

FEDERAL FURNITURE HOLDINGS (M) BHD

INTERIM FINANCIAL REPORT –3rd QUARTER ENDED 30 SEPTEMBER 2013

NOTES TO THE INTERIM FINANCIAL REPORT

1. Basis of preparation

These 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 these 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

Period ended 30 September 2013	Turnover RM '000	Profit /(Loss) Before Taxation RM '000	Total Assets Employed RM '000
Manufacture and export	25,047	1,397	18,626
Trading and retail	16,528	3,450	22,014
Interior fit-out	14,089	(4)	12,721
Investment holding	-	(1,220)	477
Others	-	(11)	1
Total before Group elimination	55,664	3,612	53,839
Inter segment elimination	(14,321)	-	-
After elimination	41,343	3,612	53,839

Period ended 30 September 2012	Turnover RM '000	Profit /(Loss) Before Taxation RM '000	Total Assets Employed RM '000
Manufacture and export	25,369	299	22,698
Trading and retail	11,688	3,695	12,876
Interior fit-out	31,438	759	10,494
Investment holding	-	(979)	546
Others	-	(46)	1
Total before Group elimination	68,495	3,728	46,615
Inter segment elimination	(12,576)	-	-
After elimination	55,919	3,728	46,615

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

Amount in RM'000	Qtr 3	YTD
Sales to Masteron Sdn Bhd	1	12
Sales to Lingkaran Naga Sdn Bhd	114	130
Sales to Pembinaan Masteron Sdn Bhd	0	17
Sales to Pagoda Canggih Sdn Bhd	0	8
Total	115	157

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 Q3 fell by 37% mainly due to lower sale from all divisions. Turnover for the manufacturing operation fell by 13% on cessation of commercial fixtures to a US retail chain while exports of Starbucks to the Asia Pacific region grew marginally by 3% quarter on quarter. Sales to the key markets, Japan and Korea, grew by 25% while sales to S.E.A. markets felled by 23% for the quarter compared to a year ago. Arising from the reduction in turnover the division reported a lower quarterly operating profit of RM0.4m compared to RM0.5m a year ago. However, YTD operating profit was more than 3 folds higher than the same period last year due to higher margin, exchange gains while last year's result were adversely affected by reworks and chargebacks on commercial fixtures and labour shortage. Turnover for the trading and retail division felled by 8% to RM4.2m from RM4.6m a year ago on lower sales of building materials. Operating profit felled by 65% to RM0.6m on lower margin and higher operating overheads from the retail operations. YTD the trading division's turnover was still 41% up against last year on higher sales from the kitchen retail operations. YTD Operating profit for the division felled by 7% to RM3.5m from RM3.7m previously due to higher loss from the retail operations. Meanwhile the IFO division's turnover fell by 60% quarter on quarter on lower progress billings due to the delay in site handover of a substantial project by the main contractor. Consequently the division broke even for the quarter compared to an operating profit of RM0.2m a year ago. YTD Group turnover at Q3 was 26% lower at RM41.3m from RM56.0m for the same period last year due to the lower turnover from the manufacturing and IFO divisions. Operating profit for the quarter felled 59% to RM0.9m from RM2.3m a year ago while YTD operating profit felled by 3% to RM3.6m from RM3.7m for the same period a year ago. After accounting for interest and tax charge, the Group registered PAT of RM3.5m, up 2% from RM3.4m reported a year ago due to lower tax charge.

15. Comparison with Preceding Quarter

Compared to the preceding quarter turnover was 9% lower due to lower turnover from the trading and IFO divisions. Operating profit felled by 26% to RM0.9m from RM1.3m due to lower turnover and low margin from the trading division.

16. Current Year Prospects.

After 2 years of phenomenal growth, the manufacturing division expects growth from supply of caseworks to take a breather with lower growth 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 2nd half of 2012. The division is expected to improve on its 2012 results on higher exchange gains and the absence on one time reworks and chargebacks incurred last year. The prospect going forward will hinge on the outcome of new supply casework contract negotiation in the last quarter of 2013.

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 IFO division is not expected to be able to match the solid performance in 2012 although it has secured a substantial contract due the delay in site handover. This contract will now be carried forward to 2014. The prospect for the division will hinge on the ability to execute the projects completed successfully, manage costs effectively to improve margin yields and the outcome of ongoing negotiation for variation order claims on completed projects. 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>	<u>Year-to-date</u>
	RM'000	RM'000
Current year provision / (write-back)	20	20
Under/(over) provision in prior years	-	-
Deferred tax	-	70
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Total tax	20	90
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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
Secured :		
Bank overdrafts	-	-
Bankers acceptances	120	-
Hire Purchase	207	507
Unsecured :		
Bank overdrafts	2,271	-
Bankers' acceptances	1,270	-
Revolving credit	30	-
Total group borrowings	3,898	507

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 RM3,522,000 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:

	30.9.2013	31.12.2012
	RM '000	RM'000
Total retained profits/(accumulated losses) of the Company and its subsidiaries:-		
- Realised profits/(Loss)	(17,698)	(21,271)
- Unrealised profits/(Loss)	2,534	2,585
Total Group retained profits/(accumulated losses) as per consolidated accounts	<u>(15,164)</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

	Current Quarter	Year- to-date
	RM '000	RM '000
(Loss) / profit for the period / year is arrived at after charging / (crediting):		
Interest income	(13)	(33)
Other income		
Interest expenses	180	357
Depreciation and amortization	300	908
Provisions for and write off of		
- Receivables	-	-
- Inventories	-	-
(Gain)/Loss on disposal of		
- Property, plant and equipment	(50)	(50)
- Investments	-	-
Impairment of assets	-	(1)
Foreign exchange (gain)/loss	(266)	(342)

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 September 2013.