**NOTES TO THE QUARTERLY FINANCIAL REPORT**

**FOR THE PERIOD ENDED 30 SEPTEMBER 2015**

1. **Basis of Preparation**

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

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2014. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to the understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2014.

1. **Significant** **Accounting Policies**

The significant accounting policies adopted by the Group in this interim financial statements are consistent with those of the last audited financial statements for the financial year ended 31 December 2014, except for the newly issued Malaysian Accounting Standards Board approved accounting framework – Malaysian Financial Reporting Standards (“MFRS”), Amendments to standards and IC Interpretations (“IC Int.”) to be applied by all Entities Other Than Private Entities for the financial periods beginning on or after 1 January 2015:

Amendments to MFRS 119 Defined Benefits Plans: Employee

Contributions

Annual Improvements 2010-2012 Cycle

Amendments to MFRS 3 Business Combinations

Amendments to MFRS 8 Operating Segments

Amendments to MFRS 116 Property, Plant and Equipment

Amendments to MFRS 124 Related Party Disclosures

Amendments to MFRS 138 Intangible Assets

Annual Improvements 2011-2013 Cycle

Amendments to MFRS 3 Business Combinations

Amendments to MFRS 13 Fair Value Measurement

The adoption of the above did not have any significant effects on the interim financial report upon their initial application.

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**3. Audit Qualification Report**

The preceding financial statements for the financial year ended 31 December 2014 were report on without any qualification.

4. **Seasonal or cyclical factors**

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

5. **Unusual items**

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows for the financial period ended 30 September 2015.

6. **Changes in estimates**

There is no significant change in estimates of amounts reported in prior interim periods of the current or previous financial year.

7. **Debts and equity securities**

There were no issuances, cancellations, repurchases, resale and repayments of debt or equity securities for the financial period ended 30 September 2015.

8**. Dividends Paid**

The dividends paid during the financial period was as follows: -

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|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Type of dividend | Dividend per share | For the year ended | Amount RM | Entitlement date | Payment date |
| Special single tier | 3.5% | 31.12.2014 | 2,100,000 | 13.03.2015 | 27.03.2015 |
| First interim single tier | 6.0% | 31.12.2015 | 3,600,000 | 15.06.2015 | 01.07.2015 |
| Final single tier | 4.0% | 31.12.2014 | 2,400,000 | 10.07.2015 | 27.07.2015 |
| Second interim single tier | 7.0% | 31.12.2015 | 4,200,000 | 09.09.2015 | 23.09.2015 |

(Note: The above dividends paid are based on paid up capital of 60,000,000 ordinary shares of RM1 each).

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9. **Segmental Reporting**

The Group is principally engaged in the manufacture and sale of furniture in Malaysia, hence, an analysis by geographical segment in respect of revenue is presented as follows: -

Current Quarter Year to date

30 Sept 30 Sept

2015 2014 2015 2014

RM’000 RM’000 RM’000 RM’000

Africa 803 925 2,227 1,687

America 115,652 80,738 308,026 236,579

Asia 16,192 13,103 49,555 35,217

Australia 516 535 1,358 610

Europe - 183 386 660

Malaysia 11,086 6,262 33,054 20,197

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144,249 101,746 394,606 294,950

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10.  **Valuation of property, plant and equipment**

The properties which were revalued on 2014 have been brought forward from the previous financial statements and there were no valuations of properties, plant and equipment for period ended 30 September 2015.

11. **Material events subsequent to the end of the period**

There were no material events subsequent to 30 September 2015.

12. **Changes in the composition of the Group**

There were no changes in the composition of the Company for the period ended 30 September 2015.

13. **Changes in contingent liabilities**

As at the date of this report, the Group has contingent liabilities as follows:-

RM’000

Counter indemnities to banks for bank guarantees issued

* secured 8,025
* unsecured -

Corporate guarantees for credit facilities granted to subsidiary 146,378

companies ( unsecured )

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1. **Capital Commitments**

The outstanding capital commitment in the interim financial statements as at 30 September 2015 in respect of the purchase of factory building: -

