

FEDERAL FURNITURE HOLDINGS (M) BHD

INTERIM FINANCIAL REPORT –3rd QUARTER ENDED 30 SEPT 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 except for the exercise of 575,900 warrants to 575,900 ordinary shares of RM0.50 each.

7. Dividends paid

No dividend were paid during the quarter under review. 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 Sept 2016	Turnover RM '000	Profit /(Loss) Before Taxation RM '000	Total Assets Employed RM '000
Manufacture and export	25,713	5,862	36,219
Trading and retail	3,085	(487)	9,870
Interior fit-out	52,312	1,165	38,828
Investment holding	-	(1,923)	1,055
Others	-	(13)	1
Total before Group elimination	81,110	4,604	85,973
Inter segment elimination	(1,827)	-	-
After elimination	79,283	4,604	85,973

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

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

- i) 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

Turnover in Q3 fell marginally to RM27.7m from RM28.2m for the corresponding period a year ago due to lower sales from the trading division. Turnover for the manufacturing division was 3% higher at RM8.8m from RM8.5m a year ago. Sales of caseworks felled by 18% compared to last year on lower exports to Korea. The number of stores shipped was adversely affected by the complexity of the new store design in Q3 that accounted for almost 60% of the quarter's sales. However this was offset by billing for the construction services of RM0.9m to Cambodia. Local sales fell by 12% on lower inter-co sale to IFO division. Gross margin for the quarter was lower than the same period a year ago on account of the lower USD exchange rate and the higher rework costs encountered in the new store design. Operating expenses were also higher due to overseas travels expenses. Operating profit in Q3 fell by 41% to RM2.2m compared to RM3.8m for the same period last year. YTD sales was higher by 8% at RM25.7m compared to RM23.8m a year earlier on new Starbucks construction services that more than offset the lower caseworks sales and higher local sales to IFO division. YTD operating profit fell by 12% to RM5.7m from RM6.7m a year ago due to lower margin and higher operating expenses.

Turnover for the trading division fell by 73% to RM0.4m from RM1.8m a year earlier due to the absence of project sale and lower retail sales. Despite lower operating overheads the division made a loss of RM0.4m for the quarter compared to breakeven a year ago. YTD turnover felled by 37% to RM3.1m from RM4.9m in the previous year due to lower kitchen project sales while operating loss increased to RM0.5m from RM0.1m.

The IFO division's Q3 turnover was marginally higher at RM18.5m compared to RM18.0m a year earlier due to higher billings from kitchen projects. Gross margin for the quarter was much lower on the projects billed while rectifications works continued to eat into the gross margin. The division registered an operating profit of RM0.3m compared to RM0.5m for the corresponding period a year ago. YTD turnover grew by 25% to RM52.3m from RM41.9m a year ago while operating profit felled by 19% to RM1.2m on lower margin and higher operating costs.

Excluding the one-time gain from a legal case of RM0.9m last year consolidated PBT felled by 44% in Q3 to RM1.5m from RM2.7m a year earlier due to the lower contribution from all divisions. The Group registered record profit in Q3 last year from the record exports sales, strong USD and one-time legal compensation gain.

15. Comparison with Preceding Quarter

PBT for Q3 increased by 7% to RM1.5m from RM1.6m in the preceding quarter due to the higher profit contribution from the manufacturing division that offset the lower profit from the trading and IFO divisions.

16. Current Year Prospects.

The Manufacturing division expects the lower 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. Local sales to IFO division are also expected to expand on repeat order received for a bank's refurbishment project. The prospect for the current year will hinge on the ability to meet the challenging specifications required of the new store design and the USD exchange rate. The prospect thereafter will depend on the outcome of ongoing price negotiation of the new casework supply contract that will take effect from 2017 onwards.

The Trading division expects the retail division sales through its only kitchen retail outlet to be adversely affected by the poor consumer sentiments due to concerns over raising

living costs and subsidy rationalization by the Government. 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 has been delayed to the 1st half of 2017.

The IFO division had a record year in 2015 and it will not be able to match that performance in the current year as the number of lumpy projects available in the market has contracted and margin on 2016 projects are generally lower. 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 prospect for the current year. 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)	(25)	75
Under/(over) provision in prior years	-	-
Deferred tax	470	1,150
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Total tax	445	1,225
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19. Status of corporate proposal

On 11 August 2016, the Company entered into a Share Sale Agreement (“SSA”) with the Dato’ Choy Fook On, Datin Tan Geok Foong, Dato’ Choy Wai Hin, Datuk Choy Wai Ceong and Dr. Choy Sook Kuen (“Vendors”) for the proposed acquisition of 60% equity interest in Pembinaan Masteron Sdn Bhd for RM33 million to be settled by way of RM6 million in cash and 270,000,000 Redeemable Convertible Preference Shares (“RCPS”) of RM0.10 each (“Proposed Acquisition”). Additionally the Company also proposed to diversify its core business to include construction business (“Proposed Diversification”) and amend its Memorandum and Articles of Association (“Proposed Amendments”)

On 29 September 2016, Bursa Malaysia Securities Berhad approved the listing of and quotation for the RCPS and the new FFHB Shares arising from the conversion of the RCPS on the Main Market of Bursa Securities.

On 19 October 2016 the proposed Acquisition, Proposed Diversification and Proposed Amendments were approved by shareholders at an Extraordinary General Meeting.

On 18 November 2016, the Proposed Acquisition became unconditional following fulfillment of all the conditions precedents of the SSA

On 23 November 2016 the Company fixed the RCPS conversion price at RM0.72 sen.

20. Group borrowings and debt securities as at end of reporting period

- **Group Borrowings :**

RM'000	Short term	Long term
Secured :		
Bank overdrafts	1,366	-
Bankers acceptances	530	-
Hire Purchase	568	861
Term loans	493	3,069

Unsecured :		
Bank overdrafts	1,614	-
Bankers' acceptances	1,621	-
Revolving credit	-	-
Total group borrowings	6,192	3,930

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 RM3,265,000 and the average number of shares in issue during the quarter of 84,173,994. 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:

	30.9.2016	31.12.2015
	RM '000	RM'000
Total retained profits/(accumulated losses) of the Company and its subsidiaries:-		
- Realised profits/(Loss)	(2,667)	(6,232)
- Unrealised profits/(Loss)	(1,716)	(566)
Total Group retained profits/(accumulated losses)	<u>(4,383)</u>	<u>(6,798)</u>

as per consolidated accounts

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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	(10)	(37)
Other income	(1)	(11)
Interest expenses	185	479
Depreciation and amortization	451	1,361
Provisions for and write off of		
- Receivables	-	5
- Inventories	27	76
(Gain)/Loss on disposal of		
- Property, plant and equipment	-	-
- Investments	-	-
Impairment of assets	-	-
Foreign exchange (gain)/loss	(67)	212

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 Sept 2016.