that are effective for the financial periods beginning on 1 November 2019.

The adoption of the above accounting standards and/or interpretations (including the consequential amendments, if any) did not have any material impact on the Group’s financial statements other than the adoption of MFRS 16 Leases.

The Group have adopted MFRS 16 retrospectively from 1 November 2019 and has not restated the comparative information as permitted under the specific transition provisions in the standard. The impact arising from the adoption of MFRS 16 on opening balance as at 1 November 2019 are as follows:

	At 31-Oct-2019	Adoption of MFRS 16	At 1-Nov-2019
Property, plant and equipment	173,087,335	(10,415,663)	162,671,672
Prepaid lease payments	2,625,670	(2,625,670)	-
Right-of-use assets	-	13,041,333	13,041,333
Hire purchase payables	(354,561)	354,561	-
Lease liabilities	-	(354,561)	(354,561)

The Group has not applied in advance any accounting standards and/or interpretations (including the consequential amendments, if any) that have been issued by the Malaysian Accounting Standards Board but are not yet effective for the financial year ended 31 October 2019.

A2. SEASONAL OR CYCLICAL FACTORS

The principal business operations of the Group have historically shown moderate seasonality, where production and sales of home furniture are generally lower in the beginning of the calendar year due to the local festive period as well as the summer holiday in the middle of the year.

A3. UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE AND INCIDENCE

There were no unusual items of nature, size or incidence that affect the assets, liabilities, equity, net income or cash flow of the Group during the reporting period.

A4. MATERIAL CHANGES IN ESTIMATES

The Company has not issued any revenue or profit estimate, forecast or target.

A5. ISSUANCE, REPURCHASE AND CANCELLATION OF SHARES

Re-Purchase of Own Shares

The Company has been authorised by shareholders to re-purchase its own shares.

The total number of shares repurchased by the Company as at end of current reporting period are 13,327,600 ordinary shares. All the repurchased shares are held as treasury shares and treated in accordance with the requirement of Section 127 of the Companies Act 2016. None of the treasury shares was resold or cancelled during the reporting period. The repurchase transactions were financed by internally generated funds. The Company has not purchased any of its own shares during the reporting period under review.

Save for the above, the Company has not issued any shares, debts or convertible securities during the current reporting period.

A6. DIVIDEND PAID

The dividends paid during the financial period-to-date were as follows:

Type of Dividend	Dividend per share	For the year ended	Amount RM	Payment date
Second Interim	2 sen	31-Oct-19	4,575,562	14-Nov-19
Special Interim	1 sen	31-Oct-19	2,287,781	3-Jan-20
First Interim	1 sen	31-Oct-20	2,311,789	3-Jan-20

A7. OPERATING SEGMENTS

The Group adopted geographical segment as its reporting format. The segment information for the financial period-to-date is as below: -

(RM'000)	Malaysia	Vietnam	Australia	Others	Total
Sales	99,545	89,256	0	0	188,801
Profit / (Loss) Before Tax	9,226	5,426	(32)	(317)	14,303
Profit / (Loss) After Tax	7,105	4,583	(32)	(317)	11,339
Assets	241,258	196,204	28,348	5,207	471,017
Liabilities	56,484	46,433	7	0	102,924

A8. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

The valuation of the property, plant and equipment has been brought forward without amendment from the audited financial statements for the year ended 31 October 2019.

A9. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE YEAR

No material events subsequent to the current reporting period that have not been reflected in the financial statements of the financial year.

A10. CHANGES IN THE COMPOSITION OF THE GROUP

There are no other changes in the composition of the Group during the current reporting period.

A11. CHANGES IN CONTINGENT LIABILITIES / ASSETS

There were no changes in contingent liabilities/ assets since the last financial year ended at 31 October 2019 other than corporate guarantee granted to financial institutions amounting to RM132.25 million at current reporting period.

A12. CAPITAL COMMITMENTS

There is no capital commitment not recognised in the current interim financial statements and during the current reporting period.

