

## 9. APPROVALS AND CONDITIONS

### 9.1 APPROVALS AND CONDITIONS

#### 9.1.1 The Listing Scheme has been approved by:-

- (i) the MITI, on 25 July 2008, 1 September 2009 and 26 November 2009; and
- (ii) the SC, pursuant to the Capital Markets & Services Act 2007 and the FIC's Guidelines on the Acquisition of Interests, Mergers and Take-Overs by Local and Foreign Interests, on 26 September 2008, 26 March 2009, 8 September 2009 and 6 November 2009.

The aforesaid approvals are subject to the following conditions.

#### 9.1.2 Conditions imposed by the MITI

##### Details of conditions imposed by the MITI

##### Status of compliance

##### MITI's letter dated 25 July 2008

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|--|--|
| (i) MIMB / Homeritz to obtain approval from the SC on the Listing Scheme and to comply with the Guidelines on the Acquisition of Interests, Mergers and Take-Overs by Local and Foreign Interests;                               | Complied via a letter of approval from the SC dated 26 September 2008. |
| (ii) Allocation of 24,000,000 Offer Shares or 30% of our enlarged issued and paid-up share capital to Bumiputera investors pursuant to the Listing is subject to the approval of the MITI after obtaining the SC's approval; and | To be complied with.   |
| (iii) MIMB / Homeritz to inform the MITI upon completion of the proposals.   | To be complied with after the Listing.                                 |

##### MITI's letter dated 1 September 2009

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|---|--|
| (i) MIMB / Homeritz to obtain the SC's approval on the revision of its Listing Scheme;  | Complied via a letter of approval from the SC dated 8 September 2009.  |
| (ii) Allocation of 8,000,000 Offer Shares or 10% of our enlarged issued and paid-up share capital to Bumiputera investors pursuant to the Listing is subject to the approval of the MITI after SC Approval; and | Please refer to the letter dated 26 November 2009 on the revised allocation of Offer Shares to Bumiputera investors. |

##### MITI's letter dated 26 November 2009

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|--|--|
| (i) MIMB / Homeritz to obtain the SC's approval on the 2 <sup>nd</sup> revision of its Listing Scheme;   | Complied via a letter of approval from the SC dated 6 November 2009.   |
| (ii) Allocation of 20,000,000 Offer Shares or 10% of our enlarged issued and paid-up share capital to Bumiputera investors pursuant to the Listing is subject to the approval of the MITI and the allocation of Shares to Bumiputera investors shall be decided later by MITI after obtaining the SC's approval; and | To be complied with. Please refer to the approval letter from the SC dated 8 September 2009. The MITI had also vide its letter dated 12 January 2010 approved the allocation of 1,113,800 Offer Shares to the identified investors whilst the remaining 18,886,200 Offer Shares will be made available for application by the Bumiputera public investors via balloting. |

## 9. APPROVALS AND CONDITIONS

### Details of conditions imposed by the MITI

### Status of compliance

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|---|--|
| (iii) Homeritz to inform the MITI upon completion of the proposals. | To be complied with after the Listing. |
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### 9.1.3 Conditions imposed by the SC

#### Details of conditions imposed by the SC

#### Status of compliance

##### SC's letter dated 26 September 2008

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|--|---|
| (i) The net tangible asset of HUI as at the date of acquisition should not be less than the net tangible asset submitted to the SC which formed the basis for the purchase consideration by Homeritz;  | Complied. The purchase consideration for the Acquisition of HUI was based on the adjusted audited NTA of HUI as at 31 August 2008 which is not less than the NTA as at 31 August 2007 submitted to the SC which originally formed the basis for the purchase consideration by Homeritz. |
| (ii) Homeritz to make appropriate disclosure as well as the mitigating factors in its prospectus on the issue of dependency on management and experienced personnel/labour;  | Complied. Please refer to Section 4.1.7 (Dependency on Key Executives) and Section 4.1.10 (Labour Market) of this Prospectus.   |
| (iii) Homeritz to comply with the National Development Policy ("NDP") requirement whereby at least 30% of the enlarged share capital of Homeritz upon listing is held by Bumiputera shareholders. The existing Bumiputera shareholders of Homeritz to be recognised by MITI, and the allocation and nomination of new Bumiputera investors to be approved by MITI; | Not applicable. Please refer to the approval letter from the SC dated 8 September 2009.   |
| (iv) MIMB / Homeritz to inform SC of the status of compliance with the NDP requirement upon completion of the proposed listing exercise; and   | To be complied with after the Listing.  |
| (v) MIMB should comply with the relevant requirements relating to the implementation of the flotation proposal as stipulated in the Guidelines on the Offering of Equity and Equity-Linked Securities.   | To be complied with.  |

##### SC's letter dated 8 September 2009

- |  |  |
|--|--|
| (i) Homeritz to allocate 50% of the public spread requirement to the Bumiputera investors, including Shares offered under the balloted public offer portion, of which 50% are to be offered to the retail Bumiputera investors. In the event that Homeritz / MITI is unable to allocate the Shares to the potential Bumiputera investors, the unsubscribed Shares shall be offered to the Bumiputera public investors via balloting. | To be complied with. Please refer to the letters dated 26 November 2009 and 12 January 2010 from the MITI on the allocation of Homeritz Shares to Bumiputera investors and Section 3.4.4(a) of this Prospectus on the reallocation of Homeritz Shares. |
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## 9. APPROVALS AND CONDITIONS

### SC's letter dated 6 November 2009

- (i) The other conditions stated in the SC's letters dated 26 September 2008 and 8 September 2009 remain. The SC noted the equity structure relating to Bumiputera, non-Bumiputera and foreign shareholdings in Homeritz arising from the implementation of the Listing Scheme as follows will remain unchanged as approved by the SC in its letter dated 8 September 2009 as follows:-

|                | <b>Before the<br/>proposal<br/>(%)</b> | <b>After the<br/>proposal<br/>(%)</b> |
|----------------|--|---------------------------------------|
| Bumiputera     | 50.00                                  | 13.75                                 |
| Non-Bumiputera | 50.00                                  | 86.25                                 |
| Foreign        | -                                      | -                                     |
| <b>Total</b>   | <b>100.00</b>                          | <b>100.00</b>                         |

- 9.1.4** In connection with the SC's approval dated 26 September 2008, the SC had also via the same letter approved our proposal for HUI to declare and pay a special tax-exempt dividend to its existing shareholders prior to the implementation of the Acquisitions. In relation thereto, HUI had on 21 May 2009 and 13 July 2009 paid tax-exempt dividends amounted to RM3.0 million and RM10.5 million in respect of FYE 2008 and FYE 2009 respectively. The Acquisitions were completed on 15 September 2009.
- 9.1.5** Pursuant to the SC's approval dated 26 March 2009 for an extension of time to 26 September 2009 to implement the Listing, SC has via its letter dated 8 September 2009 approved a further extension of time from 26 September 2009 to 25 March 2010 to facilitate the full implementation of the Listing.

## 9.2 MORATORIUM ON SHARES

In accordance with the SC Guidelines, our Promoters will not be allowed to sell, transfer or assign its entire shareholding for six (6) months from the date of our admission to the Official List of the Main Market of Bursa Securities. The Promoters and their shareholdings, who are subjected to the moratorium condition as imposed by the SC, are as follows:-

| <b>Shareholders</b> | <b>After the IPO</b>  |  |
|---------------------|---|--|
|                     | <b>No. of Homeritz<br/>Shares to be Held<br/>Under Moratorium</b> | <b>% of Enlarged<br/>Share Capital</b> |
| Chua Fen Fatt       | 71,839,800  | 35.92                                  |
| Tee Hwee Ing        | 71,839,800  | 35.92                                  |
| Chua Fen Lee        | 6,150,200   | 3.08                                   |
| <b>Total</b>        | <b>149,829,800</b>  | <b>74.92</b>                           |

The restriction, which is fully accepted by the shareholders, are specifically endorsed on the share certificates representing the shareholding of each shareholder which is under moratorium to ensure that our share registrars do not register any transfer not in compliance with the moratorium condition.

In addition, our Promoters have also provided undertakings that they shall comply with the moratorium condition as outlined above.

**10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTEREST****10.1 RELATED PARTY TRANSACTIONS**

Save as disclosed below, there are no transactions, existing or potential, entered or to be entered into by our Group which involve the interests, direct or indirect, of our Directors, substantial shareholders, key management personnel and/or persons connected with them which are significant in relation to the business of our Company and our subsidiary companies.

**10.1.1 Non-Recurrent Related Party Transactions**

Save as disclosed below, we have not entered into any non-recurrent related party transactions with our Directors, substantial shareholders, key management personnel and/or persons connected with them during the past three (3) FYE 2007 to 2009:-

| Transacting Parties  | Companies Within the Group | Interested Related Parties   | Nature of Transaction   | Value of transaction |                    |                    |
|----------------------|----------------------------|------------------------------|---|----------------------|--------------------|--------------------|
|                      |                            |                              |   | FYE 2007<br>RM'000   | FYE 2008<br>RM'000 | FYE 2009<br>RM'000 |
| Veromca <sup>1</sup> | HUI                        | Chua Fen Fatt & Tee Hwee Ing | Purchase of machinery and transfer of employment of foreign workers | -                    | 422                | -                  |
| Veromca <sup>1</sup> | HUI                        | Chua Fen Fatt & Tee Hwee Ing | Sub-contract wages  | -                    | 299                | -                  |

Note:-

1. Please refer to Section 10.3.3 of this Prospectus for further information on Veromca.

Our Directors have confirmed that the above Non-Recurrent Transactions were agreed to at arm's length basis on normal commercial terms which were not more favourable to the related parties than those generally available to the public and were not to the detriment of our minority shareholders.

