

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

### **INTERIM FINANCIAL REPORT –3RD QUARTER ENDED 30 SEPTEMBER 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 Sept 2014	Turnover RM '000	Profit /(Loss) Before Taxation RM '000	Total Assets Employed RM '000
Manufacture and export	23,843	3,945	17,536
Trading and retail	3,256	(720)	16,424
Interior fit-out	23,057	18	19,584
Investment holding	-	(925)	895
Others	-	(8)	1
Total before Group elimination	50,156	2,310	54,440
Inter segment elimination	(6,439)	-	-
<b>After elimination</b>	<b>43,717</b>	<b>2,310</b>	<b>54,440</b>

Period ended 30 Sept 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)	-	-
<b>After elimination</b>	<b>41,343</b>	<b>3,612</b>	<b>53,839</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.

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

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

Group turnover rose by 23% in Q3 to RM16.5m from RM13.5m a year earlier due to higher casework export sales and higher progress billings from the IFO division. Turnover for the manufacturing operation grew by 13% to RM5.3m from RM4.7m for the corresponding period a year earlier, underpinned by higher exports to Starbucks for the Asia Pacific region. Sales to Japan and Korea grew by 16% and 26% respectively while sales to ASEAN markets expanded by only 2% from a year ago. Operating profit for the quarter increased by 160% to RM1.0m from RM0.4m a year earlier on account of the higher sales and better margin. Turnover for the trading division fell by 83% to RM0.7m from RM4.2m a year earlier on failure to secure new contracts for supply of building materials and kitchen furniture. The division posted an operating loss of RM0.3m compared to a profit of RM0.6m a year ago. Meanwhile the IFO division expanded its turnover by 132% to RM10.5m from RM4.6m a year earlier. This is attributable to higher progress billings from projects secured. Despite the higher turnover the division registered an operating profit of only RM0.1m for the quarter compared to a loss of RM10k a year earlier. This is attributable to lower margin and prolongation costs arising from delay in site handover. On a consolidated basis PBT fell by 50% to RM0.5m from RM0.9m a year earlier mainly due to the lower contribution from the trading division despite the much better performance from the manufacturing division. After accounting for deferred tax charge of RM0.3m, PAT for Q3 was RM0.2m, down from RM0.9m 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 was 51% higher at RM17m compared to RM11m due to higher sales from IFO division. Operating profit however fell to RM0.5m from RM1.2m due to lower margin and project prolongation costs from the IPO 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 in 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 2013 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 improve its turnover and reduce operating loss but is not expected to make a positive contribution yet. The IFO division will substantially increase its turnover but gross margin are substantially lower too. The prospect for the division will depend on the ability to execute the contracts promptly after encountering delays in several site handover and its ability to recover prolongation costs. 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 prospect for the division will also hinge on the ability to execute the projects secured successfully, manage costs effectively to improve margin yields and the outcome of negotiation for recovery of prolongation cost and variation order claims.

**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)	55	55
Under/(over) provision in prior years	2	2
Deferred tax	240	930
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Total tax	297	987
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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	899	-
Bankers acceptances	720	-
Hire Purchase	181	616
<b>Unsecured :</b>		
Bank overdrafts	3,174	-
Bankers' acceptances	5,256	-
Revolving credit	-	-
<b>Total group borrowings</b>	<b>10,230</b>	<b>616</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 RM1,234,000 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>30.9.2014</b>	<b>31.12.2013</b>
	<b>RM '000</b>	<b>RM'000</b>
Total retained profits/(accumulated losses) of the Company and its subsidiaries:-		
- Realised profits/(Loss)	(15,140)	(17,305)
- Unrealised profits/(Loss)	1,316	2,246
Total Group retained profits/(accumulated losses) as per consolidated accounts	<u>(13,824)</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

	<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	(4)	(20)
Other income	(165)	(382)
Interest expenses	111	285
Depreciation and amortization	331	992
Provisions for and write off of		
- Receivables	-	40
- Inventories	-	-
(Gain)/Loss on disposal of		
- Property, plant and equipment	-	-
- Investments	-	-
Impairment of assets	-	-

Foreign exchange (gain)/loss	20	(70)

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 Sept 2014.