A13. RELATED PARTY TRANSACTIONS

The Group related party transactions in the current quarter and financial period-to-date are as follows:

Subsidiary	Transacting Party	Relationship	Nature of Transaction	Current quarter (RM)	Financial period-to-date (RM)
Poh Huat Furniture Industries (M) Sdn Bhd	Tay Kim Huat	Director	Rental of Showroom	36,000	36,000

BMSB LISTING REQUIREMENTS

B1. PERFORMANCE REVIEW

Revenue	Individual quarter			Cumulative quarters		
	31-Jan-20 RM'000	31-Jan-19 RM'000	+ / - %	31-Jan-20 RM'000	31-Jan-19 RM'000	+ / - %
Malaysia	99,545	89,935	10.7	99,545	89,935	10.7
Vietnam	89,256	107,123	(16.7)	89,256	107,123	(16.7)
Total	188,801	197,058	(4.2)	188,801	197,058	(4.2)

For the quarter under review, we recorded lower turnover of RM188.80 million compared to RM197.06 million recorded in the previous year corresponding quarter ended 31 January 2019.

Our Malaysia operations recorded higher turnover on the back of higher orders for panel-based bedroom sets for the US market which now constitute about 46% of our Malaysian sales. Shipment of traditional office furniture to our traditional markets remained stable.

Shipment of furniture from our Vietnam operations were lower due to the long holiday during the Tet/Lunar New Year festival which fell in January 2020 as compared to the month of February in 2019. As before, the product mix comprises mainly affordable range of spray-painted bedroom for the broader segment of the US furniture market.

Profit / (Loss) Before Tax	Individual quarter			Cumulative quarters		
	31-Jan-20 RM'000	31-Jan-19 RM'000	+ / - %	31-Jan-20 RM'000	31-Jan-19 RM'000	+ / - %
Malaysia	9,226	9,573	(3.6)	9,226	9,573	(3.6)
Vietnam	5,426	8,794	(38.3)	5,426	8,794	(38.3)
Australia	(32)	(6)	(433.3)	(32)	(6)	(433.3)
Others	(317)	87	(464.4)	(317)	87	(464.4)
Total	14,303	18,448	(22.5)	14,303	18,448	(22.5)

In line with the lower turnover, we recorded lower profit before tax of RM14.30 million in the current reporting period compared to RM18.45 million in the previous corresponding reporting period ended 31 January 2019.

Despite higher sales, gross profit from our Malaysia operations was marginally lower at RM17.45 million compared to RM18.41 million in the previous corresponding reporting period ended 31 January 2019. The drop in gross margin was attributable mainly to higher use of subcontracted furniture parts and complementary finished items which inherent cost more. Direct labour and factory overhead also inched higher during the financial period under review. The lower gross margin coupled with higher distribution and selling costs have resulted in a marginally lower profit before tax of RM9.23 million for the Malaysia operations in current reporting period.

The lower sales recorded by our Vietnam operations, coupled with the relatively fixed labour costs and depreciation charges have resulted in a marked decline in gross margin for the current reporting period. Absolute gross profit declined from RM15.53 million in the previous corresponding reporting period to RM11.61 million in the current reporting period. In line with the drop in gross margin, profit before tax fell from RM8.79 million in the previous corresponding reporting period ended 31 January 2019 to RM5.43 million in the current reporting period.

B2. MATERIAL CHANGE IN PROFIT BEFORE TAX

	Individual quarter	Preceding quarter	
Profit / (Loss)	31-Jan-20	31-Oct-19	+ / -
Before Tax	RM'000	RM'000	%
Malaysia	9,226	11,668	(20.9)
Vietnam	5,426	9,427	(42.4)
Australia	(32)	123	(126.0)
Others	(317)	(1,315)	75.9
Total	14,303	19,903	(28.1)

The Group recorded a 1.71% decrease in turnover from RM192.08 million recorded in the preceding reporting period to RM188.80 million for the current reporting period under review.

