

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

### **INTERIM FINANCIAL REPORT –2<sup>ND</sup> QUARTER ENDED 30 JUNE 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 30 June 2015	Turnover RM '000	Profit /(Loss) Before Taxation RM '000	Total Assets Employed RM '000
Manufacture and export	13,658	2,880	29,706
Trading and retail	3,093	(126)	12,105
Interior fit-out	23,891	967	28,380
Investment holding	-	(1,040)	1,123
Others	-	(9)	1
Total before Group elimination	40,642	2,672	71,315
Inter segment elimination	-	-	-
<b>After elimination</b>	<b>40,642</b>	<b>2,672</b>	<b>71,315</b>

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)	-	-
<b>After elimination</b>	<b>27,209</b>	<b>1,838</b>	<b>53,290</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 in Q2 doubled to RM21.9m from RM11.0m a year ago as all divisions reported higher turnover. Turnover for the manufacturing division grew by 22% to RM7.0m from RM5.7m for the corresponding period a year earlier due to higher exports to Starbucks Japan (up by 41%) and Korea (up by 22%). Operating profit for the division was however 20% lower at RM1.8m compared to RM2.3m last year as last year's Q2 result gained from an understatement of gross margin in Q1 last year. Ignoring this Q2 PBT would be 28% higher than same period last year. On an YTD basis turnover was 13% higher to RM13.7m while operating was marginally lower at RM2.9m compared to RM3.0m a year earlier due to higher production costs.

Turnover for the trading division stood at RM1.1m, up by 40% from RM0.8m a year ago as higher kitchen project billings offset the lower retail sales due to adverse impact from introduction of GST. The division's operating loss improved by 29% to RM0.3m from RM0.5m a year ago. YTD turnover increased by 21% to RM3.1m from RM2.6m due to higher progress billing from a kitchen project. Operating loss improved by 70% to RM0.1m from RM0.4m last year

Meanwhile, the IFO division tripled its turnover in Q2 to RM13.9m from RM4.5m a year ago as progress billings increased in tandem with the substantially higher order book. Consequently the division achieved an operating profit of RM0.6m compared to a loss of RM0.3m a year earlier. YTD turnover stood at RM23.9m, up by 91% from RM12.5m while operating profit improved to RM1.0m from a loss of RM0.1m for the same period a year ago.

On a consolidated basis Q2 PBT increased by 36% to RM1.6m from RM1.2m a year ago. After accounting for tax charge of RM0.6m, PAT was RM1.0, up 110% from RM0.5m in the previous year. YTD turnover increased by 49% to RM40.6m from RM27.2m last year due to mainly to contribution from the IFO division. PBT grew by 45% to RM2.7m from RM1.8m a year earlier while PAT stood at RM1.8m compared to RM1.1m a year ago. The higher revenue and PAT was contributed mainly by the IFO division.

### **15. Comparison with Preceding Quarter**

Compared to the preceding quarter, PBT increased by 41% to RM1.6m from RM1.1m in the preceding quarter due to the 17% increase in turnover from RM18.7m to RM21.9m. The increase in turnover accrue mainly from the IFO division. The manufacturing division also achieved higher PBT that offset the lower operating result from the trading division.

### **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 more subdued. The prospect going forward 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 3<sup>rd</sup> quarter to increase its capacity and improve on production efficiencies. The appreciation of the USD against the Ringgit will further enhance margin yield in 2015.

The trading division is expected to improve on its turnover from both the kitchen retail and project segment of the market. The operation 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 has an order book of RM70m in hand, a substantial portion of

which are expected to be completed in the 2<sup>nd</sup> half of 2015. The prospect for the division as always will also hinge on the ability to execute the projects secured within the contractual period and the budgeted costs.

With all divisions are expected to improve on its 2014 results, the Group is cautiously optimistic of returning a better set of results in 2015. Consequently, the Board is mulling the formulation of a dividend policy to reward shareholders for their loyalty.

#### 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)	49	51
Under/(over) provision in prior years	-	-
Deferred tax	564	827
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Total tax	613	878
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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	448	-
Bankers acceptances	730	-
Hire Purchase	220	378
Term loans	147	1,755
<b>Unsecured :</b>		
Bank overdrafts	4,860	-
Bankers' acceptances	1,491	-
Revolving credit	-	-
<b>Total group borrowings</b>	<b>7,896</b>	<b>2,133</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 RM1,733,000 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>30.6.2015</b>	<b>31.12.2014</b>
	<b>RM '000</b>	<b>RM'000</b>
Total retained profits/(accumulated losses) of the Company and its subsidiaries:-		
- Realised profits/(Loss)	(11,766)	(14,298)
- Unrealised profits/(Loss)	333	1,132
Total Group retained profits/(accumulated losses) as per consolidated accounts	<u>(11,433)</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

	<b><u>Current Quarter</u></b>	<b><u>Year- to-date</u></b>
	<b>RM '000</b>	<b>RM '000</b>
(Loss) / profit for the period / year is arrived at after charging / (crediting):		
Interest income	(15)	(16)

Other income	(2)	(13)
Interest expenses	149	242
Depreciation and amortization	374	720
Provisions for and write off of		
- Receivables	4	4
- Inventories	-	-
(Gain)/Loss on disposal of		
- Property, plant and equipment	(23)	(23)
- Investments	-	-
Impairment of assets	-	-
Foreign exchange (gain)/loss	(110)	(207)

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 2015.