

FEDERAL FURNITURE HOLDINGS (M) BHD

INTERIM FINANCIAL REPORT –4th QUARTER ENDED 31 DECEMBER 2012

NOTES TO THE INTERIM FINANCIAL REPORT

1. Basis of preparation

This interim financial statements are unaudited and have been prepared in accordance with the requirements of MFRS 134 *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board (“MASB”) and paragraph 9.22 of the Bursa Malaysia Securities Berhad (“Bursa Securities”) Main Market Listing Requirements (“MMLR”). The interim financial statements should be read in conjunction with the Group’s audited financial statements for the financial year ended 31 December 2011 and the accompanying explanatory notes attached to this interim financial statements. The 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 year ended 31 December 2011.

Since the previous annual audited financial statements for the financial year ended 31 December 2011 were issued, the Group has adopted the MFRS framework issued by the MASB with effect from 1 January 2012. This MFRS framework was introduced by MASB in order to fully converge Malaysia’s existing Financial Reporting Standards (“FRS”) framework with the International Financial Reporting Standards (“IFRS”) framework issued by the International Accounting Standards Board (“IASB”). Whilst most of the FRSs issued under the previous FRS framework were equivalent to the MFRSs issued under the new MFRS framework, there are some differences in relation to transitional provisions and effective dates contained in certain of the FRSs.

The transition from FRS to MFRS has no significant impact to the financial statements of the Group.

2. Audit Report of Preceding Audited Financial Statements

The preceding year’s annual audited financial statements were not subject to any qualifications from the auditors.

3. Seasonal or Cyclical Factors

The operations are subject to the cyclical nature of the property and construction industry especially in the commercial and hospitality segments.

4. Unusual items Affecting the Assets, Liabilities, Equity, Net Income or Cash Flows

There were no items affecting assets, liabilities, equity, net income or cash flows that were material and unusual because of their nature, size or incidence in the current quarter.

5. Changes in estimates

There were no material changes in estimates of amount reported in prior interim periods or in previous financial years which have a material effect in the current quarter.

6. Debt and equity securities

There were no issuances, cancellation, repurchase, resale and repayments of debt and equity securities during the current quarter.

7. Dividends paid

There were no dividends paid during the current quarter.

8. Segmental Information

Period ended 31 December 2012	Turnover RM '000	Profit /(Loss) Before Taxation RM '000	Total Assets Employed RM '000
Manufacture and export	32,655	950	23,165
Trading and retail	15,216	4,244	14,006
Interior fit-out	48,380	1,195	11,339
Investment holding	-	32,971	541
Others	-	(48)	1
Total before Group elimination	96,251	39,312	49,052
Inter segment elimination	(17,041)	(34,400)	-
After elimination	79,210	4,912	49,052

Period ended 31 December 2011	Turnover RM '000	Profit /(Loss) Before Taxation RM '000	Total Assets Employed RM '000
Manufacture and export	23,126	1,034	25,878
Trading and retail	7,734	2,428	3,765
Interior fit-out	21,893	23	10,609
Investment holding	-	(1,074)	628
Others	-	(11)	1
Total before Group elimination	52,753	2,400	40,881
Inter segment elimination	(10,244)	-	-
After elimination	42,509	2,400	40,881

9. Valuation of Property, Plant and Equipment

There were no changes in the valuation of the property, plant and equipment reported in the previous audited financial statements that will have an effect in the current financial quarter under review.

10. Material Events Subsequent to the Quarter End

There were no material events subsequent to the end of the current quarter that have not been reflected in the financial statements of the interim period.

11. Changes in Group Composition

There were no changes in the composition of the Group for the financial quarter under review.

12. Changes in Contingent Liabilities

There were no changes in contingent liabilities or contingent assets as at the date of this announcement.

