

FEDERAL FURNITURE HOLDINGS (M) BHD

INTERIM FINANCIAL REPORT –4th QUARTER ENDED 31 DECEMBER 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 31 December 2013	Turnover RM '000	Profit /(Loss) Before Taxation RM '000	Total Assets Employed RM '000
Manufacture and export	36,291	2,929	18,140
Trading and retail	18,612	3,166	17,601
Interior fit-out	20,336	(258)	20,770
Investment holding	-	(1,394)	454
Others	-	(13)	1
Total before Group elimination	75,239	4,430	56,966
Inter segment elimination	(19,876)	-	-
After elimination	55,363	4,430	53,839

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

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		12
Sales to Lingkaran Naga Sdn Bhd	10	130
Sales to Pembinaan Masteron Sdn Bhd		17
Sales to Pagoda Canggih Sdn Bhd		8
Total	10	167

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 Q4 fell by 40% mainly due to lower project sale from the IFO division as a major project slotted for 2013 encountered substantial delay in site handover. Turnover for the manufacturing operation however grew by 66% to RM6.3m from RM3.8m for the same quarter a year ago, underpinned by strong exports to Starbucks for the Asia Pacific region. Q4 sales to the key Starbucks markets, Japan and Korea, grew by 37% and 57% respectively while sales to S.E.A. markets expanded by 67% from a year ago. The division also benefited from the appreciation of the USD and higher production efficiency that brought down cost and improved margin yield. Operating profit for the quarter stood at RM1.5m, up by 135% from RM0.7m a year earlier. YTD turnover for the manufacturing division was 6% higher as the 23% increase in Starbucks sales to RM19 m helped offset the loss of sales to a US retail chain. YTD operating profit was up by 2 folds to RM2.9m from RM1.0m in the previous year due to higher margin, exchange gains while last year's result were also adversely affected by reworks and chargebacks on commercial fixtures and labour shortage. Turnover for the trading division in Q4 felled by 41% to RM2.1m from RM3.5m a year ago on lower sales of building materials. Although the kitchen retail operation increased its sale by 62% quarter on quarter but the operations contribution to total Group turnover is still very small. YTD the trading division sales was up by 22% to RM19m from RM15m a year ago due to higher supply of fitted kitchen to developers. The division registered an operating loss of RM0.3m in Q4 compared to a profit of RM0.5m for the same period a year ago as result of the lower contribution from supply of building material and higher operating cost absorption from the kitchen retail operations. YTD the trading division's turnover was still 22% up against last year as higher sales from the kitchen retail operations offset the lower supply of building materials. YTD Operating profit for the division felled by 25% from RM4.2m to RM3.5m due to lower contribution from the trading operations. Meanwhile the IFO division saw its turnover fell by 65% quarter on quarter due to the continued delay in site handover of a substantial project by the main contractor. Consequently the division registered an operating loss of RM0.2m the quarter compared to an operating profit of RM0.4m a year earlier. The IFO division ended the year with an operating loss of RM0.3m compared to a profit of RM1.2m last year as turnover felled by 62% to RM17m.

On a consolidated basis, Group operating profit for the quarter stood at RM0.8m down 31% from RM1.2m while YTD operating profit felled by 10% to RM4.4m from RM4.9m for the same period a year ago. After accounting for interest and tax charge, the Group registered PAT of RM0.5m for the quarter, half the RM1.0m reported a year ago due to higher deferred tax charge.

15. Comparison with Preceding Quarter

Compared to the preceding quarter turnover was 4% higher lower due to higher sales from the manufacturing and IFO division divisions. Operating profit felled by 13% to RM0.8m from RM0.9m due to lower contribution from the kitchen retail operations.

16. Current Year Prospects.

The manufacturing division expects the strong demand for supply of caseworks seen in 2013 to continue into 2014 as its main customer Starbucks continue to expand its stores the Asia Pacific region. The division has recently signed a new supply contract for the next 3 years and expects to improve on its 2012 results on higher exchange gains and continued production efficiency. The trading operations is not expected to match its turnover in 2103 due to the slowdown in the property industry that will have an adverse impact on supply of building materials to the construction industry. The retail operations meanwhile is expected to continue to grow its turnover 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.

The IFO division is confident of improving on the disappointing turnover in 2013 arising from the delay in site handover last year as the RM33m contract is expected to commence in Q2 2014. The kitchen project has also secured a number of projects that will be fulfilled in 2014 and can expect its turnover to be substantially higher than 2013. The division is also in advanced negotiation or have tendered for other projects and is fairly confident of securing a number of these projects that will add on to its order book going forward. The prospect for the division will hinge on the ability to execute the projects secured 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> RM'000	<u>Year-to-date</u> RM'000
Current year provision / (write-back)	60	80
Under/(over) provision in prior years	-	-
Deferred tax	289	359
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Total tax	349	439
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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	399	-
Bankers acceptances	150	-

Hire Purchase	202	459
Unsecured :		
Bank overdrafts	3,291	-
Bankers' acceptances	1,282	-
Revolving credit	10	-
Total group borrowings	5,334	459

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 RM3,937,000 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:

	31.12.2013	31.12.2012
	RM '000	RM'000
Total retained profits/(accumulated losses) of the Company and its subsidiaries:-		
- Realised profits/(Loss)	(16,994)	(21,271)
- Unrealised profits/(Loss)	2,245	2,585
Total Group retained profits/(accumulated losses) as per consolidated accounts	<u>(14,749)</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

	<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	(24)	(57)
Other income		
Interest expenses	68	425
Depreciation and amortization	293	1,201
Provisions for and write off of		
- Receivables	-	-
- Inventories	-	-
(Gain)/Loss on disposal of		
- Property, plant and equipment	1	(49)
- Investments	-	-
Impairment of assets	-	(1)
Foreign exchange (gain)/loss	47	85

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 2013.