**10.1.2 Recurrent Related Party Transactions**

Save as disclosed below, we have not entered into any other recurrent related party transaction of a revenue or trading in nature which are necessary for our day-to-day operations and in our ordinary course of business with certain related parties which involves the interests, direct or indirect, of our Directors, substantial shareholders, key management personnel and/or persons connected with them ("Recurrent Transactions") during the past three (3) FYE 2007 to 2009. Our Directors are of the opinion that such Recurrent Transactions were negotiated on and agreed at arm's length basis, normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of our minority shareholders.

| Transacting Parties                   | Companies Within the Group | Interested Related Parties   | Nature of Transaction                            | Value of transaction |                    |                    |
|---------------------------------------|----------------------------|------------------------------|--|----------------------|--------------------|--------------------|
|                                       |                            |                              |  | FYE 2007<br>RM'000   | FYE 2008<br>RM'000 | FYE 2009<br>RM'000 |
| Veromca <sup>1</sup>                  | HUI                        | Chua Fen Fatt & Tee Hwee Ing | Purchase of wooden chair frames, tables and wood | 6,976                | 1,447              | -                  |
| Sern Kou Furniture Industries Sdn Bhd | HUI                        | Tay Puay Chuan <sup>2</sup>  | Purchase of dining tables and raw materials      | 177                  | 341                | 185                |

**10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTEREST**

| Transacting Parties                   | Companies Within the Group | Interested Related Parties  | Nature of Transaction                               | Value of transaction |                    |                    |
|---------------------------------------|----------------------------|-----------------------------|---|----------------------|--------------------|--------------------|
|                                       |                            |                             |   | FYE 2007<br>RM'000   | FYE 2008<br>RM'000 | FYE 2009<br>RM'000 |
| Sern Kou Furniture Industries Sdn Bhd | HUI                        | Tay Puay Chuan <sup>2</sup> | Sale of upholstered dining chairs and cushion seats | 118                  | 338                | 214                |
| S. K. Furniture Sdn Bhd               | HUI                        | Tay Puay Chuan <sup>2</sup> | Purchase of metal frames                            | 289                  | 987                | 45                 |
| S. K. Furniture Sdn Bhd               | HUI                        | Tay Puay Chuan <sup>2</sup> | Sale of upholstered dining chairs and cushion seats | 119                  | 383                | 662                |
| V8 Trading Sdn Bhd                    | HUI                        | Tee Hwee Ing <sup>3</sup>   | Transportation services and purchase of spare parts | -                    | -                  | 6                  |

Notes:-

1. Please refer to Section 10.3.3 of this Prospectus for further information on Veromca.
2. Tay Puay Chuan, an Independent Non-Executive Director of Homeritz, is also an Independent Non-Executive Director of Sern Kou Resources Berhad, the holding company of Sern Kou Furniture Industries Sdn Bhd and S. K. Furniture Sdn Bhd.
3. One of the Directors of V8 Trading Sdn Bhd is a brother to Tee Hwee Ing.

In the ordinary course of business, we enter into Recurrent Transactions, including but not limited to the above, with persons which are considered related party as defined in the Listing Requirements. Our Directors would ensure that any future Recurrent Transactions will be negotiated on and agreed to at arm's length basis on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of our minority shareholders.

As provided under the Listing Requirements, in order to mitigate any potential conflict of interest arising from such Recurrent Transactions, our Board may seek the approval from our non-interested shareholders for a mandate to continue to enter into such Recurrent Transactions at the next general meeting of the Company. Due to its time-sensitive nature, the shareholders' mandate will enable us to enter into such Recurrent Transactions in our ordinary course of business without the need to convene numerous general meetings to approve such Recurrent Transactions as and when they are entered into.

Bursa Securities had, via letter dated 18 January 2010, granted us an extension of time from the date of Listing to our next annual general meeting or extraordinary general meeting, whichever is held earlier, to obtain our shareholders' ratification and shareholders' mandate for Recurrent Transactions entered / to be entered into by our Group.

In addition, to safeguard the interest of our Group and our minority shareholders, and to mitigate any potential conflict of interest situation, our Audit Committee will, amongst others, monitor any Recurrent Transaction and the terms thereof and report to our Board for further action. Where necessary, our Board would make appropriate disclosures in our annual report with regard to any Recurrent Transaction entered into by us.

**10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTEREST****10.2 INTEREST IN SIMILAR BUSINESS**

**10.2.1** Save as disclosed below, as at the Latest Practicable Date, none of our Directors or substantial shareholders have any interest, direct or indirect, in other businesses or corporations carrying on a similar or related trade as our Group, or are the customers and/or suppliers of the Group.

| Directors/<br>Substantial<br>Shareholders | Name of Company           | Principal Activities   | Equity Interest |                    |
|---|---------------------------|--|-----------------|--------------------|
|   |                           |  | Direct<br>%     | Indirect<br>%      |
| Tay Puay Chuan                            | Sern Kou Resources Berhad | Manufacturing and distribution of rubberwood and metal furniture and trading of kiln-dried rubberwood        | -               | -                  |
| Chua Fen Fatt <sup>1</sup>                | Veromca                   | Dormant. Previously engaged in the provision of contract manufacturing services for the furniture industries | 40.00           | 50.00 <sup>2</sup> |
| Tee Hwee Ing <sup>1</sup>                 | Veromca                   | Dormant. Previously engaged in the provision of contract manufacturing services for the furniture industries | 50.00           | 40.00 <sup>2</sup> |

<sup>1</sup> Please refer to Section 10.3.3 of this Prospectus for further information on Veromca.

<sup>2</sup> Deemed interested by virtue of his/her spouse's substantial interest in Veromca.

Tay Puay Chuan is an Independent Non-Executive Director of Sern Kou Resources Berhad, the subsidiaries of which are principally involved which in the manufacturing and distribution of rubberwood and metal furniture and trading of kiln-dried rubberwood. He does not have any equity interest in the said company and in addition, he is not involved in the day-to-day operations of the company. His appointment in both companies is on an "Independent Non-Executive" basis. Therefore, our Board does not foresee any material conflict of interest or business competition that may arise from the above. In fact, we envisage that he will be able to contribute positively to the Group based on his diverse experience.

**10.2.2** In addition, our Board has proposed to undertake the following measures to mitigate any possible conflict of interest that may potentially arise as a result of our Directors' or substantial shareholders' interests in these businesses or corporations:-

- (a) To safeguard our interest and to avoid a potential conflict of interest situation, our Audit Committee will, amongst others, monitor any transaction which we will enter into with our Directors or substantial shareholders and/or persons connected with them; and
- (b) All our Directors and substantial shareholders are required to declare and disclose any transaction in which they are deemed interested and such transactions must be subject to the scrutiny of the Audit Committee. In addition, our Directors and substantial shareholders have given their undertakings that all business transactions entered into between our Group and themselves and/or persons connected with them shall be negotiated on and agreed at arm's length basis, normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of our minority shareholders.

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## 10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTEREST

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### 10.3 OTHER TRANSACTIONS

- 10.3.1** There were no transactions that were unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which we were a party in respect of the past three (3) FYE 2007 to 2009.
- 10.3.2** There were no outstanding loans (including guarantees of any kind) made by us to or for the benefit of a related party in respect of the past three (3) FYE 2007 to 2009.
- 10.3.3** Save as disclosed below, none of our Directors or substantial shareholders had any interest, direct or indirect, in the promotion of or in any material assets which had been, within the past three (3) FYE 2007 to 2009, acquired or proposed to be acquired or disposed of or proposed to be disposed of by or leased or proposed to be leased to us:-

- HUI had on 5 November 2007, entered into a sale and purchase agreement to acquire Veromca's machinery and hired-machinery, and to transfer the employment of foreign workers of Veromca for a total cash consideration of RM421,789 (which was arrived at after taking into account the net book value of the machinery concerned). Upon the completion of the transfer of employment of all the existing foreign workers employed by Veromca to HUI on 25 August 2008, Veromca had effectively ceased its business operations and hence there would not be any conflict of interest situation arising thereafter.

*Nature of interest* ~ Chua Fen Fatt and Tee Hwee Ing are both Directors and substantial shareholders of Veromca.

### 10.4 DECLARATIONS BY THE ADVISERS

- (a) MIMB has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Adviser, Sole Underwriter and Placement Agent for the Listing.
- (b) Messrs Chee Siah Le Kee & Partners has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Solicitors for the Listing.
- (c) Messrs SC Lim, Ng & Co. has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Auditors and Reporting Accountants for the Listing.
- (d) Messrs Colliers Jordan Lee & Jaafar (Malacca) Sdn Bhd has given its written confirmations that, as at the date of this Prospectus, there is no existing or potential conflict of interests in their capacity as the Independent Valuers for the Listing.
- (e) Messrs Frost & Sullivan Malaysia Sdn Bhd has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Independent Market Researcher for the Listing.

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## 11. PROFORMA HISTORICAL FINANCIAL INFORMATION

The following sections set out the summary of our Group's proforma financial statements. The proforma consolidated financial information of our Group are prepared based on our audited consolidated financial statements. The proforma consolidated financial information as contained herein are presented for illustrative purposes to show the aggregate results of our Group and on the assumption that our Group structure had been in existence throughout the periods under review.

Our proforma consolidated financial statements have been compiled based on the bases and accounting policies consistent with those currently adopted by our Group which are set out in the notes and assumptions included in the Reporting Accountants' Letter on Proforma Consolidated Financial Information as set out in Section 11.4 of this Prospectus. The financial statements used in the preparation of our proforma consolidated financial statements were prepared in accordance with applicable Financial Reporting Standards in Malaysia. Any adjustments which were dealt with when preparing our proforma consolidated financial statements have been highlighted and disclosed in Section 11.4 of this Prospectus. In this respect, you should read the summary of our proforma financial information which have been presented below together with the Reporting Accountants' Letter on Proforma Consolidated Financial Information as set out in Section 11.4 of this Prospectus.

### 11.1 PROFORMA CONSOLIDATED INCOME STATEMENTS

The following table is a summary of our proforma consolidated income statements for the past three (3) FYE 2007 to 2009 and are prepared on the assumption that our Group structure has been in existence throughout the periods under review. The proforma consolidated income statements are prepared for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions set out in Section 11.4 of this Prospectus.

|   | <-----FYE 31 August-----> |          |          |
|---|---------------------------|----------|----------|
|   | 2007                      | 2008     | 2009     |
|   | RM'000                    | RM'000   | RM'000   |
| Revenue   | 73,804                    | 92,550   | 108,439  |
| Less: Cost of sales   | (57,055)                  | (71,898) | (75,902) |
| Gross profit  | 16,749                    | 20,652   | 32,537   |
| Other income  | 943                       | 208      | 178      |
| Earnings before interest, taxation,<br>depreciation and amortisation    | 12,341                    | 15,009   | 26,812   |
| Amortisation  | (14)                      | (14)     | (14)     |
| Depreciation  | (614)                     | (1,154)  | (1,656)  |
| Interest expenses   | (216)                     | (223)    | (217)    |
| Interest income   | 184                       | 91       | 33       |
| PBT   | 11,681                    | 13,709   | 24,958   |
| Tax expense   | (1,215)                   | (1,328)  | (2,280)  |
| PAT   | 10,466                    | 12,381   | 22,678   |
| No. of ordinary shares of RM0.20<br>each assumed to be in issue ('000)* | 180,897                   | 180,897  | 180,897  |



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**11. PROFORMA HISTORICAL FINANCIAL INFORMATION**


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|                              | <-----FYE 31 August-----> |        |        |
|------------------------------|---------------------------|--------|--------|
|                              | 2007                      | 2008   | 2009   |
|                              | RM'000                    | RM'000 | RM'000 |
| Gross earning per share (RM) | 0.06                      | 0.08   | 0.14   |
| Net earnings per share (RM)  | 0.06                      | 0.07   | 0.13   |
| Gross profit margin (%)      | 22.69                     | 22.31  | 30.00  |
| PBT margin (%)               | 15.83                     | 14.81  | 23.02  |
| PAT margin (%)               | 14.18                     | 13.38  | 20.91  |

\* *Based on the issued and paid-up share capital of 180,897,385 ordinary shares of RM0.20 each in Homeritz after the Acquisitions, Subdivision and Share Consolidation but prior to the Rights Issue and IPO.*

There were no exceptional or extraordinary items throughout the periods under review.