RM’000

Authorised and contracted for 5,040

1. **Significant Related Party Transactions**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Subsidiaries | Transacting Parties | Relationship | Nature of Transactions | Current quarter ended 30.09.15 | Cumulative Quarter ended 30.09.15 |
| Lii Hen Furniture Sdn Bhd | Chua Lee Seng (1 & 2)  Tok Heng Leong (1 & 2)  Soo Tee Heng (f) (2)  Tok Heng Hwa (f) | Directors( 1) and /or substantial shareholder (2) of LIIHEN | Renting of hostel | RM Nil | RM3,000 |
| Lii Hen Furniture Sdn Bhd | Domain Partners Sdn Bhd | A company in which Chua Lee Seng, Tok Heng Leong, Tan Bee Eng and Chua Yong Haup have interest | Renting of buildings | RM234,964 | RM704,891 |
| Lii Hen Furniture Sdn Bhd | Paragon Progress Sdn Bhd | A company in which Chua Lee Seng, Tok Heng Leong, Tan Bee Eng and Chua Yong Haup have interest | Purchase of coating materials and furniture parts | RM469,455 | RM1,896,688 |
| Favourite Design Sdn Bhd | Domain Partners Sdn Bhd | A company in which Chua Lee Seng, Tok Heng Leong, Tan Bee Eng and Chua Yong Haup have interest | Renting of buildings | RM175,358 | RM422,125 |
| Favourite Design Sdn Bhd | Double Soon Huat Enterprise | A company in which Chua Yong Haup is a connected person. | Provide subcontract charges | RM398,333 | RM1,298,354 |
| Favourite Design Sdn Bhd | Paragon Progress Sdn Bhd | A Company in which Chua Lee Seng, Tok Heng Leong, Tan Bee Eng and Chua Yong Haup have interest | Purchase of coating materials and furniture parts | RM7,521,664 | RM23,107,375 |
| Favourite Design Sdn Bhd | NNST Capital Sdn Bhd | A company in which Tan Bee Eng has interest | Renting of building | RM58,980 | RM176,940 |

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# ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS

1. **Review of performance**

The Group performance for the quarter under review against the corresponding quarter of the previous financial year is tabled below: -

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Description | 3rd Qtr 2015  RM’000 | 3rd Qtr 2014  RM’000 | Increase/(Decrease) | |
| RM’000 | % |
| Revenue | 144,249 | 101,746 | 42,503 | 42% |
| Profit before tax | 18,923 | 7,620 | 11,303 | 148% |

The Group’s revenue for third quarter 2015 registered at RM144 million, rose 42% as compared to the corresponding quarter of the last year. In the current quarter, the revenue from the bedding products continued to grow by 15% coupled with the strengthening of the US Dollar against RM by 26.50% that contributed to the overall increase of 42%. The average USD in the current quarter was at 4.01 as compared to 2014 of 3.17.

Due to higher revenue and better USD conversion rate, the Group’s profit before tax for the current quarter recorded at RM18.9 million, increased 148% as compared to the profit before tax of RM7.6 million in the previous corresponding quarter.

1. **Variation of Results Against Preceding Quarter**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Description | 3rd Qtr 2015  RM’000 | 2nd Qtr 2015  RM’000 | Increase/ (Decrease) | |
| RM’000 | % |
| Revenue | 144,249 | 138,275 | 5,974 | 4% |
| Profit before tax | 18,923 | 17,456 | 1,467 | 8% |

Revenue for the current quarter decreased 3.6% as compared to the immediate preceding quarter. However the appreciation of USD against RM by 9%, the Group’s revenue still recorded growth of 4% in the current quarter.

In the current quarter, the Group’s profit before tax increased 8% compared to the immediate preceding quarter.

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18. **Current year prospects**

The US economic and employment data continue to improve, signalling strong growth momentum ahead. The positive market sentiment in US and the strengthening of USD dollar against RM will continue to enhance the Group’s operation and earnings.

The main challenges that the Group faced is at the local front where the acceleration of production costs and shortages of workforce will continue to affect the Group’s financial performance. In view of that, the management will continue to focus on the Group’s core products to strengthen the market position and expand the customer base and simultaneously continue to adopt an effective cost management. With better controllable cost structure and wider sales market base, the Group is confident to deliver a favourable result for the remaining year of 2015.

19. **Profit forecast**

There was no profit forecast issued for the quarter under review.

20. **Taxation**

Taxation charged for the quarter and year to date comprise of: -

|  |  |  |
| --- | --- | --- |
|  | Current Quarter  RM’000 | Year to Date  RM’000 |
| Current taxation |  |  |
| - provision for the period | 3,305 | 11,203 |
| - deferred taxation | 156 | 180 |
|  | 3,461 | 11,383 |

The lower effective tax rate for the current quarter under review was mainly due to claim of increase of export allowance by a subsidiary company.