13. Related party transactions

There were no related party transactions for the financial quarter under review except for

(All figures in RM'000)	Current quarter	Year-to- Date
Sale of kitchen, TV cabinet and wardrobe		62

Sales of kitchen appliances to Masteron	5	5
Sales of office chair to LNSB	13	13

ADDITIONAL INFORMATION REQUIRED PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

14. Review of Performance

Group turnover expanded by 72% for the Q4 and 86% year-on-year to RM23m (from RM13m last year) and RM79m (from RM43m last year) respectively underpinned by strong sales achieved by the Interior Fit-out division in the 4th qtr. Turnover for the IFO division grew by 2.7 fold for the 4th qtr on higher projects secured while turnover for the manufacturing and trading division felled by 5% and 25% respectively. Sales of caseworks increased by 20% with Japan and Thailand registering highest growth vis-à-vis the same period a year ago and a maiden export order was received from Vietnam. However turnover for the manufacturing division were brought down by the cessation of supply of commercial shop fixtures for a US fashion accessories retail chain compared to RM1m recorded in the previous year. YTD turnover for the manufacturing division increased by 40% to RM18m from RM13m previously on account of the 40% increase in casework sales and new commercial shop fixtures sales in the first half year. Margin yield for Q4 was higher than a year ago but margin for the year were however lower due to high material wastages, rework cost of the new commercial shop fixtures and higher labour overheads arising from shortage of workers experienced in the first half year. Consequently the division reported a marginally lower operating profit of RM1m for the year compared to the previous year despite the higher turnover achieved.

The trading and retail division's revenue for Q4 fell by 25% from a year ago to RM3m on lower construction materials supplied and retrospective readjustment of selling prices. The new kitchen retail operations performed satisfactory during the quarter. Operating expenses for the division were much higher due to higher operating costs arising from the new kitchen retail showroom that commenced operation in July 2012. For the quarter under review the division registered an operating profit of RM0.3m compared to RM2m previously due mainly to the readjustment of prices. YTD the division's operating profit jumped to RM4m from RM2.4m a year ago on account of the 97% increase in turnover to RM15m from RM8m previously due to the higher turnover from trading of building materials.

Q4 turnover for the IFO division was up by 220% to RM16m from RM5m for the same period a year ago on higher projects secured that included the iconic Majestic Hotel. YTD turnover for the division grew by 109% to RM46m from RM22m in the previous year and the key projects secured included the Legoland and Majestic Hotel. The IFO division registered an operating profit of RM0.4m in Q4 compared to a loss of RM1m as a result of this improvement in turnover. YTD operating profit was also higher at RM1.m compared to breakeven last year despite having made provision for doubtful debt of RM1m during the year under review and lower margin yields on projects completed.

Group pre-tax profit for the 4th quarter was marginally lower at RM1.2m compared to the RM1.3m achieved last year due to price readjustment for construction materials. Interest charge increased to RM0.5m from RM0.3m due to higher borrowings for working capital in tandem with the business throughput. After accounting for corporate and deferred tax, the Group achieved an after-tax profit of RM1m for the quarter compared to RM1.5m last year. For the year ended 31 December 2012 after tax profit improved to RM4.5m from RM2.3m a year ago due mainly to the much higher turnover.

15. Comparison with Preceding Quarter

Pre-tax profit for the quarter fell by 52% to RM1.2m from RM2.3m in the preceding quarter due to price readjustment to construction materials supplied that were applied retrospectively for the year. This had an adverse effect on the margin for the current quarter.

16. Current Year Prospects.

The Manufacturing division expects the economic woes in Europe, Japan and the US and the slowdown in China will weigh on economies in the Asia Pacific region in 2013. Any sharp deceleration in pace of growth in China or deterioration in sovereign debt crisis in Europe could have a severe impact on economic activity in the Asia Pacific region. This could have an adverse impact on export of caseworks to the countries that the division exports to as consumers cut back on spending. Turnover will also be adversely affected by the cessation of the supply of commercial shop fixtures for another US retail chain but this will have little impact on bottom line due to the high wastage and rework cost incurred in 2012. Margin yields are expected to improve due to the addition of foreign workers in the second half of 2012. The prospect for 2013 will hinge on the ability to secure orders for new commercial fixtures from another US multinational company and the outcome of new supply contract negotiation for caseworks.

The trading operations is expected to continue to contribute positively to the Group's profit based on supply contracts secured for supply of building materials for the construction industry. The retail operations is expected to grow its turnover with the full year impact of the new Kitchen Plus retail outlet but this operation is not expected to make a positive contribution as the operations continue to augment its market presence and customer awareness with aggressive marketing and promotional campaigns in 2013.