**Notes to the Proforma Consolidated Income Statements:**

- (a) The proforma consolidated income statements have been prepared based on the audited financial statements of Homeritz and its subsidiaries, using the bases and accounting policies consistent with those adopted in the audited financial statements, after giving effect to the proforma adjustments which are considered appropriate.
- (b) The audited financial statements of Homeritz and its subsidiaries for the respective financial period/years under review have been prepared in accordance with applicable Financial Reporting Standards in Malaysia.

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## 11. PROFORMA HISTORICAL FINANCIAL INFORMATION

### 11.2 PROFORMA CONSOLIDATED BALANCE SHEETS/STATEMENT OF ASSETS AND LIABILITIES

The proforma consolidated balance sheets/statement of assets and liabilities as at 31 August 2009 set out below are prepared to show the effects of the Listing Scheme on the assumption it had been completed on 31 August 2009. The proforma consolidated balance sheets / statement of assets and liabilities are prepared for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions set out in the ensuing pages and in Section 11.4 of this Prospectus.

| Company   | Proforma Group        |                      |                     |                    |               |
|---|-----------------------|----------------------|---------------------|--------------------|---------------|
|   | <u>Proforma I</u>     | <u>Proforma II</u>   | <u>Proforma III</u> | <u>Proforma IV</u> |               |
|   |                       | After                | After               | After              |               |
|   |                       | Proforma I,          | Proforma II         | Proforma III       |               |
|   |                       | Subdivision and      | and                 | Public Issue       |               |
|   |                       | Share                | Rights              | and                |               |
|   |                       | <u>Consolidation</u> | <u>Issue</u>        | <u>Utilisation</u> |               |
|   |                       | RM'000               | RM'000              | of Proceeds        |               |
|   | As at                 | After                |                     | RM'000             |               |
|   | <u>31 August 2009</u> | <u>Acquisition</u>   |                     |                    |               |
|   | RM'000                | RM'000               |                     |                    |               |
| <b>Assets</b>   |                       |                      |                     |                    |               |
| <b>Non-Current Assets</b>                                   |                       |                      |                     |                    |               |
| Property, plant and equipment                               | -                     | 26,913               | 26,913              | 26,913             | 32,633        |
| Prepaid lease payments                                      | -                     | 1,181                | 1,181               | 1,181              | 1,181         |
|   | -                     | 28,094               | 28,094              | 28,094             | 33,814        |
| <b>Current Assets</b>                                       |                       |                      |                     |                    |               |
| Inventories   | -                     | 11,830               | 11,830              | 11,830             | 11,830        |
| Trade and other receivables                                 | -                     | 8,033                | 8,033               | 8,033              | 7,244         |
| Deposits, bank and cash balances                            | *                     | 20,704               | 20,704              | 22,725             | 21,644        |
|   | *                     | 40,567               | 40,567              | 42,588             | 40,718        |
| <b>Total Assets</b>   | *                     | <b>68,661</b>        | <b>68,661</b>       | <b>70,682</b>      | <b>74,532</b> |
| <b>Equity and Liabilities</b>                               |                       |                      |                     |                    |               |
| <b>Equity attributable to equity holders of the Company</b> |                       |                      |                     |                    |               |
| Share capital   | *                     | 36,179               | 36,179              | 38,200             | 40,000        |
| Reserves  | (12)                  | 172                  | 172                 | 172                | 2,222         |
| <b>Total Equity</b>   | (12)                  | <b>36,351</b>        | <b>36,351</b>       | <b>38,372</b>      | <b>42,222</b> |
| <b>Non-Current Liabilities</b>                              |                       |                      |                     |                    |               |
| Bank borrowings   | -                     | 5,396                | 5,396               | 5,396              | 5,396         |
| Deferred tax liabilities                                    | -                     | 2,060                | 2,060               | 2,060              | 2,060         |
|   | -                     | 7,456                | 7,456               | 7,456              | 7,456         |
| <b>Current Liabilities</b>                                  |                       |                      |                     |                    |               |
| Trade and other payables                                    | 12                    | 9,540                | 9,540               | 9,540              | 9,540         |
| Bank borrowings   | -                     | 2,366                | 2,366               | 2,366              | 2,366         |
| Dividend payable  | -                     | 12,000               | 12,000              | 12,000             | 12,000        |
| Tax payable   | -                     | 948                  | 948                 | 948                | 948           |
|   | 12                    | 24,854               | 24,854              | 24,854             | 24,854        |
| <b>Total Liabilities</b>                                    | 12                    | <b>32,310</b>        | <b>32,310</b>       | <b>32,310</b>      | <b>32,310</b> |
| <b>Total Equity and Liabilities</b>                         | *                     | <b>68,661</b>        | <b>68,661</b>       | <b>70,682</b>      | <b>74,532</b> |
| NTA/NA  | (12)                  | 36,351               | 36,351              | 38,372             | 42,222        |
| NTA/NA per Share (RM)                                       | (3,000)               | 0.50                 | 0.20                | 0.20               | 0.21          |

Note:-

\* This represents the issued and paid-up share capital of Homeritz of RM2 comprising 4 ordinary shares of RM0.50 each.

## 11. PROFORMA HISTORICAL FINANCIAL INFORMATION

### Notes to the Proforma Consolidated Balance Sheets/Statement of Assets and Liabilities as at 31 August 2009

- (a) The proforma consolidated balance sheets of Homeritz Group have been prepared based on the audited financial statements of Homeritz and its subsidiaries as at 31 August 2009 and consolidated using the merger method of accounting.
- (b) The proforma consolidated balance sheets have been prepared assuming that all the transactions mentioned below had taken place on 31 August 2009:-
- (i) **Pro Forma I**  
Incorporating the effects of the Acquisitions.
- (ii) **Pro Forma II**  
Incorporating the effects of Pro Forma I and the Subdivision and Share Consolidation.
- (iii) **Pro Forma III**  
Incorporating the effects of Pro Forma II and the Rights Issue.
- (iv) **Pro Forma IV**  
Incorporating the effects of Pro Forma III, Public Issue and utilisation of proceeds from Rights Issue and Public Issue as follows:

|                            |               |
|----------------------------|---------------|
|                            | <b>RM'000</b> |
| Capital expenditure        | 5,720         |
| General working capital    | 151           |
| Estimated listing expenses | 2,000         |
|                            | <u>7,871</u>  |

### Changes in Equity:

The changes in the share capital and share premium account of Homeritz after the Acquisitions, Subdivision, Share Consolidation, Rights Issue, Public Issue and utilisation of proceeds are as follows:

|  | <u>Notes</u> | <u>Share<br/>Capital</u><br>RM'000 | <u>Share<br/>Premium</u><br>RM'000 | <u>Retained<br/>Profits</u><br>RM'000 | <u>Total</u><br>RM'000 |
|--|--------------|------------------------------------|------------------------------------|---------------------------------------|------------------------|
| As at 31 August 2009                             |              | *                                  | -                                  | (12)                                  | (12)                   |
| Issuance of shares pursuant to the Acquisitions  |              | 36,179                             | -                                  | 184                                   | 36,363                 |
| Proforma I and II balance                        |              | 36,179                             | -                                  | 172                                   | 36,351                 |
| Add: Issuance of shares pursuant to Rights issue |              | 2,021                              | -                                  | -                                     | 2,021                  |
| Proforma III balance                             |              | 38,200                             |                                    | 172                                   | 38,372                 |
| Add: Issuance of shares pursuant to Public Issue | (i)          | 1,800                              | 4,050                              | -                                     | 5,850                  |
| Less: Estimated listing expenses                 | (ii)         | -                                  | (2,000)                            | -                                     | (2,000)                |
| Proforma IV balance                              |              | 40,000                             | 2,050                              | 172                                   | 42,222                 |

\* RM2.00 being the issued and paid-up share capital of Homeritz as at 31 August 2009

Notes:-

- (i) Share premium is arrived at based on the IPO Price of RM0.65 per Share.
- (ii) Estimated listing expenses of RM2 million have been debited against share premium account.

## 11. PROFORMA HISTORICAL FINANCIAL INFORMATION

### 11.3 PROFORMA CONSOLIDATED CASH FLOW STATEMENT

The proforma consolidated cash flow statement for the financial year ended 31 August 2009 as set out below is prepared on the assumption that our Group structure has been in existence throughout the periods under review. The proforma consolidated cash flow statement is prepared for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions set out in Section 11.4 of this Prospectus.

|   | <b>FYE 2009</b> |
|---|-----------------|
|   | <b>RM'000</b>   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                         |                 |
| PBT   | 24,958          |
| Adjustments for:  |                 |
| Amortisation of prepaid lease payments                              | 14              |
| Depreciation  | 1,656           |
| Loss on disposal of property, plant and equipment                   | 31              |
| Unrealised loss on foreign exchange                                 | 7               |
| Interest expenses   | 217             |
| Interest income   | (33)            |
| Operating profit before working capital changes                     | <u>26,850</u>   |
| Inventories   | 542             |
| Trade and other receivables   | (940)           |
| Trade and other payables  | (1,045)         |
| Cash generated from operations                                      | <u>25,407</u>   |
| Interest paid   | (217)           |
| Interest received   | 33              |
| Tax paid  | (1,542)         |
| <b>Net cash from operating activities</b>                           | <u>23,681</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                         |                 |
| Proceeds from disposal of property, plant and equipment             | 118             |
| Purchase of property, plant and equipment                           | (2,771)         |
| <b>Net cash used in investing activities</b>                        | <u>(2,653)</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                         |                 |
| Proceeds from term loans  | 3,967           |
| Repayment of hire purchase payables                                 | (46)            |
| Repayment of term loans   | (1,207)         |
| Net increase in fixed deposits pledged                              | 4               |
| Net movement in trade bills   | 1,904           |
| Dividend paid   | (13,500)        |
| <b>Net cash used in financing activities</b>                        | <u>(8,878)</u>  |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                    | 12,150          |
| <b>EFFECT OF EXCHANGE DIFFERENCE</b>                                | (20)            |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF FINANCIAL YEAR</b> | 8,574           |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL YEAR</b>       | <u>20,704</u>   |

#### Notes to the Proforma Consolidated Cash Flow Statement:

- (a) The proforma consolidated cash flow statement of the Homeritz Group has been prepared based on the audited financial statements of Homeritz and its subsidiaries FYE 2009.

## 11. PROFORMA HISTORICAL FINANCIAL INFORMATION

### 11.4 REPORTING ACCOUNTANTS' LETTER ON PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Prepared for inclusion in this Prospectus)



**SCLIM, NG & CO.**  
CHARTERED ACCOUNTANTS (AF 0681)

### REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

(prepared for inclusion in the Prospectus)

Date : 6 January 2010

The Board of Directors  
Homeritz Corporation Berhad  
8 (1<sup>st</sup> Floor), Jalan Pesta 1/1  
Taman Tun Dr. Ismail 1  
Jalan Bakri, 84000 Muar  
Johor Darul Takzim

Dear Sirs,

#### HOMERITZ CORPORATION BERHAD (“HOMERITZ”) PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

We report on the pro forma consolidated financial information of Homeritz and its subsidiaries (collectively known as “Homeritz Group”) together with Notes thereto as set out in the accompanying statement, which we have stamped for the purpose of identification.