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21. **Corporate proposals**

KAF Investment Bank Berhad on behalf of the LHIB had made an announcement on 19 October 2015: -

(i) The number of Bonus Shares to be listed and quoted on the Main Market of Bursa Securities on 20 October 2015 is 29,999,994 Bonus Shares pursuant to the Bonus Issue; and

(ii) The number of Subdivided Shares to be listed and quoted on the Main Market of Bursa Securities on 20 October 2015 is 179,999,988 Subdivided Shares pursuant to the Share Split and after taking into account the existing issued and paid up share capital of LHIB consisting 60,000,000 LHIB Shares and the issuance of 29,999,994 Bonus Shares.

Hence, the enlarged issued and paid up share capital of LHIB is 179,999,988 ordinary shares of RM0.50 each as at 19 October 2015 pursuant to the Bonus Issue and the Share Split.

22. **Group Borrowings and Debt Securities**

The Group's borrowings as at 30 September 2015 were as follows: -

|  |  |  |  |
| --- | --- | --- | --- |
|  | Secured (RM’000) | Unsecured (RM’000) | Total (RM’000) |
| Short Term | 22,707 | - | 22,707 |
| Long Term | 7,531 | - | 7,531 |
|  | 30,238 | - | 30,238 |
|  |  |  |  |

All borrowings are denominated in Ringgit Malaysia.

**23. Financial Instruments - derivatives**

As at 30 September 2015, the foreign currency contracts which have been entered into by the Group to hedge its foreign currency sales are as follows: -

|  |  |  |  |
| --- | --- | --- | --- |
| Forward Foreign Currency Contracts | Contract Value(RM’000) | Fair Value(RM’000) | Changes in Fair Value(RM’000) |
| US Dollar – less than l year | 23,071 | 25,565 | 2,494 |

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Derivative financial assets and liabilities are initially recognised, and subsequently measured at fair value. The fair values of derivatives are determined based on market data (primarily exchange rate) to calculate the present value of all estimated flows associated with each derivative at the balance sheet date. The Group’s derivatives are principally in respect of forward foreign currency contracts used to hedge its foreign currency sales.

Forward foreign currency contracts of the Group have been measured at fair value and the changes in the fair value are recognised in profit or loss.

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24. **Other Operating Income/(expenses)**

Other operating income/(expenses) comprises the followings: -

Current Quarter Year to Date

30 Sept 30 Sept

2015 2014 2015 2014

RM’000 RM’000 RM’000 RM’000

Foreign exchange gain

- realised 3,102 577 7,035 986

- unrealised 403 970 249 952

Gain/(loss) on disposal of property

plant & equipment - 188 7 262

Insurance claim - 900 - 7,163

Interest income 369 243 852 719

Fair value (loss) on derivative

Financial instruments (1,916) (88) (2,494) (67)

Sundry revenue 63 45 268 289

Rental income 82 266 361 750

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2,103 3,101 6,278 11,054 ================================

25. **Operating Expenses**

The operating expenses included the following charges: -

Current Quarter Year to Date

30 Sept 30 Sept

2015 2014 2015 2014

RM’000 RM’000 RM’000 RM’000

Depreciation & amortisation 1,650 1,617 5,031 4,490

Interest expenses 320 299 876 864

Property, plant & equipment written off - - - 2,489

Inventories written off - - 1,138

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**26. Realised and Unrealised Profits**

Current financial

period ended

30/09/2015

RM’000

Total retained profits of the Company and its subsidiaries:

* Realised 130,588
* Unrealised (5,019)

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Total group retained profits as per consolidated accounts 125,569

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**27. Off Balance Sheet Financial Instruments**

The Group does not have any financial instruments with off balance sheet risk as at 30 September 2015.

**28.** **Material Litigations**

The Group is not engaged in any material litigation as at the date of this announcement.

**29.** **Dividend**

The third single tier dividend of 3% on enlarged share capital of 179,999,988 shares of RM0.50 each totalling RM5.40 million in respect of the financial year ending 31 December 2015 is declared for the period ended 30 September 2015, payable on 10 December 2015 to depositors registered in the Records of Depositors at close of business on 28 December 2015.

**30**. **Basic Earning per Share**

Current Quarter Year to Date

30 Sept 30 Sept

2015 2014 2015 2014

RM’000 RM’000 RM’000 RM’000

Profit attributable to shareholders 15,462 5,760 38,867 20,474

Weighted average number of shares 60,000 60,000 60,000 60,000

Basic Earning per Share (sen) 25.77 9.60 64.78 34.12

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**31. Authorisation for issue**

The interim financial statements and the accompanying notes with authorised for issue by the Board of Directors in accordance with a resolution of the directors passed on 21 November 2015.

For and on behalf of the Board

Lii Hen Industries Bhd.

Tan Wang Giap, MACS 00523

Secretary