

## **FEDERAL FURNITURE HOLDINGS (M) BHD**

### **INTERIM FINANCIAL REPORT –2<sup>nd</sup> QUARTER ENDED 30 JUNE 2013**

#### **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 2012 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 2012.

The accounting policies and methods of computation adopted for the interim financial statements are consistent with those adopted for the audited financial statements for the financial year ended 31 December 2012.

In the previous financial year, the Group has adopted the new IFRS-compliant framework, Malaysian Financial Reporting Standards (“MFRSs”). The financial statements of the Group for the financial year ended 31 December 2012 are the first set of financial statements prepared in accordance with the MFRSs, including MFRS 1 ‘First-time adoption of MFRSs’.

Details of standards, amendments to published standards and interpretations to existing standards that are applicable to the Group with effect from 1 January 2013 or later are provided in note 2 to the audited financial statements of the Group for the financial year ended 31 December 2012. The adoption of the new standards and amendments/annual improvements to existing standards did not have any significant impact to the Group during the current quarter and financial period to date.

##### **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

<b>Period ended 30 June 2013</b>	<b>Turnover RM '000</b>	<b>Profit /(Loss) Before Taxation RM '000</b>	<b>Total Assets Employed RM '000</b>
Manufacture and export	15,975	1,014	20,879
Trading and retail	12,330	2,814	19,974
Interior fit-out	7,317	6	11,679
Investment holding	-	(1,148)	510
Others	-	(9)	1
Total before Group elimination	35,622	2,677	53,043
Inter segment elimination	(7,737)	-	-
<b>After elimination</b>	<b>27,885</b>	<b>2,677</b>	<b>53,043</b>

<b>Period ended 30 June 2012</b>	<b>Turnover RM '000</b>	<b>Profit /(Loss) Before Taxation RM '000</b>	<b>Total Assets Employed RM '000</b>
Manufacture and export	15,704	(226)	24,476
Trading and retail	7,110	1,872	10,088
Interior fit-out	19,475	528	12,557
Investment holding	-	(676)	541
Others	-	(44)	1
Total before Group elimination	42,289	1,454	47,663
Inter segment elimination	(7,730)	-	-
<b>After elimination</b>	<b>34,559</b>	<b>1,454</b>	<b>47,663</b>

## 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	Year-to-
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	quarter	Date
Sales to Masteron Sdn Bhd		11
Sales to Lingkaran Naga Sdn Bhd		6
Sales to Permodalan Masteron Sdn Bhd		17
Sales to Pagoda Canggih Sdn Bhd		8

The above sales were made at publicly listed selling prices without any preferential discount.

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

### **14. Review of Performance**

Group turnover for Q2 fell by 36% on lower sale from the manufacturing and the interior fit-out division, Turnover for the manufacturing operation fell by 18% on cessation of commercial fixtures to a US retail chain while exports of Starbucks to the Asia Pacific region grew by 7% quarter on quarter. All Asia Pacific countries increased their orders except for Malaysia. Despite the reduction in turnover the division reported a better operating profit of RM0.7m compared to a loss of RM0.5m due to higher margin and recovery of costs from work carried out for the Trading division. YTD turnover was 7% below the same period in the previous year but operating was RM1.0 compared to a loss of RM0.2m. Turnover for the trading and retail division increased by 39% to RM5.0m from RM3.6m a year ago on higher sales of building materials. Although operating profit from trading improved by 51% to RM2.0m, operating profit for the division was marginally lower due to higher operating cost from the new kitchen retail operations that commenced operations in the 2<sup>nd</sup> half of last year. The interior fit-out division's turnover fell by 62% quarter on quarter due to lower progress billings during the quarter as a result of the delay in site handover of a certain key project. The division has secured a number of sizeable projects including the St Regis Hotel, but these projects will only be carried out only in the second half year. Consequently operating profits fell by 74% to RM0.3m from RM1.0m a year ago. Group turnover for the second quarter fell by 36% to RM14.8 m from RM23m for the same period last year. Operating profit for the quarter however increased by 28% to RM1.3m from RM1.0m a year ago due to the higher contribution for the manufacturing division. Q2 PAT after MI increased by 42% to RM1.1m from RM0.8m for the same period a year ago.

### **15. Comparison with Preceding Quarter**

Despite the 13% increase in turnover, pre-tax profit for the quarter fell to RM1.3m from RM1.4m in the preceding quarter due to lower turnover from the trading division that yield higher margin,.

### **16. Current Year Prospects.**

After 2 years of phenomenal growth, the manufacturing division expects growth in caseworks sales to take a breather with lower growth anticipated in 2013. 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. The implementation of the minimum wage will increase production cost although this will be mitigated somewhat by lower overtime from addition foreign workers recruited during the 2<sup>nd</sup> 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 meanwhile 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 need to continue to augment its market presence and customer awareness with aggressive marketing and promotional campaigns in 2013 and beyond. However income from the project sales is expected to make up the loss from the retail operations.

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. However most of these projects such as the St Regis Hotel will be completed in the 2<sup>nd</sup> half of the year and the first half year activity will be rather subdued. 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. Margin yields are expected to be lower and for the kitchen project operations, the increasing use of online tender bidding system has made the bid so much more competitive.

#### 17. Profit Forecast and Profit Guarantee

Not applicable.

#### 18. Taxation

	<u>Current Quarter</u> RM'000	<u>Year-to-date</u> RM'000
Current year provision / (write-back)	-	-
Under/(over) provision in prior years	-	-
Deferred tax	70	70
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Total tax	70	70
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#### 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
<b>Secured :</b>		
Bank overdrafts	-	-
Bankers acceptances	560	-
Hire Purchase	216	555
<b>Unsecured :</b>		
Bank overdrafts	2,375	-
Bankers' acceptances	1,413	-
Revolving credit	60	-
<b>Total group borrowings</b>	<b>4,624</b>	<b>555</b>

- **Debt Securities :**

<b>Secured :</b>	<b>Short term</b>	<b>Long term</b>
Redeemable Secured Loan Stocks	950	-
Interest accrued	11	-
<b>Total debt securities</b>	<b>961</b>	<b>-</b>

## 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

## 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 RM2,611,000 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:

	<b>30.6.2013</b>	<b>31.12.2012</b>
	<b>RM '000</b>	<b>RM'000</b>
Total retained profits/(accumulated losses) of the Company and its subsidiaries:-		
- Realised profits/(Loss)	(18,608)	(21,271)
- Unrealised profits/(Loss)	2,534	2,585
Total Group retained profits/(accumulated losses) as per consolidated accounts	<u>(16,074)</u>	<u>(18,686)</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

	<b>Current Quarter</b>	<b>Year- to-date</b>
	<b>RM '000</b>	<b>RM '000</b>
(Loss) / profit for the period / year is arrived at after charging / (crediting):		
Interest income	(18)	(20)
Other income		
Interest expenses	90	177
Depreciation and amortization	332	608
Provisions for and write off of		
- Receivables	-	-
- Inventories	-	-
(Gain)/Loss on disposal of		
- Property, plant and equipment	-	-
- Investments	-	-
Impairment of assets	3	(1)
Foreign exchange (gain)/loss	(20)	(76)

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 30 June 2013.