In Malaysia, turnover rose from RM89.85 million in the preceding reporting period to RM99.55 million in the current reporting period due to higher shipment of panel based bedroom sets for the year-end holiday season. Notwithstanding the higher turnover, gross profit decreased from RM19.03 million in the preceding reporting period to RM17.45 million due to increased use of subcontracted parts and purchase of complementary finished items. Labour costs were also higher as a percentage of sales during the period under review. In line with the lower gross profit, profit before tax declined from RM11.67 million in the preceding reporting period to RM9.23 million in the current reporting period.

In Vietnam, we also recorded lower sales of RM89.26 million in the current reporting period against RM102.23 million in the preceding quarter due to the Tet / Lunar New Year festival which fell in January 2020. In line with the drop in sales, gross profit declined substantially from RM16.09 million in preceding reporting period to RM11.61 million in the current reporting period. Gross margin similarly declined from 15.74% to 13.01% due to higher purchases of furniture parts and lower absorption of labour and manufacturing overheads which are relatively fixed against a lower turnover for the reporting period under review. In line with the lower gross profit, profit before tax decreased from RM9.43 million in the preceding reporting period to RM5.43 million in the current reporting period.

B3. PROSPECT FOR THE CURRENT FINANCIAL YEAR

Global growth in recent years has already been held back by geo-political and trade tensions. OECD had in late 2019 projected a global economic growth of 2.9% for both 2019 and 2020, the slowest growth since the financial crisis in the late 2000s.

The outbreak of the COVID-19, which started in late January 2020 in Wuhan, China has now become a global pandemic. Financial markets all over the world have fallen hard in recent weeks. Measures to curb the spread of the virus, including lockdowns and movement restrictions have significant negative economic and social impacts as normal daily activities are being disrupted. Responding to the pervasive impact of the COVID-19 pandemic, the IMF has predicted a global economic contraction for 2020 and urged its members to provide financial support to help those affected by the outbreak and stimulus packages to boost their economies.

The spread of COVID-19 has now reached the US and health experts in the US have warned of a rapid deterioration of the situation as US starts to report more cases which may lead to sharp turn in the US economy. Many companies in the US have already warned that supply lines are becoming strained and sales might take a hit because of movement restrictions and other efforts to limit the spread of the virus. Businesses which are hit hardest by the pandemic are looking for aids and reduction in headcount and payroll expenses. The US has responded with monetary and fiscal stimulus packages to mitigate the impact of a severe slowdown of the US economy.

With the repercussion of the COVID-19 pandemic still unfolding, we are unable to predict its full impact on the global furniture trade. What is clear is that purchase and consumption patterns of consumers all over the world will be adversely affected by the COVID-19 outbreak. Our operations in Malaysia and Vietnam have thus far

been free from COVID-19 incidents but the movement restrictions imposed by the Malaysian government has resulted in a 28 days halt in our Malaysia operations. As the covid19 meltdown continues, the furniture industry will be adversely affected as is all other industries. The impending world recession will certainly impact consumer spending and patterns. We are preparing ourselves for the worst-case scenario of a significantly drop in demand, supply disruption of materials routed from logistical hubs in impacted areas as well as labour issues due to quarantine procedures or illness. The impact on our performance for this current financial year is still being assessed.

B4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT

No profit forecast or profit guarantee were issued for the current reporting period.

B5. TAXATION

	Current quarter RM'000	Financial period-to-date RM'000
Current taxation - Malaysian	2,121	2,121
Current taxation - Overseas	844	844
Deferred taxation	0	0
Total Taxation	2,965	2,965

Malaysia current income tax rate was estimated at 23% which are closed to statutory rate of 24% during the period under review. Taxation for Vietnamese subsidiary was estimated at 16% which was lower than statutory tax of 20% as a result of export incentive granted by the authorities.

B6. STATUS OF CORPORATE PROPOSALS / UTILISATION OF PROCEEDS

There are no other corporate proposals or utilisation of proceeds announced but not completed as at the date of the report.