The Interior Fit-out division is expected to build on the solid performance in 2012 and achieve another record breaking turnover in 2013 based on contracts already secured and those in advanced negotiations. The prospect for the division will hinge on the ability to execute these projects successfully and manage costs effectively to improve margin yields. The prospect for the Kitchen Project operations will hinge on the success in securing contracts that are available in the second half year but based on projects in hand its turnover will not be less than in 2012. The Board is reasonably confident that barring unforeseen circumstances, the Group will be able to improve on the 2012 financial results in 2013.

17. Profit Forecast and Profit Guarantee

Not applicable.

18. Taxation

	<u>Current Quarter</u>	<u>Year-to-date</u>
	RM'000	RM'000
Current year provision / (write-back)	82	162
Under/(over) provision in prior years	-	-
Deferred tax	80	280
	-----	-----
Total tax	162	442
	=====	=====

19. Status of corporate proposal

None

20. Group borrowings and debt securities as at end of reporting period

- **Group Borrowings :**

RM'000	Short term	Long term
Secured :		
Bank overdrafts	-	-
Bankers acceptances	459	-
Hire Purchase	192	567
Unsecured :		
Bank overdrafts	2,199	-
Bankers' acceptances	1,072	-
Revolving credit	120	-
Total group borrowings	4,042	567

- **Debt Securities :**

Secured :	Short term	Long term
Redeemable Secured Loan Stocks	950	475
Interest accrued	17	-
Total debt securities	967	475

21. Off Balance Sheet Financial Instruments.

There were no off balance sheet financial instruments at the date of this report other than as follows:-

The Company has provided various financial guarantees to banks for the guarantee of credit facilities granted to its various subsidiaries. The Company has carried out an assessment of the probability and timing of default, the sufficiency of assets to meet the financial obligations at subsidiary level, assets pledged as security in respect of facility guaranteed in determining the necessity to fair value the financial guarantee in its books

22. Changes in material litigation

There were no changes in material litigation during the interim period to-date except for
a) Forfeiture of the Terengganu land. – No progress during the quarter

23. Dividend declared

No interim dividend has been declared for the period under review.

24. Basic/diluted earnings per share.

The basic earnings per share has been calculated based on the Group's profit attributable to shareholders of RM4,250,000 and the average number of shares in issue during the quarter of 82,695,900. The diluted earnings per share was calculated based on the average number of shares and warrants in issue during the quarter amounting to 114,267,328.

25. Realised and Unrealised Profits/(Losses)

On 25 March 2010, Bursa Malaysia Securities Berhad ("Bursa Malaysia") issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued guidance on the disclosure and the format required.

The breakdown of retained profits of the Group as at the reporting date, into realised and unrealised profits, pursuant to the directive, is as follows:

	31.12.2012	31.12.2011
	RM '000	RM'000
Total retained profits/(accumulated losses) of the Company and its subsidiaries:-		
- Realised profits/(Loss)	(21,487)	(26,029)
- Unrealised profits/(Loss)	<u>2,584</u>	<u>2,876</u>
Total Group retained profits/(accumulated losses) as per consolidated accounts	<u>(18,903)</u>	<u>(23,153)</u>

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

26. Additional notes to the Statement of Comprehensive Income

	<u>Current Quarter</u>	<u>Year- to-date</u>
	RM '000	RM '000
(Loss) / profit for the period / year is arrived at after charging / (crediting):		
Interest income	(3)	(11)
Other income	-	(11)
Interest expenses	99	519
Depreciation and amortization	317	1,187
Provisions for and write off of		
- Receivables	-	1,069
- Inventories	-	-
(Gain)/Loss on disposal of		
- Property, plant and equipment	-	(28)
- Investments	-	-
Impairment of assets	(6)	12
Foreign exchange (gain)/loss	(37)	(349)

Other than the items highlighted above which have been included in the Statement of Profit or Loss and Other Comprehensive Income, there were no gain or loss on derivatives and exceptional items for the current quarter and period ended 31 December 2012.