

FEDERAL FURNITURE HOLDINGS (M) BHD

INTERIM FINANCIAL REPORT –1st QUARTER ENDED 31 MARCH 2016

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 2015 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 2015.

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 2015.

Details of standards, amendments to published standards and interpretations to existing standards that are applicable to the Group with effect from 1 January 2016 or later are provided in note 2 to the audited financial statements of the Group for the financial year ended 31 December 2015. 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 2016	Turnover RM '000	Profit /(Loss) Before Taxation RM '000	Total Assets Employed RM '000
Manufacture and export	7,929	1,729	35,202
Trading and retail	1,664	81	9,756
Interior fit-out	17,729	440	32,384
Investment holding	-	(616)	1,337
Others	-	(2)	1
Total before Group elimination	27,322	1,632	78,680
Inter segment elimination	(240)	-	-
After elimination	27,082	1,632	78,680

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

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 Q1 grew by 45% to RM27.0m from RM18.7m for the corresponding period a year ago due to the higher export sales value and higher progress billings from the IFO division. Turnover for the manufacturing division grew by 15% to RM7.7m from RM6.7m a year ago. Starbucks sales grew by 13% year on year on sales of new tabletops, product purchased on behalf of Starbucks and construction services while the traditional caseworks sales grew by 8% as the reduction in number of stores shipped was offset by the higher US Dollar exchange rate. The reduction in number of stores shipped is in part due to the transition to the new store concept. During the quarter, the division shipped its maiden store to India. Meanwhile local sales expanded by 132% boosted by sales of kitchen carcass to a related company that was manufactured by the newly commissioned CNC equipment. Operating profit increased by 62% to RM1.7m compared to RM1.1m for the same period last year due to higher margin from export sales and contribution from the higher local sales. This is despite higher manufacturing costs from depreciation charge and traveling expenses arising from the development of the new export markets in Cambodia and India.

Turnover for the trading division fell by 17% to RM1.7m from RM2.0 m a year earlier due to the 65% reduction in project sales following completion of its project while retail sales increased by 73% over the same period a year ago. Gross margin were lower due to higher ratio of appliances sales that yielded lower margins. Operating profit fell by 62% to RM0.1m from RM0.2m year on year.

The IFO division expanded its turnover by 77% to RM17.7m from RM10.0m a year earlier due to higher progress billings. However gross margin in Q1 fell on lower margin of new projects billed and higher labor costs incurred to ensure timely completion of projects and on rectification works that could not be claimed as variation orders. The division registered an operating profit of RM0.4m compared to RM0.3m for the corresponding period a year ago.

15. Comparison with Preceding Quarter

PBT for Q1 fell by 46% from RM3.0m in the preceding quarter to RM1.6m due to the 18% reduction in turnover from RM32.9m to RM27.0m and the much lower gross margin from the IFO and trading division.

16. Current Year Prospects.

The Manufacturing division expects Starbucks sales to continue to grow on the strength of the US Dollar, the addition of the Indian and Cambodian markets and full year impact of the supply of the new tabletops and condiment carts. The change in store concept in Q2 will also increase the sales value per store going forward. The division will benefit from the stronger Dollar in the first half year compared to the same period last year although this will be reversed in the 2nd half year. Local sales are also expected to expand on repeat order received for a bank's refurbishment project. The new production assets acquired in the 2nd half of 2015 is expected to bring improvement to efficiency, reduce dependency on foreign labour and increase production capacity. The additional capacity accruing therefrom will also 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 to a large extent on the outcome of negotiation of the new Starbuck supply 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 recovery to local consumption and 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 for the year. The division 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 prospect for the year will depend on how much of the new project will be billed this year.

The IFO division had a record year in 2015 and it will be a challenge to improve on that turnover in the current year as the number of lumpy projects available in the market has contracted. The outcome of negotiations to conclude final contract sum and variations orders on lumpy completed projects and the avoidance of any liquidated ascertained damages will have a material impact on the gross profit for the current year. 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

	<u>Current Quarter</u> RM'000	<u>Year-to-date</u> RM'000
Current year provision / (write-back)	80	80
Under/(over) provision in prior years	-	-
Deferred tax	330	330
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Total tax	410	410
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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	1,394	-
Bankers acceptances	550	-
Hire Purchase	578	1,135
Term loans	559	3,147
Unsecured :		
Bank overdrafts	2,058	-
Bankers' acceptances	1,623	-
Revolving credit	-	-
Total group borrowings	6,762	4,282

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

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 RM1,141,000 and the average number of shares in issue during the quarter of 82,700,098. 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:

	31.3.2016	31.12.2015
	RM '000	RM'000
Total retained profits/(accumulated losses) of the Company and its subsidiaries:-		
- Realised profits/(Loss)	(4,761)	(6,232)
- Unrealised profits/(Loss)	(896)	(566)
Total Group retained profits/(accumulated losses) as per consolidated accounts	<u>(5,657)</u>	<u>(6,798)</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	(9)	(9)
Other income	(9)	(9)
Interest expenses	154	154
Depreciation and amortization	451	451
Provisions for and write off of		
- Receivables	5	5
- Inventories	-	-
(Gain)/Loss on disposal of		
- Property, plant and equipment	-	-
- Investments	-	-
Impairment of assets	-	-
Foreign exchange (gain)/loss	274	274

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 March 2016.