B7. GROUP BORROWINGS

The Group borrowings, as at end of the reporting period were as below: -

Currency denominations	Current RM'000	Non-Current RM'000	Total RM'000
Secured trade bills - US Dollar	14,639	0	14,639
Secured trade bills - Malaysian Ringgit	3,216	0	3,216
Total	17,855	0	17,855

The weighted average fixed interest rate for the trade bills ranged from 2.00% to 3.20%.

USD denominated loans were not hedged against the Ringgit as most of our sales proceeds are transacted in USD currency. The USD denominated loans were translated at RM4.09 per USD during the current reporting period.

B8. MATERIAL LITIGATION

There is no material litigation, pending or threatening, by or against the Company and its subsidiaries (as plaintiff or defendant) since the last financial year ended 31 October 2019.

B9. DIVIDENDS

The Directors proposed a final tax-exempted dividend of 2 sen per ordinary share in respect of the financial year ended 31 October 2019, if approved, will be paid on 15 May 2020 to depositors registered in the Records of Depositors of the Company at the close of business on 30 April 2020.

On 25 November 2019, the Directors declared a first interim tax-exempted dividend of 1 sen per ordinary share in respect of the current financial period ending 31 January 2020, paid on 3 January 2020 to depositors registered in the Records of Depositors of the Company at the close of business on 16 December 2019. There are no further dividends to be declared in respect of the current financial period ending 31 January 2020. No dividends were declared in the previous financial period ending 31 January 2019.

Total dividends declared were 1 sen per ordinary share in the current financial period ended 31 January 2020.

B10. EARNINGS PER SHARE

Basic earnings per share

The basic earnings per share are calculated by dividing the profit attributable to Owners of the Company by the weighted average number of ordinary shares in issue (excluding treasury shares) during the current financial period under review.

		Current quarter	Financial period-to-date
Profit attributable to			
Owners of the Company	(RM'000)	11,339	11,339
Weighted average number of shares	('000 shares)	230,258	230,258
Basic earnings per share	(sen)	4.92	4.92

Diluted earnings per share

The diluted earnings per share are calculated by dividing the profit attributable to Owners of the Company by the weighted average number of ordinary shares in issue (excluding treasury shares) that would have been issued upon full conversion of Warrants 2015/2020.

		Current quarter	Financial year-to-date
Profit attributable to			
Owners of the Company	(RM'000)	11,339	11,339
Weighted average number of shares	('000 shares)	230,258	230,258
<u>Effect of dilution from Warrants 2015/2020</u>	<u>('000 shares)</u>	<u>11,372</u>	<u>11,372</u>
Adjusted weighted average number of shares	('000 shares)	241,630	241,630
Diluted earnings per share	(sen)	4.69	4.69

B11. AUDIT QUALIFICATION REPORT

The preceding financial statements for the year ended 31 October 2019 were reported on without any qualification.

B12. FINANCIAL INSTRUMENTS - DERIVATIVES

There is no outstanding forward foreign currency contract during the current reporting period. There is no change in financial instruments disclosure since the preceding audited financial statements for the year ended 31 October 2019.

B13. OTHER DISCLOSURES

Items which have been included in the Condensed Consolidated Statements of Profit or Loss for the current quarter and current financial period-to-date were below: -

	Current quarter RM'000	Financial period-to-date RM'000
(a) Interest income	133	133
(b) Other income including investment income	1,006	1,006
(c) Interest expense	(141)	(141)
(d) Depreciation and amortization	(2,706)	(2,706)
(e) Provision for and write off of receivables	nil	nil
(f) Provision for and write off of inventories	nil	nil
(g) Gain / (loss) on disposal of unquoted investments / properties	516	516
(h) Impairment of assets	nil	nil
(i) Foreign exchange gain / (loss)	(1,220)	(1,220)
(j) Gain / (loss) on derivatives	nil	nil
(k) Exceptional items	nil	nil

For and on behalf of the Board
Poh Huat Resources Holdings Berhad

CHUA SYER CIN
Independent Non-Executive Director
Chairman
Audit Committee

26 March 2020
Muar, Johor Darul Takzim.