The pro forma consolidated financial information have been prepared for illustrative purposes only, for the inclusion in the Prospectus of Homeritz to be dated 27 January 2010 in connection with the listing of and quotation for the entire enlarged issued and paid-up share capital of Homeritz on the Main Market of Bursa Malaysia Securities Berhad, and on the basis of assumptions as set out in the Notes thereto and after making certain adjustments to show what:-

- (a) the financial results of Homeritz Group for the three (3) financial years ended 31 August 2007 to 2009 would have been, if the group structure as of the date of the Prospectus had been in place since the beginning of the financial years being reported thereon;
- (b) the financial position of Homeritz Group as at 31 August 2009 would have been, if the group structure as at the date of the Prospectus had been in place on that date, adjusted for the proceeds from the rights issue, public issue and utilisation of funds; and
- (c) the cash flows of Homeritz Group for the financial year ended 31 August 2009 would have been, if the group structure as at the date of the Prospectus had been in place since the beginning of the financial year, adjusted for the proceeds from the rights issue, public issue and utilisation of funds.

It is the sole responsibility of the Directors of Homeritz to prepare the pro forma consolidated financial information with the requirements of the Prospectus Guidelines – Equity and Debt issued by the Securities Commission. Our responsibility is to form an opinion on the pro forma consolidated financial information and to report our opinion to you based on our work.

Our work, which involves no independent examination of any of the underlying financial information, consisted primarily of comparing the pro forma consolidated financial information to the audited financial statements of Homeritz and its subsidiaries covering the past three (3) financial years ended 31 August 2007 to 2009, considering the evidence supporting the adjustments and discussing the pro forma consolidated financial information with the Directors of Homeritz.

11. PROFORMA HISTORICAL FINANCIAL INFORMATION



SC LIM, NG & CO.  
CHARTERED ACCOUNTANTS (AF 0681)

Homeritz Corporation Berhad

Page 2

Our work has not been carried out in accordance with applicable Approved Standards on Auditing in Malaysia and accordingly should not be relied upon as if it has been carried out in accordance with those standards.

In our opinion,

- (i) the pro forma consolidated financial information has been properly prepared on the bases as set out in the Notes thereto, and such bases are consistent with both the format of the audited financial statements and accounting policies adopted by the Homeritz Group ;
- (ii) the audited financial statements used in the preparation of the pro forma consolidated financial information were prepared in accordance with applicable Financial Reporting Standards in Malaysia ; and
- (iii) each material adjustment made to the information used in the preparation of the pro forma consolidated financial information is appropriate for the purposes of preparing such financial information.

This letter has been prepared solely for the purpose stated above and should not be used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary to the aforesaid purpose.

Yours faithfully

.....  
SC LIM, NG & CO.  
No. AF 0681  
Chartered Accountants

.....  
NG KIM KIAT  
No. 2074/10/10 (J)  
Partner

Muar, Johor Darul Takzim

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## 11. PROFORMA HISTORICAL FINANCIAL INFORMATION

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### HOMERITZ CORPORATION BERHAD (Company No. 805792 - X)

#### PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

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##### 1. INTRODUCTION

The pro forma consolidated financial information, for which the Directors of Homeritz are solely responsible, comprising the pro forma consolidated income statements for the three (3) financial years ended 31 August 2007 to 2009, the pro forma consolidated balance sheets as at 31 August 2009, and the pro forma consolidated cash flow statement for the financial year ended 31 August 2009, have been prepared for illustrative purposes only in connection with the listing scheme as referred to in Note 2 below.

The pro forma consolidated financial information has been prepared based on the audited financial statements of Homeritz and its subsidiaries, using the bases and accounting policies consistent with those adopted in the audited financial statements, after giving effect to the pro forma adjustments which is considered appropriate.

The audited financial statements of Homeritz and its subsidiaries for the respective financial period/years under review have been prepared in accordance with applicable Financial Reporting Standards in Malaysia.

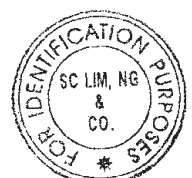
The auditors' reports on the respective financial statements were not subject to any qualifications or modifications for all the financial period /years under review.

##### 2. LISTING SCHEME

The transactions in conjunction with and as an integral part of the listing and quotation of the entire issued and paid-up share capital of Homeritz on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Malaysia") are as follows :

- (i) Acquisition of the entire issued and paid-up share capital of Home Upholstery Industries Sdn. Bhd. ("HUI") comprising 450,000 ordinary shares of RM 1.00 each for a total purchase consideration of RM 36,179,475 to be satisfied by issuance of 72,358,950 new ordinary shares of RM 0.50 each in Homeritz at an issue price of RM 0.50 per share. After the aforesaid acquisition, Homeritz also acquire from HUI 100% of issued and paid-up share capital of U.S. Furniture Manufacturing Sdn. Bhd. ("USF"), comprising 50,002 ordinary shares of RM 1.00 each for a total cash consideration of RM 1,012,324 (collectively known as the "Acquisitions" hereinafter) ;
- (ii) Subdivision of one (1) ordinary share of RM 0.50 each in Homeritz into five (5) ordinary shares of RM 0.10 each in Homeritz. After the aforesaid subdivision, a consolidation of two (2) ordinary shares of RM 0.10 each in Homeritz into one (1) ordinary share of RM 0.20 each in Homeritz is undertaken immediately (collectively known as "Subdivision and Consolidation") ;
- (iii) Renounceable rights issue of 10,102,615 new ordinary shares of RM 0.20 each in Homeritz at par to all shareholders of Homeritz after the Subdivision and Consolidation on the basis of approximately 0.0558 new ordinary shares for every existing 1 ordinary share then held in Homeritz ("Rights Issue") ;
- (iv) Public issue of 9,000,000 new ordinary shares of RM 0.20 each in Homeritz at an issue price of RM 0.65 per share ("Public Issue") ; and
- (v) Offer for sale of 35,020,000 ordinary shares of RM 0.20 each in Homeritz at an offer price of RM 0.65 per share ("Offer for Sale").

Thereafter, the entire enlarged issued and paid-up share capital of Homeritz comprising 200,000,000 ordinary shares of RM 0.20 each shall be listed on the Main Market of Bursa Malaysia.



## 11. PROFORMA HISTORICAL FINANCIAL INFORMATION

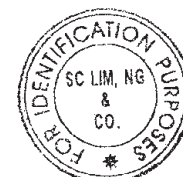
HOMERITZ CORPORATION BERHAD  
(Company No. 805792 - X)

## PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

## 3. PRO FORMA CONSOLIDATED INCOME STATEMENTS

The pro forma consolidated income statements of Homeritz Group for the past three financial years ended ("FYE") 31 August 2009, which have been prepared for illustrative purposes only, are prepared on the assumptions that the current group structure had been in existence throughout the financial years under review.

|  | ← FYE 31 August → |             |             |
|--|-------------------|-------------|-------------|
|  | <u>2007</u>       | <u>2008</u> | <u>2009</u> |
|  | RM '000           | RM '000     | RM '000     |
| Turnover   | 73,804            | 92,550      | 108,439     |
| Gross profit   | 16,749            | 20,652      | 32,537      |
| Other income   | 943               | 208         | 178         |
| Earnings before interest, taxation, depreciation and amortisation    | 12,341            | 15,009      | 26,812      |
| Amortisation   | (14)              | (14)        | (14)        |
| Depreciation   | (614)             | (1,154)     | (1,656)     |
| Interest expenses  | (216)             | (223)       | (217)       |
| Interest income  | 184               | 91          | 33          |
| Profit before tax  | 11,681            | 13,709      | 24,958      |
| Tax expense  | (1,215)           | (1,328)     | (2,280)     |
| Profit after tax   | 10,466            | 12,381      | 22,678      |
| No. of ordinary shares of RM 0.20 each assumed to be in issue ('000) | 180,897           | 180,897     | 180,897     |
| Gross earnings per share (RM)  | 0.06              | 0.08        | 0.14        |
| Net earnings per share (RM)  | 0.06              | 0.07        | 0.13        |
| Gross profit margin (%)  | 22.69             | 22.31       | 30.00       |
| Net profit margin (%)  | 14.18             | 13.38       | 20.91       |





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**11. PROFORMA HISTORICAL FINANCIAL INFORMATION**


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**HOMERITZ CORPORATION BERHAD**  
(Company No. 805792 - X)

**PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

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**4. NOTES TO PRO FORMA CONSOLIDATED INCOME STATEMENTS**

- (a) The proforma consolidated income statements of Homeritz are prepared based on the audited financial statements of Homeritz and its subsidiaries for the relevant financial period /years as follows:

| <b>Company</b> | <b>Relevant Financial Period/Years</b>  |
|----------------|---|
| Homeritz       | - Financial period from 6 February 2008 (date of incorporation) to 31 August 2008<br>- FYE 31 August 2009 |
| HUI            | - FYE 31 August 2007<br>- FYE 31 August 2008<br>- FYE 31 August 2009                                      |
| USF            | - FYE 31 August 2007<br>- FYE 31 August 2008<br>- FYE 31 August 2009                                      |

- (b) The number of ordinary shares of RM 0.20 each assumed to be in issue was computed using the issue and paid-up share capital of Homeritz after the Acquisitions, Subdivision and Consolidation but prior to the Rights Issue and Public Issue.



