

FEDERAL FURNITURE HOLDINGS (M) BHD

INTERIM FINANCIAL REPORT –2ND QUARTER ENDED 30 JUNE 2014

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 2013 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 2013.

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 2013.

Details of standards, amendments to published standards and interpretations to existing standards that are applicable to the Group with effect from 1 January 2014 or later are provided in note 2 to the audited financial statements of the Group for the financial year ended 31 December 2013. 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 June 2014	Turnover RM '000	Profit /(Loss) Before Taxation RM '000	Total Assets Employed RM '000
Manufacture and export	18,517	2,950	18,045
Trading and retail	2,560	(415)	16,626
Interior fit-out	12,568	(92)	17,953
Investment holding	-	(599)	665
Others	-	(6)	1
Total before Group elimination	33,645	1,838	53,290
Inter segment elimination	(6,436)	-	-
After elimination	27,209	1,838	53,290

Period ended 30 June 2013	Turnover RM '000	Profit /(Loss) Before Taxation RM '000	Total Assets Employed RM '000
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)	-	-
After elimination	27,885	2,677	53,043

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

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

14. Review of Performance

Q2 turnover fell by 26% to RM11m from RM15m a year ago mainly due to substantially lower sales from the Trading division. Turnover for the manufacturing operation grew by 29% to RM5.7m from RM4.4m for the corresponding period a year ago, underpinned by strong exports to Starbucks for the Asia Pacific region. Sales to Japan and Korea grew by 14% and 25% respectively while sales to S.E.A. markets expanded by 54% from a year ago due to strong orders from Malaysia and The Philippines. Operating profit for the quarter increased by 3 folds to RM2.3m from RM0.7m a year earlier on account of the higher sales and better margin. Turnover for the trading division fell by 85% to RM0.8m from RM5.0m a year earlier on failure to secure new contracts for supply of building materials. The kitchen retail operation however increased its sale by about 3 folds but has not reached breakeven level although operating loss was down by 63%. The division registered an operating loss of RM0.5m compared to a profit of 0.9m a year ago. Meanwhile the IFO division saw its turnover fell by 16% to RM4.5m from RM5.3m a year earlier. This is attributable to the continued delay in site handover from project secured. The division registered an operating loss of RM0.3m for the quarter compared to an operating profit of RM0.3m a year earlier on account of the lower turnover and lower gross margin. On a consolidated basis PBT felled 8% to RM1.2m from RM1.3m mainly due to the lower contribution from the trading and IFO division despite the stellar performance from the manufacturing division. After accounting for deferred tax charge of RM0.7m, PAT for Q2 was RM0.5m down from RM1.1m a year ago. The higher tax charge compared to last year is due to availability of accumulated tax losses from the trading division to set off its profit last year.

15. Comparison with Preceding Quarter

Compared to the preceding quarter, turnover fell by 31% to RM11m from RM16m due to lower sales from trading and IFO division. Operating profit however increased by 67% to RM1.2m from RM0.7m due to higher margin from the manufacturing division

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 2013 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. The prospect for the year will depend on efforts to reduce costs to mitigate operating loss and the outcome of negotiation on renewal of tenancy of the showroom. The IFO division is confident of improving on the disappointing turnover in 2013 arising from the delay in site handover last year as the project has commenced 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.

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	690	690
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Total tax	690	690
	=====	=====

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	967	-
Bankers acceptances	230	-
Hire Purchase	186	676
Unsecured :		
Bank overdrafts	2,193	-
Bankers' acceptances	1,800	-
Revolving credit	-	-
Total group borrowings	5,376	676

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 RM1,137,000 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:

	30.6.2014	31.12.2013
	RM '000	RM'000
Total retained profits/(accumulated losses) of the Company and its subsidiaries:-		
- Realised profits/(Loss)	(15,478)	(17,305)
- Unrealised profits/(Loss)	1,556	2,246
Total Group retained profits/(accumulated losses) as per consolidated accounts	<u>(13,922)</u>	<u>(15,059)</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	(8)	(16)
Other income	(217)	(217)
Interest expenses	73	174
Depreciation and amortization	336	661
Provisions for and write off of		
- Receivables	40	40
- Inventories	-	-
(Gain)/Loss on disposal of		
- Property, plant and equipment	-	-
- Investments	-	-
Impairment of assets	-	-

Foreign exchange (gain)/loss	(5)	(90)

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 2014.