FEDERAL FURNITURE HOLDINGS (M) BHD

INTERIM FINANCIAL REPORT –4th QUARTER ENDED 31 DECEMBER 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 Dec 2015	Turnover RM '000	Profit /(Loss) Before Taxation RM '000	Total Assets Employed RM '000
Manufacture and export	31,500	8,312	34,633
Trading and retail	7,736	329	11,026
Interior fit-out	64,443	3,186	32,641
Investment holding	-	(2,540)	1,849
Others	-	(14)	1
Total before Group elimination	103,679	9,273	80,150
Inter segment elimination	(1,913)	-	-
After elimination	**101,766**	**9,273**	**80,150**

Period ended 31 Dec 2014	Turnover RM '000	Profit /(Loss) Before Taxation RM '000	Total Assets Employed RM '000
Manufacture and export	30,823	4,740	25,891
Trading and retail	4,180	(917)	15,978
Interior fit-out	38,247	458	23,700
Investment holding	-	(1,110)	1,140
Others	-	36	1
Total before Group elimination	73,250	3,207	66,710
Inter segment elimination	(6,423)	-	-
After elimination	**66,827**	**3,207**	**66,710**

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 Q4 grew by 42% to RM33m from RM23m for the corresponding period a year ago as all divisions achieved higher turnover. Turnover for the manufacturing division was 7% higher at RM7.5m from RM7.0m a year as Starbucks sales expanded by 13% on higher USD exchange rate while local sales felled by 15%. The increase in Starbucks sales come from the Asean market that saw a 74% increase in sales for the quarter while Japan and Korea sales fell by 19%. Operating profit doubled to RM1.6m compared to RM0.8m for the same period last year due to higher margin from USD denominated export sales. Operating costs also increased due to special staff bonus and one-time costs incurred to improve production efficiencies and re-align factory layout. For the 12-months period, gross turnover before group elimination increased 28% to RM31m from RM24m in the previous year as Starbucks sales grew by 23% while local sales increased by 3 folds. This improvement is attributable mainly to the appreciation of the USD, the addition of the Hong Kong Starbucks market that was previously supplied from China and new supply of tabletops in Q4. The increase in local sales mainly came from sales to a related company for a local bank renovation project. Operating profit for the year was up by 75% to RM8.6m from RM4.7m in the preceding year. The improvement in result is mainly attributable to the USD forex gain in the 2nd half year and the much higher local sales for the year.

The trading division saw it turnover swelled 3 folds in Q3 to 2.8m from RM0.9 a year ago due to the contract secured to supply kitchen to a property developer. Retail sales however continued to remain sluggish as consumers held back on spending due to fear of rising costs of living and the introduction of GST. The division made a profit of RM0.5m for the quarter under review compared to a loss of RM0.2m for the same period a year ago. YTD turnover was 85% higher at RM7.7m while operating profit was RM0.3m compared to a loss of RM0.9m in 2014 due to the kitchen supply project. Retail sales for the year was 14% lower than a year ago due to the adverse impact of GST introduced in April 2015.

Q3 turnover for the IFO division rose by 48% to RM22m from RM15m a year earlier due to higher progress billings. Gross margin in Q3 improved due to the higher margin on the new projects and the cumulative effect of higher margin on project sales recognized to-date following review of the actual project costs against budgeted costs. In tandem with this increase in turnover and gross margin, operating profit rose by 3 folds to RM1.7m from just RM0.4m for the same period in the previous year. Turnover for the year was RM64m representing an increase of 68% from the RM38m reported a year ago while operating profit before tax surged almost 7 folds to RM3.2m from RM0.5m for the same period a year earlier. This is substantially attributable to the higher turnover and higher margin yield for the year.