## 11. PROFORMA HISTORICAL FINANCIAL INFORMATION

**HOMERITZ CORPORATION BERHAD**  
(Company No. 805792 - X)

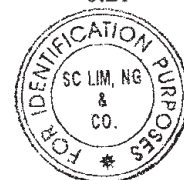
**PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

## 5. PRO FORMA CONSOLIDATED BALANCE SHEETS

The pro forma consolidated balance sheets of Homeritz Group have been prepared for illustrative purposes only to show the effects of the transactions as mentioned in Note 6.2 on the assumption that these transactions had been effected on 31 August 2009.

| Company   | Pro Forma Group<br>As At 31 August 2009 |   |  |   |
|---|---|---|--|---|
|   | Pro Forma I                             | Pro Forma II  | Pro Forma III  | Pro Forma IV  |
| Audited<br>As At<br>31 Aug 2009<br>RM '000                  | After<br>Acquisitions<br>RM '000        | After<br>Pro Forma I,<br>Subdivision<br>and<br>Consolidation<br>RM '000 | After<br>Pro Forma II,<br>and<br>Rights Issue<br>RM '000 | After<br>Pro Forma III,<br>Public Issue<br>and<br>Utilisation<br>of Proceeds<br>RM '000 |
| <b>Assets</b>   |   |   |  |   |
| <b>Non-Current Assets</b>                                   |   |   |  |   |
| Property, plant and equipment                               | -                                       | 26,913  | 26,913   | 32,633  |
| Prepaid lease payments                                      | -                                       | 1,181   | 1,181  | 1,181   |
|   | -                                       | 28,094  | 28,094   | 33,814  |
| <b>Current Assets</b>                                       |   |   |  |   |
| Inventories   | -                                       | 11,830  | 11,830   | 11,830  |
| Trade and other receivables                                 | -                                       | 8,033   | 8,033  | 7,244   |
| Deposits, bank and cash balances                            | *                                       | 20,704  | 20,704   | 21,644  |
|   | *                                       | 40,567  | 40,567   | 40,718  |
| <b>Total Assets</b>   | *                                       | 68,661  | 68,661   | 74,532  |
| <b>Equity And Liabilities</b>                               |   |   |  |   |
| <b>Equity attributable to equity holders of the Company</b> |   |   |  |   |
| Share capital   | *                                       | 36,179  | 36,179   | 40,000  |
| Reserves  | (12)                                    | 172   | 172  | 2,222   |
| <b>Total Equity</b>   | (12)                                    | 36,351  | 36,351   | 42,222  |
| <b>Non-Current Liabilities</b>                              |   |   |  |   |
| Bank borrowings   | -                                       | 5,396   | 5,396  | 5,396   |
| Deferred tax liabilities                                    | -                                       | 2,060   | 2,060  | 2,060   |
|   | -                                       | 7,456   | 7,456  | 7,456   |
| <b>Current Liabilities</b>                                  |   |   |  |   |
| Trade and other payables                                    | 12                                      | 9,540   | 9,540  | 9,540   |
| Bank borrowings   | -                                       | 2,366   | 2,366  | 2,366   |
| Dividend payable  | -                                       | 12,000  | 12,000   | 12,000  |
| Tax payable   | -                                       | 948   | 948  | 948   |
|   | 12                                      | 24,854  | 24,854   | 24,854  |
| <b>Total Liabilities</b>                                    | 12                                      | 32,310  | 32,310   | 32,310  |
| <b>Total Equity And Liabilities</b>                         | *                                       | 68,661  | 68,661   | 74,532  |
| Net Assets / Net Tangible Assets                            | (12)                                    | 36,351  | 36,351   | 42,222  |
| Net Assets/<br>Net Tangible Assets per share (RM)           | (3,000)                                 | 0.50  | 0.20   | 0.21  |

\* This represents RM2.00.



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**11. PROFORMA HISTORICAL FINANCIAL INFORMATION**


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**HOMERITZ CORPORATION BERHAD**  
(Company No. 805792 - X)

**PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

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**6. NOTES TO PRO FORMA CONSOLIDATED BALANCE SHEETS**

6.1 The pro forma consolidated balance sheets have been prepared based on the audited balance sheets of Homeritz and its subsidiaries as at 31 August 2009 and consolidated using the merger method of accounting for business combination.

6.2 The pro forma consolidated balance sheets have been prepared assuming that all the transactions mentioned below had taken place on 31 August 2009.

**(a) Pro Forma I**

Incorporating the effects of Acquisitions as detailed in Note (2)(i).

**(b) Pro Forma II**

Incorporating the effects of Pro Forma I, Subdivision and Consolidation as detailed in Note (2)(ii). The share capital of Homeritz after Pro Forma I was RM36,179,477, comprising 72,358,954 ordinary shares of RM0.50 each. Upon completion of the Subdivision and Consolidation, the issued and paid-up share capital of Homeritz would still be RM36,179,477, comprising 180,897,385 ordinary shares of RM0.20 each.

**(c) Pro Forma III**

Incorporating the effects of Pro Forma II and Rights Issue as detailed in Note (2)(iii).

**(d) Pro Forma IV**

Incorporating the effects of Pro Forma III, Public Issue as detailed in Note (2)(iv) and utilisation of proceeds from Rights Issue and Public Issue as follows:

|                             | <b>RM '000</b> |
|-----------------------------|----------------|
| Capital expenditure         | 5,720          |
| Payment of listing expenses | 2,000          |
| Working capital             | 151            |
|                             | 7,871          |
|                             | 7,871          |



## 11. PROFORMA HISTORICAL FINANCIAL INFORMATION

HOMERITZ CORPORATION BERHAD  
(Company No. 805792 - X)

## PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

## 6. NOTES TO PRO FORMA CONSOLIDATED BALANCE SHEETS – (cont'd)

## 6.3 Changes in Equity

The changes in the share capital and share premium account of Homeritz after the Acquisitions, Subdivision and Consolidation, Rights Issue, Public Issue and utilisation of proceeds are as follows:

|   | <u>Notes</u> | <u>Share<br/>Capital</u><br>RM '000 | <u>Share<br/>Premium</u><br>RM '000 | <u>Retained<br/>Profits</u><br>RM '000 | <u>Total</u><br>RM '000 |
|---|--------------|-------------------------------------|-------------------------------------|--|-------------------------|
| As at 31 August 2009                            |              | *                                   | -                                   | (12)                                   | (12)                    |
| Issuance of shares pursuant to the Acquisitions | (a)          | 36,179                              | -                                   | 184                                    | 36,363                  |
| Pro forma I and II balance                      |              | 36,179                              | -                                   | 172                                    | 36,351                  |
| Issuance of shares pursuant to Rights Issue     |              | 2,021                               | -                                   | -                                      | 2,021                   |
| Pro forma III balance                           |              | 38,200                              | -                                   | 172                                    | 38,372                  |
| Issuance of shares pursuant to Public Issue     | (b)          | 1,800                               | 4,050                               | -                                      | 5,850                   |
| Estimated listing expenses                      | (c)          | -                                   | (2,000)                             | -                                      | (2,000)                 |
| Pro forma IV balance                            |              | 40,000                              | 2,050                               | 172                                    | 42,222                  |

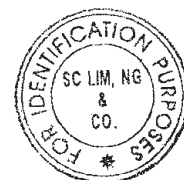
\* This represents issued and paid-up share capital of RM 2.00

(a) Under the merger method of accounting, the difference between the acquisition cost and the nominal value of the share capital of the subsidiaries is taken to the merger deficit. The merger deficit is first charged against revaluation reserves and then against retained profits as follow:

|  | <u>Revaluation<br/>Reserve</u><br>RM '000 | <u>Retained<br/>Profits</u><br>RM '000 | <u>Total</u><br>RM '000 |
|--|---|--|-------------------------|
| Balance before offsetting against merger deficit | 2,390                                     | 33,511                                 | 35,901                  |
| Merger deficit                                   | (2,390)                                   | (33,339)                               | (35,729)                |
| Pro forma I and II balance                       | -   | 172                                    | 172                     |

(b) Share premium is arrived at based on the issue price of RM 0.65 per share.

(c) Estimated listing expenses of RM 2 million is debited against share premium account.



## 11. PROFORMA HISTORICAL FINANCIAL INFORMATION

**HOMERITZ CORPORATION BERHAD**  
(Company No. 805792 - X)

**PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

7. PRO FORMA CONSOLIDATED CASH FLOW STATEMENT

The pro forma consolidated cash flow statement of the Homeritz Group for the FYE 31 August 2009 have been prepared for illustrative purposes only on the assumption that the Homeritz Group had been in existence throughout the financial year.

|   | <u>Note</u> | RM '000  |
|---|-------------|----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                         |             |          |
| Profit before tax   |             | 24,958   |
| Adjustments for:  |             |          |
| Amortisation of prepaid lease payments                              |             | 14       |
| Depreciation  |             | 1,656    |
| Loss on disposal of property, plant and equipment                   |             | 31       |
| Unrealised loss on foreign exchange                                 |             | 7        |
| Interest expenses   |             | 217      |
| Interest income   |             | (33)     |
| Operating profit before working capital changes                     |             | 26,850   |
| Inventories   |             | 542      |
| Trade and other receivables   |             | (940)    |
| Trade and other payables  |             | (1,045)  |
| Cash generated from operations                                      |             | 25,407   |
| Interest paid   |             | (217)    |
| Interest received   |             | 33       |
| Tax paid  |             | (1,542)  |
| Net cash from operating activities                                  |             | 23,681   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                         |             |          |
| Proceeds from disposal of property, plant and equipment             |             | 118      |
| Purchase of property, plant and equipment                           | 9.1(d)      | (2,771)  |
| Net cash used in investing activities                               |             | (2,653)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                         |             |          |
| Proceeds from term loans  |             | 3,967    |
| Repayment of hire purchase payable                                  |             | (46)     |
| Repayment of term loans   |             | (1,207)  |
| Net increase in fixed deposits pledged                              |             | 4        |
| Net movement in trade bills   |             | 1,904    |
| Dividend paid   |             | (13,500) |
| Net cash from financing activities                                  |             | (8,878)  |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                    |             | 12,150   |
| <b>EFFECT OF EXCHANGE DIFFERENCE</b>                                |             | (20)     |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF FINANCIAL YEAR</b> |             | 8,574    |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL YEAR</b>       |             | 20,704   |



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**11. PROFORMA HISTORICAL FINANCIAL INFORMATION**


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**HOMERITZ CORPORATION BERHAD**  
 (Company No. 805792 - X)

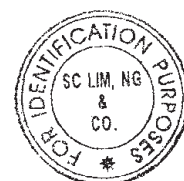
**PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**


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**8. PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES**

The pro forma consolidated statement of assets and liabilities of the Homeritz Group have been prepared based on the assumptions that the Acquisitions had been effected on 31 August 2009. The pro forma consolidated statement of assets and liabilities have been prepared for illustrative purposes only and should be read in conjunction with the notes thereto.

|   |             | <u>As At 31 August 2009</u> |
|---|-------------|-----------------------------|
|   | <u>Note</u> | <u>RM '000</u>              |
| <b>Assets</b>   |             |                             |
| <b>Non-Current Assets</b>                                   |             |                             |
| Property, plant and equipment                               | 9.1         | 26,913                      |
| Prepaid lease payments                                      | 9.2         | 1,181                       |
|   |             | <u>28,094</u>               |
| <b>Current Assets</b>                                       |             |                             |
| Inventories   | 9.3         | 11,830                      |
| Trade and other receivables                                 | 9.4         | 8,033                       |
| Deposits, bank and cash balances                            | 9.5         | 20,704                      |
|   |             | <u>40,567</u>               |
| <b>Total Assets</b>   |             | <u><u>68,661</u></u>        |
| <b>Equity And Liabilities</b>                               |             |                             |
| <b>Equity attributable to equity holders of the Company</b> |             |                             |
| Share capital   | 9.6         | 36,179                      |
| Retained profits  |             | 172                         |
| <b>Total Equity</b>   |             | <u>36,351</u>               |
| <b>Non-Current Liabilities</b>                              |             |                             |
| Bank borrowings   | 9.7         | 5,396                       |
| Deferred tax liabilities                                    | 9.8         | 2,060                       |
|   |             | <u>7,456</u>                |
| <b>Current Liabilities</b>                                  |             |                             |
| Trade and other payables                                    | 9.9         | 9,540                       |
| Bank borrowings   | 9.7         | 2,366                       |
| Dividend payable  |             | 12,000                      |
| Tax payable   |             | 948                         |
|   |             | <u>24,854</u>               |
| <b>Total Liabilities</b>                                    |             | <u>32,310</u>               |
| <b>Total Equity And Liabilities</b>                         |             | <u><u>68,661</u></u>        |



## 11. PROFORMA HISTORICAL FINANCIAL INFORMATION

HOMERITZ CORPORATION BERHAD  
(Company No. 805792 - X)

## PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

## 9. NOTES TO PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

9.1 PROPERTY, PLANT AND EQUIPMENT

| <u>At Carrying Amount</u>                                      | <u>At Valuation</u><br>RM'000 | <u>At Cost</u><br>RM'000 | <u>Total</u><br>RM'000 |
|--|-------------------------------|--------------------------|------------------------|
| Freehold land  | 4,600                         | 2,095                    | 6,695                  |
| Factory buildings  | 12,565                        | 185                      | 12,750                 |
| Factory equipment, plant and machinery                         | -                             | 6,234                    | 6,234                  |
| Showroom, renovation, office equipment, furniture and fittings | -                             | 900                      | 900                    |
| Motor vehicles   | -                             | 334                      | 334                    |
|  | 17,165                        | 9,748                    | 26,913                 |

(a) The freehold land and factory buildings were last revalued based on the valuation carried out by an independent firm of professional valuers in January 2008 on the open market value basis.

