

FEDERAL FURNITURE HOLDINGS (M) BHD

INTERIM FINANCIAL REPORT –3rd QUARTER ENDED 30 SEPTEMBER 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 Sept 2015	Turnover RM '000	Profit /(Loss) Before Taxation RM '000	Total Assets Employed RM '000
Manufacture and export	23,781	6,700	33,449
Trading and retail	4,898	(128)	11,751
Interior fit-out	41,859	1,446	33,176
Investment holding	-	(1,737)	168
Others	-	(12)	1
Total before Group elimination	70,538	6,269	78,545
Inter segment elimination	(1,651)	-	-
After elimination	68,887	6,269	78,545

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)	-	-
After elimination	43,717	2,310	54,440

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 Q3 expanded by 71% to RM28m from RM16.5m for the corresponding period a year ago as all divisions reported much higher turnover. Turnover for the manufacturing division grew by almost 60% to RM8.5m from RM5.3m a year earlier due to record quarterly sales to Starbucks, underpinned by higher exports to Asean region (up by 93%), Japan (up by 33%) and Korea (up by 59%). Operating profit for the division was more than 3 fold higher at RM3.8m compared to RM1.0m for the same period last year due to the higher sales and positive effect of the much stronger US dollar vis-a-vis the Ringgit. On an YTD basis turnover was 27% higher to RM22m from RM17m while operating profit increased by 70% to RM6.7m from RM3.9m a year earlier. The result is in line with the higher sales and the forex gain from the strong US dollar.

Turnover in Q3 for the trading division increased by 159% to RM1.8m from RM0.7m a year ago as higher kitchen project billings offset the lower retail sales due to adverse impact from introduction of GST. The division broke even for the quarter compared to an operating loss of RM0.3m for the same period a year ago. YTD turnover was 50% higher at RM4.9m while operating loss was reduced by 82% to RM0.1m (2014: RM0.7m) due to higher progress billing from a kitchen project. The operation is expected to make a profit for the year based on the progress work to the end of the year.

Meanwhile, the IFO division saw its turnover in Q3 expanding by 71% to RM18m from RM10m a year ago as progress billings increased in tandem with the substantially higher order book. Consequently the division achieved an operating profit of RM0.5m compared to just M0.1m a year earlier. YTD turnover was almost 2 times higher at RM42m from RM23m a year ago while operating profit improved to RM1.4m from a breakeven position for the same period a year ago.

On a consolidated basis Q3 PBT was more than 7 times higher to RM3.6m from RM0.5m recorded last year. After accounting for tax charge of RM1.4m, the Group registered a PAT of 2.2m compared to just RM0.2m for the same period in the previous year.

YTD turnover increased by 57% to RM69m from RM44m last year due to higher turnover from all divisions. PBT grew by 171% to RM6.3m from RM2.3m a year earlier while PAT was 3 times higher at RM4m compared to RM1.3m a year ago. Again the better performance is attributed to the much higher turnover and the higher margin yield from export sales as a result of the strong US dollar in 2015.

15. Comparison with Preceding Quarter

Compared to the preceding quarter, PBT increased by 125% to RM3.6m from RM1.6m in the preceding quarter due to the higher contributions from all divisions. This is attributed to the higher turnover achieved by all divisions in Q3 (up by 28%) and the forex gain from the continuing strength of the US dollar.

16. Current Year Prospects.

The strong demand for supply of caseworks seen in 2014 has continued into 2015 and the manufacturing division can expect to improve on its turnover in the current year. The division has benefited substantially from the strength of the US dollar that will translate to a much better bottom line as YTD Q3 results has already surpassed that achieved in 2014. The division has also upgraded its manufacturing assets in the 3rd quarter to increase its capacity and improve on production efficiencies going forward. These assets will be used to manufacture products for other operating divisions that used to be procured externally.

The trading division is expected to improve on its turnover from both the project segment of the market while the retail operations will be affected by the implementation of GST in April 2015. 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. The operations is

expected to more than double its turnover in the current year and is confident of making a turnaround in its operating results in 2015.

The IFO division is expected to substantially increase its turnover on projects secured and has an order book of RM70m in hand, a substantial portion of which are expected to be completed in 2015. The division has also already exceeded the results achieved in 2014 and can expect to achieve record sales in 2015. The risk for the division will be the ability to execute the projects secured within the contractual period and the budgeted costs.

Given all divisions are expected to improve on its 2014 results, the Group is optimistic of returning a substantially higher 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)	212	263
Under/(over) provision in prior years	60	60
Deferred tax	1,088	1,915
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Total tax	1,360	2,238
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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	913	-
Bankers acceptances	860	-
Hire Purchase	587	1442
Term loans	147	1721
Unsecured :		
Bank overdrafts	4,280	-
Bankers' acceptances	1,623	-
Revolving credit	-	-
Total group borrowings	9,337	2,235

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 RM3,992,000 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:

	30.9.2015	31.12.2014
	RM '000	RM'000
Total retained profits/(accumulated losses) of the Company and its subsidiaries:-		
- Realised profits/(Loss)	(8,420)	(14,298)
- Unrealised profits/(Loss)	(755)	1,132
Total Group retained profits/(accumulated losses) as per consolidated accounts	<u>(9,175)</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

	Current Quarter	Year- to-date
	RM '000	RM '000

(Loss) / profit for the period / year is arrived at after charging / (crediting):		
Interest income	(7)	(23)
Other income	(1)	(14)
Interest expenses	119	361
Depreciation and amortization	400	1,120
Provisions for and write off of		
- Receivables	-	4
- Inventories	-	-
(Gain)/Loss on disposal of		
- Property, plant and equipment	-	(23)
- Investments	-	-
Impairment of assets	-	-
Foreign exchange (gain)/loss	(569)	(776)

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 September 2015.