Group PBT in Q3 increased by 235% to RM2.3m from RM0.6m a year ago. After accounting for tax charge of RM0.7m, the Group registered a PAT of 2.8m compared to RM0.6m for the same period in the previous year. Tax charge for the quarter was lower due to overprovision in the previous quarters. For the 12-months period PBT increased by 189% to RM9.3m from RM3.2m in the preceding year while PAT was RM6.3m, up by 222% from RM2.0m reported in 2014. The better performance is mainly 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

PBT for Q3 was 16% lower at RM3.0m compared to RM3.6 in the preceding quarter although turnover was 13% higher at RM32m. This is due to the lower overall margin from lower export sales and the higher turnover from the IFO division margin that yielded much lower margin. Operating cost was also higher due to higher staff bonus and one time factory improvements costs.

16. Current Year Prospects.

The Manufacturing division expects Starbucks sales to the AP region to chart double digit growth on the continued strength of the USD, the addition of India and Cambodia markets and full year impact of the supply of new tabletops. The Ringgit is anticipated to remain above 4 to the USD in view of the expected continued weakness in oil prices in 2016 as production exceeds demand. This will have a favourable impact to the gross margin of export sales. The new production assets acquired in the 2nd half of 2015 is planned to be commissioned in the 2nd quarter of 2016 and is expected to bring improvement to efficiency, reduce dependency on foreign labour and increase production capacity. The additional capacity will be deployed to manufacture products such as kitchen carcass and panels for other operating divisions that used to procure these externally. This will improve the group's margin yield. The prospect in the current year will also hinge on the outcome of negotiation of the new Starbuck contract in the 2nd half year.

The trading division expects the retail division to marginally increase its sales through its only kitchen retail outlet on gradual consumer tolerance to GST. However consumers concern over rising cost of living will linger on in the current year and this will limit sale growth rate. The retail operations is dependent on the supply of kitchen to property developers to be able to turn in a positive bottom line. In this regard the division is confident it will be able to secure new contracts to remain profitable in 2016.

The IFO division had a record year in 2015 and it will be a challenge to improve on that turnover in the current year. However gross margin is expected to be higher as the contacts in hand, amounting to about RM35m, are expected to yield higher margin. The outcome of negotiations to conclude final contract sum and variations orders on lumpy completed projects will also an impact on the gross margin. The prospect in 2016 will further depend on the success in securing new contracts to replenish its order book. The risk for the division will be the ability to execute projects secured within the contractual period and the budgeted costs.

17. Profit Forecast and Profit Guarantee

Not applicable.

18. Taxation

	Current Quarter	Year-to-date
	RM'000	RM'000
Current year provision / (write-back)	772	1,035
Under/(over) provision in prior years	-	60
Deferred tax	(83)	1,832
Total tax	689	2,927

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	-	-
Bankers acceptances	980	-
Hire Purchase	1,059	793
Term loans	559	3,253
Unsecured :		
Bank overdrafts	2,712	-
Bankers' acceptances	1,623	-
Revolving credit	-	-
Total group borrowings	**6,933**	**4,046**

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 proposed

The Board has proposed the payment of a single tier final dividend of one (1) sen per share in respect of the financial year ended 31 December 2015. The payment of this dividend will subject to shareholders approval at the forthcoming AGM. The entitlement and payment dates will be determined and announced at a later date.

24. Basic/diluted earnings per share.

The basic earnings per share has been calculated based on the Group's profit attributable to shareholders of RM6,223,000 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:

	31.12.2015 RM '000	31.12.2014 RM'000
Total retained profits/(accumulated losses) of the Company and its subsidiaries:-		
- Realised profits/(Loss)	(6,270)	(14,298)
- Unrealised profits/(Loss)	(672)	1,132
Total Group retained profits/(accumulated losses) as per consolidated accounts	(6,942)	(13,166)

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	(28)	(51)
Other income	-	(14)
Interest expenses	149	510
Depreciation and amortization	431	1,551
Provisions for and write off of		
- Receivables	245	249
- Inventories	-	-
(Gain)/Loss on disposal of		
- Property, plant and equipment	-	(23)
- Investments	-	-
Impairment of assets	-	-
Foreign exchange (gain)/loss	27	(749)

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 December 2015.