(b) The carrying amount of the revalued property, plant and equipment that would have been included in the financial statements stated at cost less accumulated depreciation are as follows:

| <u>At Carrying Amount</u> | RM'000 |
|---------------------------|--------|
| Freehold land             | 4,251  |
| Factory buildings         | 9,934  |
|                           | 14,185 |

(c) The following property, plant and equipment are charged against bank borrowings (Note 9.7(a)(i)) :

| <u>At Carrying Amount</u> | RM'000 |
|---------------------------|--------|
| Freehold land             | 3,530  |
| Factory buildings         | 10,939 |
|                           | 14,469 |

(d) Purchase of property, plant and equipment are as follows:

|   | RM'000 |
|---|--------|
| Aggregate cost of property, plant and equipment acquired        | 2,777  |
| Unpaid balance included under sundry payables (Note 9.9(c))     | (33)   |
| Cash paid in respect of acquisitions in previous financial year | 27     |
| Cash paid during the financial year                             | 2,771  |



## 11. PROFORMA HISTORICAL FINANCIAL INFORMATION

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## PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

9. NOTES TO PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES – (cont'd)9.2 PREPAID LEASE PAYMENTS

|   | RM'000 |
|---|--------|
| Balance at the beginning of financial year    | 1,195  |
| Less : Amortisation of prepaid lease payments | (14)   |
|   | <hr/>  |
| Balance at the end of financial year          | 1,181  |
|   | <hr/>  |
| Analysed as :                                 |        |
| Leasehold land                                | 1,181  |
|   | <hr/>  |

The leasehold land is charged against the bank borrowings (Note 9.7(a)(ii)).

9.3 INVENTORIES

|                  | RM'000 |
|------------------|--------|
| <u>At Cost</u>   |        |
| Raw materials    | 9,073  |
| Work-in-progress | 2,355  |
| Finished goods   | 402    |
|                  | <hr/>  |
|                  | 11,830 |
|                  | <hr/>  |

9.4 TRADE AND OTHER RECEIVABLES

|                          | RM'000 |
|--------------------------|--------|
| <u>Trade Receivables</u> |        |
| Trade receivables        | 5,836  |
| Deposits to suppliers    | 582    |
|                          | <hr/>  |
|                          | 6,418  |
|                          | <hr/>  |
| <u>Other Receivables</u> |        |
| Deposits                 | 121    |
| Prepayments              | 1,435  |
| Sundry receivables       | 59     |
|                          | <hr/>  |
|                          | 1,615  |
|                          | <hr/>  |
|                          | 8,033  |
|                          | <hr/>  |

The Homeritz Group's normal trade terms range from cash terms to 90 days. Other credit terms are assessed and approved on a case-by-case basis.





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**11. PROFORMA HISTORICAL FINANCIAL INFORMATION**


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**PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**


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**9. NOTES TO PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES – (cont'd)**
**9.5 DEPOSITS, BANK AND CASH BALANCES**

|   | RM'000        |
|---|---------------|
| Bank and cash balances                    | 17,704        |
| Fixed deposits placed with licensed banks | 3,000         |
|   | <u>20,704</u> |

- (a) The weighted average effective interest rate for all deposits placed with licensed banks as at the end of financial year is 2.20% per annum.
- (b) The maturity periods for all deposits placed with licensed banks as at the end of financial year is 1 month.

**9.6 SHARE CAPITAL**

|                                 | RM'000         |
|---------------------------------|----------------|
| <b>Authorised :</b>             |                |
| Ordinary shares of RM 0.20 each | <u>100,000</u> |
| <b>Issued and fully paid :</b>  |                |
| Ordinary shares of RM 0.20 each | <u>36,179</u>  |

**9.7 BANK BORROWINGS**

|   | RM'000       |
|---|--------------|
| <b><u>Current</u></b>                     |              |
| Secured - Trade bills                     | 1,904        |
| - Term loans                              | 462          |
|   | <u>2,366</u> |
| <b><u>Non-Current</u></b>                 |              |
| Secured - Term loans                      | 5,396        |
|   | <u>7,762</u> |
| <b><u>Analysis Of Bank Borrowings</u></b> |              |
| Trade bills                               | 1,904        |
| Term loans                                | 5,858        |
|   | <u>7,762</u> |



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**11. PROFORMA HISTORICAL FINANCIAL INFORMATION**


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**PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

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**9. NOTES TO PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES – (cont'd)**
**9.7 BANK BORROWINGS - (cont'd)**

(a) The bank borrowings are secured against :

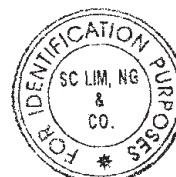
- (i) Certain freehold land and factory buildings (Note 9.1(c)).
- (ii) Leasehold land of the Homeritz Group (Note 9.2).
- (iii) Corporate guarantee from subsidiary.
- (iv) Joint and several guarantee by Directors.

(b) The term loans bear effective interest rates ranging from 3.80% to 6.35% per annum and are repayable by 120 to 180 monthly instalments. At the end of the financial year, they are repayable as follows:

|  | <b>RM'000</b> |
|--|---------------|
| <b><u>Current</u></b>                              |               |
| Not later than one year                            | 462           |
| <b><u>Non-Current</u></b>                          |               |
| Later than one year and not later than two years   | 482           |
| Later than two years and not later than five years | 1,585         |
| Later than five years                              | 3,329         |
|  | 5,396         |
|  | 5,858         |

**9.8 DEFERRED TAX LIABILITIES**

|   | <b>RM'000</b> |
|---|---------------|
| <b>(a) <u>Movements of deferred tax liabilities</u></b>                   |               |
| Balance at the beginning of financial year                                | 1,762         |
| Deferred tax expense relating to the origination of temporary differences | 298           |
| Balance at the end of financial year                                      | 2,060         |
| <b>(b) <u>Components of deferred tax liabilities</u></b>                  |               |
| Excess of capital allowances over corresponding book depreciation         | 1,198         |
| Revaluation surplus on properties   | 862           |
|   | 2,060         |



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**11. PROFORMA HISTORICAL FINANCIAL INFORMATION**


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**PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

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**9. NOTES TO PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES – (cont'd)**
**9.9 TRADE AND OTHER PAYABLES**

|                              | <b>RM'000</b> |
|------------------------------|---------------|
| <b><u>Trade Payables</u></b> |               |
| Trade payables               | 4,995         |
| Deposits from customers      | 1,213         |
|                              | 1,213         |
| <b><u>Other Payables</u></b> |               |
| Amount due to directors      | 528           |
| Accruals                     | 1,376         |
| Sundry payables              | 1,428         |
|                              | 3,332         |
|                              | 4,545         |

- (a) The normal trade terms granted to the Homeritz Group range from cash terms to 120 days.
- (b) The amount due to the directors is unsecured, interest free and repayable on demand.
- (c) Included in sundry payables is an amount of RM 32,376 payable for the purchase of property, plant and equipment (Note 9.1(d)).



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**11. PROFORMA HISTORICAL FINANCIAL INFORMATION**


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**11.5 CAPITALISATION AND INDEBTEDNESS**

The following table shows our proforma cash and cash equivalents, capitalisation and indebtedness as at 31 August 2009 based on our proforma consolidated financial information, and as adjusted to show the effects of the Listing Scheme, the net proceeds arising from the IPO and the utilisation of proceeds as set out in Section 3.10 of this Prospectus.

|  | <b>Proforma as at<br/>31 August 2009<br/>RM'000</b> | <b>After<br/>Public Issue<br/>and Utilisation<br/>of Proceeds<br/>RM'000</b> |
|--|---|--|
| <b>Cash and cash equivalents</b>             | 20,704  | 21,644   |
| <b><u>Indebtedness</u></b>                   |   |  |
| <b><u>Non-current:</u></b>                   |   |  |
| Term loans                                   | 5,396   | 5,396  |
|  | <u>5,396</u>  | <u>5,396</u>   |
| <b><u>Current:</u></b>                       |   |  |
| Term loans                                   | 462   | 462  |
| Trade bills                                  | 1,904   | 1,904  |
| Amount due to directors                      | 528   | 528  |
|  | <u>2,894</u>  | <u>2,894</u>   |
| <b>Total indebtedness</b>                    | <b><u>8,290</u></b>                                 | <b><u>8,290</u></b>  |
| <b><u>Capitalisation</u></b>                 |   |  |
| Total shareholder's equity                   | <u>36,351</u>                                       | <u>42,222</u>  |
| <b>Total capitalisation and indebtedness</b> | <b><u>44,641</u></b>                                | <b><u>50,512</u></b>   |

Save for our term loans and trade bills which are guaranteed and secured, none of our other borrowings are guaranteed and secured.

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**12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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The following management's discussion on and analysis of our past financial performances and results of operations should be read in conjunction with our proforma consolidated financial information and the related notes thereon for the past three (3) FYE 2007 to 2009 included in Section 11 of this Prospectus. This discussion and analysis contains data derived from the audited financial statements of our Group as well as forward-looking statements that involve risks and uncertainties. You should also carefully consider the risk factors that may have a significant impact on our future performances as set out in Section 4 of this Prospectus.

**12.1 OVERVIEW OF OUR OPERATIONS**

We are principally an integrated ODM and OEM player with a complete range of upholstered home furniture products. As an ODM, we design and manufacture furniture for sale to our customers whereas, as an OEM, we manufacture furniture based on their designs provided to us. For the FYE 2009, approximately 86% of our Group's revenue was contributed by ODM sales with the remaining 14% from OEM sales. Our primary activity revolves around the design, manufacture and sale of upholstered home furniture which include the following products:-

- (a) upholstered sofas;
- (b) upholstered dining chairs;
- (c) upholstered bed frames; and
- (d) other home furniture such as cushion seats, sofa beds and tables.

