

FEDERAL FURNITURE HOLDINGS (M) BHD

INTERIM FINANCIAL REPORT –1ST QUARTER ENDED 31 MARCH 2015

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 2014 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 2014.

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 2014.

Details of standards, amendments to published standards and interpretations to existing standards that are applicable to the Group with effect from 1 January 2015 or later are provided in note 2 to the audited financial statements of the Group for the financial year ended 31 December 2014. 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 Mar 2015	Turnover RM '000	Profit /(Loss) Before Taxation RM '000	Total Assets Employed RM '000
Manufacture and export	6,707	1,069	26,815
Trading and retail	2,014	215	13,879
Interior fit-out	9,999	349	24,483
Investment holding	-	(530)	2,053
Others	-	(2)	1
Total before Group elimination	18,720	1,101	67,231
Inter segment elimination	-	-	-
After elimination	18,720	1,101	67,231

Period ended 31 Mar 2014	Turnover RM '000	Profit /(Loss) Before Taxation RM '000	Total Assets Employed RM '000
Manufacture and export	11,878	663	17,691
Trading and retail	1,786	66	17,297
Interior fit-out	8,046	236	17,019
Investment holding	-	(276)	463
Others	-	(2)	1
Total before Group elimination	21,710	687	52,471
Inter segment elimination	(5,479)	-	-
After elimination	16,231	687	52,471

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 grew by 15% in Q1 to RM18.7m from RM16.2m a year earlier as all business units achieved higher turnover. Turnover for the manufacturing division grew by 4% to RM6.7m from RM6.4m for the corresponding period a year earlier as higher exports to Starbucks Japan and Korea compensated the lower sales to the ASEAN region. Operating profit for the division increased by 61% to RM1.1m from RM0.7m a year earlier as a result of the appreciation of the US dollar. Turnover for the trading division expanded by 13% to RM2.0m from RM1.8m a year ago as higher kitchen project billings offset the lower sales from supply of building materials. The division's operating profit grew 3 folds to RM0.2m from RM0.1m due to the better margin from kitchen project sales. Meanwhile the IFO division expanded its turnover by 25% to RM10.0m from RM8.0m a year ago due to higher billings. Consequently the division achieved registered a 47% increase in operating profit to RM0.3m for the quarter compared to RM0.2m a year earlier. Margin yield was also higher as the operation managed to reduce certain project costs. On a consolidated basis Q1 PBT increased by 60% to RM1.1m from RM0.7m a year ago. After accounting for deferred tax charge of RM0.3m, PAT was RM0.8m, up 21% from RM0.7m in the previous year.

15. Comparison with Preceding Quarter

Compared to the preceding quarter, PBT increased by 22% to RM1.1m from RM0.9m in the preceding quarter due to the higher turnover from trading division and the higher gross margin. All operating units improved on their PBT over the preceding quarter.

16. Current Year Prospects.

The manufacturing division expects the strong demand for supply of caseworks seen in 2014 to continue into 2015 but growth is expected to be much more subdued. The prospect for 2015 will more likely hinge on new products and new customers as the division is in negotiation with another multinational retail chain for supply of its products. The division is also upgrading its manufacturing assets in the 3rd quarter to increase its capacity and improve on production efficiencies to cope with the higher turnover expected. The manufacturing division is expected to continue to benefit from the appreciation of the US dollar vis-à-vis the Ringgit. The trading division is expected to improve on its turnover from both the kitchen retail and project segment of the market. The operations has secured orders for the supply of its products to the project segment that will contribute positively to its financial result for the year. With these expected improvements the retail operations is expected to more than double its turnover and is hopeful of making a turnaround in its operating results in 2015. The IFO division is expected to substantially increase its turnover on projects bought forward from 2014 and an order book of RM70m in hand, a substantial portion of which are expected to be completed in 2015. The prospect for the division as always will also hinge on the ability to execute the projects secured successfully. With all divisions expected to improve on its 2014 results, the Group is cautiously optimistic of returning a better set of results in 2015.

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)	2	2
Under/(over) provision in prior years	-	-
Deferred tax	263	263
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Total tax	265	265
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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	379	-
Bankers acceptances	810	-
Hire Purchase	240	425
Term loans	147	1,804
Unsecured :		
Bank overdrafts	3,106	-
Bankers' acceptances	3,192	-
Revolving credit	-	-
Total group borrowings	7,874	2,229

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 RM813,000 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:

	31.3.2015	31.12.2014
	RM '000	RM'000
Total retained profits/(accumulated losses) of the Company and its subsidiaries:-		
- Realised profits/(Loss)	(13,247)	(14,298)
- Unrealised profits/(Loss)	894	1,132
Total Group retained profits/(accumulated losses) as per consolidated accounts	<u>(12,353)</u>	<u>(13,166)</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	(1)	(1)
Other income	(11)	(11)
Interest expenses	53	53
Depreciation and amortization	346	346
Provisions for and write off of		
- Receivables	-	-
- Inventories	-	-
(Gain)/Loss on disposal of		
- Property, plant and equipment	-	-
- Investments	-	-
Impairment of assets	-	-
Foreign exchange (gain)/loss	(97)	(97)

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 Mar 2015.