

FEDERAL FURNITURE HOLDINGS (M) BHD

INTERIM FINANCIAL REPORT –2nd QUARTER ENDED 30 JUNE 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

On 17 June 2016 The Company paid a final single tier dividend of one sen per share in respect of the financial year ended 31 December 2015. The total dividend paid was RM850,519.00

8. Segmental Information

Period ended 30 June 2016	Turnover RM '000	Profit /(Loss) Before Taxation RM '000	Total Assets Employed RM '000
Manufacture and export	15,932	3,623	34,178
Trading and retail	2,589	(133)	9,787
Interior fit-out	33,823	902	34,511
Investment holding	-	(1,318)	1,012
Others	-	(9)	1
Total before Group elimination	52,344	3,065	79,489
Inter segment elimination	(799)	-	-
After elimination	51,545	3,065	79,489

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	-	-	-
After elimination	40,642	2,672	71,315

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 except for

- Payment of rent to Yow Woh Sdn Bhd, a director related company RM1,200.

ADDITIONAL INFORMATION REQUIRED PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

14. Review of Performance

Q2 turnover expanded by 12% to RM24.5m from RM21.9m for the corresponding period a year ago as higher export sales and higher billings from the IFO division offset the lower sales from the trading division. Turnover for the manufacturing division grew by 15% to RM8.0m from RM7.0m a year ago on higher export and local sales. Starbucks sales grew by 9% year on year on sales of new tabletops, product purchased on behalf of Starbucks and construction services while the traditional caseworks sales fell by 6%. The reduction in number of stores shipped is in part attributable to the transition to the new design concept. New markets India and Cambodia contributed about 4% of total casework sales. Meanwhile local sales expanded by 168% boosted by sales to IFO division. Gross margin was higher on account of the stronger USD while operating also increased due to higher staff costs and overseas travelling expenses. Operating profit in Q2 increased by 5% to RM1.9m compared to RM1.8m for the same period last year. YTD sales was 11% higher at RM15m compared to RM13.6m a year earlier on new Starbucks construction services and higher local sales to IFO division. Operating profit increase by 26% to RM3.6m from RM2.9m due to gains from a stronger USD and higher local sales.

Turnover for the trading division fell by 14% to RM0.9m from RM1.1m a year earlier due to the lower sales from the kitchen retail operations. Gross margin were higher due to lower actual projects costs compared to budgeted cost while operating costs felled by 15% on lower warehouse staff cost. The division reduced its loss by 63% to RM0.2m from RM0.3m a year earlier. YTD turnover felled by 16% to RM2.6m from RM3.1m in the previous year due to lower kitchen project sales while operating loss was 5% higher. The IFO division's turnover grew by 16% in Q2 to RM16.1m from RM13.9m a year earlier due to higher billings from fit-out projects. Gross margin for the quarter was lower on the projects billed and higher labor costs incurred to ensure timely completion of projects and for rectification works. The division registered an operating profit of RM0.5m compared to RM0.6m for the corresponding period a year ago. YTD turnover grew by 41% to RM33.8m from RM23.9m a year ago while operating profit felled by 7% to RM0.9m on higher operating costs.

15. Comparison with Preceding Quarter

PBT for Q2 fell by 12% from RM1.6m in the preceding quarter to RM1.4m due to the lower turnover from RM27m to RM24.4m and the lower gross margin from the IFO division.

16. Current Year Prospects.

The Manufacturing division expects the lower Starbucks casework sales arising from the change in store design concept in 2016 to be offset by higher sales from the addition of the Indian and Cambodian markets, full year impact of the supply of the new tabletops and the provision of construction services to the Cambodian store. 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 to IFO division 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 last quarter of the 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. Although the division has secured another contract for the supply of kitchens the contract is now expected to be delivered only in 2017.

The IFO division had a record year in 2015 and it will not be able to match 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>	<u>Year-to-date</u>
	RM'000	RM'000
Current year provision / (write-back)	20	100
Under/(over) provision in prior years	-	-
Deferred tax	350	680
	-----	-----
Total tax	370	780
	=====	=====

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	839	-
Bankers acceptances	990	-
Hire Purchase	581	981
Term loans	568	3,033
Unsecured :		
Bank overdrafts	1,883	-
Bankers' acceptances	1,623	-
Revolving credit	-	-
Total group borrowings	6,484	4,014

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 RM2,198,000 and the average number of shares in issue during the quarter of 83,469,254. 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:

	30.6.2016	31.12.2015
	RM '000	RM'000
Total retained profits/(accumulated losses) of the Company and its subsidiaries:-		
- Realised profits/(Loss)	(4,205)	(6,232)
- Unrealised profits/(Loss)	(1,246)	(566)
Total Group retained profits/(accumulated losses) as per consolidated accounts	<u>(5,451)</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	(18)	(27)
Other income	(1)	(10)
Interest expenses	171	325
Depreciation and amortization	459	910
Provisions for and write off of		
- Receivables	-	5
- Inventories	49	49
(Gain)/Loss on disposal of		
- Property, plant and equipment	-	-
- Investments	-	-
Impairment of assets	-	-
Foreign exchange (gain)/loss	5	279

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 2016.