Our products are mainly focused on 'medium to high end range' of upholstered home furniture and the designs are mostly catered to Western stylishness and preferences which are our focus markets. Presently, we export our products to more than 40 countries across the world covering Europe, Australasia, North and South America, Asia and Africa.

**12.1.1 REVENUE**

Between FYE 2007 and FYE 2009, our revenue had risen from RM73.8 million to RM108.4 million at a growth rate of approximately 46.9%. The significant increase in revenue was due to several factors including higher demand for our products, increase in production capacities due to commissioning of Factories B and C in November 2006 and August 2007 respectively, and favourable exchange rate of USD during the periods under review.

At present, approximately 99% of our Group's revenue was contributed from overseas, almost all of which are denominated in USD. For the FYE 2009, 81.8% of our revenue was transacted based on cash terms whilst we provide credit terms to certain customers on the remaining 18.2% sales with credit periods ranging from 30 to 90 days.

Significant factors that have and expected to continue to affect our revenue include the following:-

**(a) Customers' needs**

Our ability to supply our customers with quality products at competitive prices and ensuring the deliveries are made in a timely manner. Should we not be able to satisfy these requirements, our revenue may be affected and such customers may subsequently reduce or cancel their orders. Generally, upon confirmation of orders, we would be able to deliver our products to our customers in 2 to 3 months' time. We have not had any major difficulty in the past in achieving the said delivery target.

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**12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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**(b) *New customers or markets***

Our ability to continue to expand and diversify our customer base and broaden our geographical coverage into other new markets. Should we not be able to expand our presence to new customers and markets, we would not be able to increase our revenue sources as well as reduce our reliance on any one particular region or customer. Our diversified clientele base has grown from 23 countries (in FYE 2005) to more than 40 countries around the world particularly those from the Europe and Australasia regions. Going forward, we are also strategizing to further diversify into new markets and expand our presence in other regions such as North and South America and Africa which presently has minimal sales contribution.

**(c) *General economic condition***

The general economic conditions of our major markets such as in Europe, Australia and New Zealand may affect the spending habits of our customers. During times of economic downturn, our customers may spend less on our products. Nevertheless, in spite of the global financial crisis and economic downturn, we had been able to record sales growth from Europe, Australia and New Zealand, with aggregate revenue contribution of RM64.6 million, RM79.9 million and RM92.7 million for FYE 2007, FYE 2008 and FYE 2009 respectively.

**(d) *Competitive pricing***

The pricing of competing products by our competitors may affect the pricing of our products. In the event that our competitors reduce their prices significantly, this may put pressure on us to likewise reduce our prices so that our products will remain attractive to our customers. However, we have been able to have better control over the quality of our products and our production costs as a result of our integrated manufacturing operations. Hence, these would enable us to offer our products at competitive prices to our customers.

**(e) *Fluctuation in foreign exchange rates***

As approximately 99% of our revenue is derived from export sales and is almost wholly denominated in USD, any fluctuations in the USD exchange rate will have an impact on our revenue. Depending on the extent and effectiveness of our hedging strategies adopted, our revenue is generally expected to improve if the USD strengthens against RM whereas the weakening of USD against RM may conversely reduce our sales.

**(f) *Production capacity***

If we are not able to expand our production capacity to meet demand for our products or outsource the production to other OEMs or sub-contractors, we may not be able to take advantage of higher demand for our products and our revenue may not grow in tandem with the higher demand. With the commissioning of our Factories B and C in November 2006 and August 2007 respectively, our total built-up area increased from 97,400 sq. ft. to 330,000 sq. ft.. The significant increase in the sizes of our plants have resulted in higher production capacities to cater for the rising demand for our products and in turn, contributed to higher revenue during the periods under review.

**(g) *Design***

For our ODM products to remain competitive and attractive, we have to constantly come up with new product designs that fulfil the needs and tastes of our customers. If our designs are not able to satisfy the needs of our customers, or our designs do not appeal to them, our revenue may be adversely affected.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The continuous development and innovation of new products and designs is one of the key strategies for our Group to remain competitive and to meet the challenging needs and requirements of our customers. Delay or failure to achieve such plan may have an impact on our competitiveness and our revenue may be affected.

We have designed more than 480 new models in the past three (3) FYE 2007 to 2009, with more than 70% of the models successfully commercialised. The high number of designs has provided our ODM customers with more choices to meet their expectations.

Please refer to Sections 4 (Risk factors), 7.3.3 (General Overview of Furniture Market in European Union – Key Demand Conditions) and 7.3.4 (General Overview of Furniture Market in Australia - Key Demand Conditions) of this Prospectus for other factors that may affect our revenue and potentially our profitability.

### 12.1.2 COST OF SALES

Our cost of sales mainly comprises the following:-

- (a) Cost of raw materials include upholstery materials, wood-related materials, foam, and other materials such as metal base, packing material, sofa leg, elastic webbing, glue, hardware and nylon thread.
- (b) Direct labour costs which include mainly salaries, wages, overtime, bonuses, incentives and statutory contributions paid to our employees or factory workers who are directly involved in our production and manufacturing activities.
- (c) Factory overheads which consist of transport and haulage charges, rental of factory and machinery, upkeep of plant and machinery and water and electricity.

Significant factors that have and expected to continue to affect our cost of sales include the following:-

(i) ***Availability and volatility in prices of raw materials***

Prices of certain raw materials used in our production such as leather, wood and wood frame, foam, PU and fabric may fluctuate rapidly due to intervening factors such as global demand and supply conditions. Any shortages or interruptions in the supply of raw materials may affect its supply and the price thereon. If there are significant increases in costs of our major raw materials and our Group is unable to pass on such price increases in the costs of our major raw materials to our customers or our Group is unable to find alternative sources for such raw materials at competitive prices, our Group's financial performance may be adversely affected. The prices of our key raw materials have been fairly consistent during the past three (3) FYE 2007 to 2009 save for the decrease in the pricing of certain raw materials in particular foam and upholstery materials in FYE 2009. The drop in the pricing of foam was mainly caused by the sharp decrease in the crude oil price.

(ii) ***Fluctuation in foreign exchange rates***

In view that approximately 53% of our total purchases are denominated in USD, any fluctuations in the USD exchange rate will have an impact on the prices of imported raw material and hence may affect our total cost of sales. Depending on the extent and effectiveness of our hedging strategies adopted, our purchases may be adversely affected if the USD strengthens against RM whereas the weakening of USD against RM may have positive impact on the purchases.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### (iii) *Labour costs*

Direct labour costs are directly linked to the level of salaries and wages, which is dependent on the labour market condition particularly foreign workers which make up a significant portion of our total workforce. Any labour shortages or significant increase in the labour costs may affect our total cost of sales. During the past three (3) FYE 2007 to 2009, our labour costs have generally been on an increasing trend which were consistent with the increase in our level of sales volume and production output. Nevertheless, the expanded production capacity had enabled us to reduce the sub-contract wages significantly during the periods under review.

Please refer to Section 4 of this Prospectus for other factors that may potentially affect our cost of sales.

### 12.1.3 OPERATING EXPENSES

Operating expenses consist mainly of selling and distribution expenses, administrative expenses and finance costs.

Selling and distribution expenses include advertising and promotional expenses, exhibition fees, transport and haulage charges and sales commission. Administrative expenses include Directors' remuneration, staff costs for our administration employees and other administrative expenses.

Finance costs include interest expenses on term loans, hire purchase and trade bills, and other bank commission and charges.

Our operating expenses for the past three (3) FYE 2007 to 2009 were RM6.0 million, RM7.2 million and RM7.8 million respectively. The increase in the operating expenses was consistent with the increase in our level of sales volume and production output, and which was mainly due to the increase in transport and haulage charges, exhibition fees as well as the personnel costs.

### 12.1.4 TAX

The effective tax rate was lower than statutory income tax rates for the financial years under review which was mainly attributable to the utilisation of various tax incentives available to the Group.

## 12.2 RESULTS OF OPERATIONS

### 12.2.1 Segmental Analysis

The following is our segmental analysis for the past three (3) FYE 2007 to 2009 prepared based on our proforma consolidated results on the assumption that we have been in existence throughout the periods under review.

#### (a) Analysis of Revenue by Companies

| Companies                 | <---FYE 2007---> |       | <---FYE 2008---> |       | <---FYE 2009---> |       |
|---------------------------|------------------|-------|------------------|-------|------------------|-------|
|                           | RM'000           | %     | RM'000           | %     | RM'000           | %     |
| Homeritz                  | -                | -     | -                | -     | -                | -     |
| HUI                       | 73,804           | 100.0 | 92,550           | 100.0 | 108,439          | 100.0 |
| USF                       | -                | -     | -                | -     | -                | -     |
|                           | 73,804           | 100.0 | 92,550           | 100.0 | 108,439          | 100.0 |
| Consolidation adjustments | -                | -     | -                | -     | -                | -     |
| Proforma consolidated     | 73,804           | 100.0 | 92,550           | 100.0 | 108,439          | 100.0 |



## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The principal activities of our Company are those of investment holding and the provision of management services to our wholly-owned subsidiaries, namely, HUI and USF. All these years, our Group's revenue is solely contributed by HUI which is involved in the design, manufacturing and sale of upholstered home furniture products whilst USF is a property holding company where it owns Lot 8726, which houses Factory A and our head office.

### (b) Analysis of Revenue by Products

| Products                  | <---FYE 2007---> |       | <---FYE 2008---> |       | <---FYE 2009---> |       |
|---------------------------|------------------|-------|------------------|-------|------------------|-------|
|                           | RM'000           | %     | RM'000           | %     | RM'000           | %     |
| Upholstered sofas         | 31,026           | 42.0  | 47,919           | 51.8  | 60,063           | 55.4  |
| Upholstered dining chairs | 31,742           | 43.0  | 28,683           | 31.0  | 31,937           | 29.5  |
| Upholstered bed frames    | 9,796            | 13.3  | 14,696           | 15.9  | 14,048           | 12.9  |
| Others                    | 1,240            | 1.7   | 1,252            | 1.3   | 2,391            | 2.2   |
| Proforma consolidated     | 73,804           | 100.0 | 92,550           | 100.0 | 108,439          | 100.0 |

With both our Factories B and C being commissioned respectively in November 2006 and August 2007, our total built-up area further increased to 330,000 sq. ft.. The significant increase in the sizes of our plants have resulted in higher production capacities to cater for the rising demand for our products and in turn, contributed to higher revenue as can be seen from the fact that between FYE 2007 and FYE 2009, revenue had risen from RM73.8 million to RM108.4 million or about a 46.9% growth rate.

In terms of products, our upholstered sofas and dining chairs have contributed significantly to our revenue over the years with RM62.8 million, RM76.6 million and RM92.0 million or 85.0%, 82.8% and 84.8% respectively of total revenue for the FYE 2007 to 2009.

The revenue contribution from the upholstered bed frames had been gradually increasing from RM9.8 million to RM14.0 million between FYE 2007 and FYE 2009. Hence, we would be able to reduce our dependency on revenue contributions from sofas and dining chairs although both would remain as our core products. Other products sold by us include cushion seats and tables.

### (c) Analysis of Revenue by Geographical Locations

| Regions                          | <---FYE 2007---> |       | <---FYE 2008---> |       | <---FYE 2009---> |       |
|----------------------------------|------------------|-------|------------------|-------|------------------|-------|
|                                  | RM'000           | %     | RM'000           | %     | RM'000           | %     |
| Europe                           | 47,725           | 64.7  | 60,835           | 65.7  | 64,952           | 59.9  |
| Australia and New Zealand        | 16,916           | 22.9  | 19,034           | 20.6  | 27,732           | 25.6  |
| North, Central and South America | 5,313            | 7.2   | 7,487            | 8.1   | 8,987            | 8.3   |
| Africa                           | 2,386            | 3.2   | 2,273            | 2.5   | 2,358            | 2.1   |
| Asia (excluding Malaysia)        | 1,208            | 1.6   | 2,134            | 2.3   | 3,237            | 3.0   |
| Malaysia – Local                 | 256              | 0.4   | 787              | 0.8   | 1,173            | 1.1   |
| Proforma consolidated            | 73,804           | 100.0 | 92,550           | 100.0 | 108,439          | 100.0 |

We made our first foray into the overseas market by exporting to Singapore in 1997 and in 1999, we ventured into Reunion Island, Bahrain, Australia and Cyprus. Presently, we export our products to more than 40 countries to date across the world covering Europe, Australasia, North and South America, Asia and Africa. As can be seen above, approximately 99% of our Group's revenue was contributed from the overseas markets.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our principal market is Europe and presently, we have been exporting to more than 20 countries including Norway, Poland, Belgium, Denmark, Netherlands, Sweden, Switzerland United Kingdom, Germany, and Italy.

Europe contributed RM47.7 million, RM60.8 million and RM64.9 million or 64.7%, 65.7% and 59.9% to our revenue respectively for the FYE 2007 to 2009. This is followed by the Australasia region (Australia and New Zealand) which contributed RM16.9 million, RM19.0 million and RM27.7 million or 22.9%, 20.6% and 25.6% to our revenue respectively for the FYE 2007 to 2009.

### (d) Analysis of PBT by Companies

| Companies                 | <---FYE 2007---> |       | <---FYE 2008---> |       | <---FYE 2009---> |       |
|---------------------------|------------------|-------|------------------|-------|------------------|-------|
|                           | RM'000           | %     | RM'000           | %     | RM'000           | %     |
| Homeritz                  | -                | -     | (6)              | *     | (6)              | *     |
| HUI                       | 12,096           | 103.6 | 13,734           | 100.2 | 24,982           | 100.0 |
| USF                       | (7)              | (0.1) | (10)             | (0.1) | (9)              | *     |
|                           | 12,089           | 103.5 | 13,718           | 100.1 | 24,967           | 100.0 |
| Consolidation adjustments | (408)            | (3.5) | (9)              | (0.1) | (9)              | *     |
| Proforma consolidated     | 11,681           | 100.0 | 13,709           | 100.0 | 24,958           | 100.0 |

\* *Negligible.*

As stated above, our total PBT was mainly contributed by HUI whilst the minimal PBT contributed by USF was due to certain administration expenses and amortisation charges of leasehold land.

### 12.2.2 Material Changes in Revenue

A discussion on the reasons on material changes in our revenue for the past three (3) FYE 2007 to 2009 is set out in Sections 12.1.1 and 12.2.1 of this Prospectus.

### 12.2.3 Impact of Foreign Currency Exchange Rates and Financial Instruments

We may be exposed to foreign currency exchange risks as approximately 99% of our revenue and 53% of our total purchases are denominated in USD for the FYE 2009. Fluctuations in USD exchange rate will have an impact on the prices of imported raw material as well as export earnings, which will in turn affect the profitability of our Group. Premised on the above and based on our present exposure to USD, our profit margin is expected to generally improve if the USD strengthens against RM which will then increase our profitability. Conversely, the weakening of USD against RM will generally reduce our profitability due to lower profit margin.

At present, we have credit lines for foreign exchange forward contracts with several financial institutions. Should the need arise, our management can readily utilise such forward contracts to hedge the fluctuations in exchange rates between RM and USD, after taking into account the exposure period and the related transaction costs. Further, we also maintain a foreign currency account with our banker to facilitate the deposit of our revenue denominated in USD to pay for some of our purchases denominated in USD, which provide some form of natural hedging against any adverse foreign exchange fluctuations.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As at 31 August 2009, we have entered into forward foreign exchange contracts with the following notional amounts and maturity profiles:-

|                      | Amount in<br>Foreign<br>Currency<br>USD'000 | Maturity Profile                     |  | Total<br>Notional<br>amount<br>RM'000 |
|----------------------|---|--------------------------------------|--|---------------------------------------|
|                      |   | Not Later<br>Than One year<br>RM'000 |  |                                       |
| As at 31 August 2009 | 1,400                                       | 4,965                                |  | 4,965                                 |

The net unhedged financial assets and liabilities of our Group that are not denominated in their functional currencies as at 31 August 2009 are as follows:-

|                               | USD    | SGD | Euro | Total  |
|-------------------------------|--------|-----|------|--------|
| As at 31 August 2009 (RM'000) | 13,829 | 63  | 12   | 13,904 |

### 12.2.4 Impact of Inflation

There is no material impact of inflation on our profitability for the past three (3) FYE 2007 to 2009.

### 12.2.5 Government, Economic, Fiscal or Monetary Policies

The Government has put in place various incentives in its efforts to stimulate and promote the growth of the manufacturing sector including the furniture industry, such as:-

- (i) Pioneer Status;
- (ii) Investment Tax Allowance;
- (iii) Reinvestment Allowance;
- (iv) Tax Exemption on the Value of Increased Exports; and
- (v) Brand Promotion Grant.

Further details on these Government incentives are set out in Section 7.3.12 of this Prospectus.

Risks relating to government, economic, fiscal or monetary policies or factors which may materially affect our operations are set out in Sections 4.1.1, 4.1.8, 4.1.10 and 4.1.20 of this Prospectus.

### 12.2.6 Selected Financial Ratios

|   | FYE 2007 | FYE 2008 | FYE 2009 |
|---|----------|----------|----------|
| Average trade receivable turnover period (months) | 0.68     | 0.72     | 0.63     |
| Average trade payable turnover period (months)    | 0.65     | 0.80     | 1.05     |
| Average inventory turnover period (months)        | 0.41     | 1.24     | 1.91     |

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### (a) Analysis of Trade Receivables

We have been able to maintain our average trade receivables turnover period to less than 1 month for the past three (3) financials years primarily due to the fact that at least 80% of our revenue is transacted based on cash terms whilst we provide credit terms to certain customers on the remaining sales. The normal credit periods granted to such customers range from 30 to 90 days.

In addition, approximately 99% of our Group's revenue was contributed from overseas which are normally granted terms varying from cash against documents to letters of credit (*at sight*) in favour of our Company which are issued by financial institutions, which therefore translate into a collection period of approximately 2 to 3 weeks.

As at 31 August 2009, the trade receivables of our Group amounted to approximately RM5.8 million which can be analysed as follows:-

|                        | Within Credit Period |                      | Exceed Credit Period |                     | Total<br>RM'000 |
|------------------------|----------------------|----------------------|----------------------|---------------------|-----------------|
|                        | 1-30 days<br>RM'000  | 31-60 days<br>RM'000 | 61-90 days<br>RM'000 | > 91 days<br>RM'000 |                 |
| Trade receivables      | 5,603                | 232                  | *                    | 1                   | 5,836           |
| % of trade receivables | 96%                  | 4%                   | *                    | *                   | 100%            |

\* *Negligible.*

### (b) Analysis of Trade Payables

Most of the upholstery materials namely leather, fabric, PU and PVC are imported whilst the other raw materials are sourced locally. The imports are normally transacted on cash against documents, documents against payment and letters of credit (*at sight*), which require about 1 week time to process payment. Occasionally, certain imports are transacted on term LC of 60 days.

Raw materials like wood frame, foam, wood etc are sourced locally and most of the local purchases are given credit terms of 1 to 4 months.

As at 31 August 2009, the trade payables of our Group amounted to approximately RM5.0 million which can be analysed as follows:-

|                     | Within Credit Period |                      |                      |                       | Exceed Credit Period |                     | Total<br>RM'000 |
|---------------------|----------------------|----------------------|----------------------|-----------------------|----------------------|---------------------|-----------------|
|                     | 1-30 days<br>RM'000  | 31-60 days<br>RM'000 | 61-90 days<br>RM'000 | 91-120 days<br>RM'000 | 1-30 days<br>RM'000  | > 61 days<br>RM'000 |                 |
| Trade payables      | 3,024                | 1,415                | 332                  | 139                   | 31                   | 54                  | 4,995           |
| % of trade payables | 61%                  | 28%                  | 7%                   | 3%                    | *                    | 1%                  | 100%            |

\* *Less than 1%.*

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### (c) Analysis of Inventories

Our inventories comprise raw materials, work-in-progress and finished goods which are stated at the lower of cost and net realisable value. The breakdown of our inventories for the past three (3) FYE 2007 to 2009 is as follows:-

|                  | FYE 2007<br>(RM'000) | FYE 2008<br>(RM'000) | FYE 2009<br>(RM'000) |
|------------------|----------------------|----------------------|----------------------|
| Raw materials    | 1,841                | 10,297               | 9,073                |
| Work-in-progress | 286                  | 1,880                | 2,355                |
| Finished goods   | 306                  | 196                  | 402                  |
| Total            | 2,433                | 12,373               | 11,830               |

We exercise stringent control over our production planning and inventory level in order to minimise inventory holding cost.

The cost of raw materials comprise the original purchase price plus costs incurred in bringing the inventories to their present location whilst the costs of work-in-progress and finished goods include the costs of raw materials, packing materials, direct labour and an appropriate proportion of production overheads based on normal operating capacity.

Raw materials mainly consist of wood and upholstery materials, such as leather, fabric, PU and PVC. The significant increase in the inventory level of raw materials from FYE 2007 to FYE 2008 was mainly due to the large increase in the total production and storage areas as a result of the commissioning of Factory C in August 2007. The additional space enables us to maintain optimal inventory level to cater to higher production volume in line with our sales growth.

The inventory level of work-in-progress is rather low as our production cycle for most of our products is short. Nevertheless, the increase in production area since FYE 2007 has allowed us to plan our production in larger batches, thus resulted in higher work-in-progress for FYE 2008 and FYE 2009.

There is no slow moving or obsolete stock of finished goods because our products are usually manufactured based on secured orders from our customers and are delivered after each batch of production. As such, the inventory level of finished goods is kept to the minimum.

## 12.3 COMMENTARIES ON PAST RESULTS

### FYE 2007 vs FYE 2006

#### Revenue

In November 2006, we added another 47,300 sq. ft. into our total built up area with the successful commissioning of Factory B. With increased production capacity and higher demand for our products, our revenue grew 22.1% to RM73.8 million for FYE 2007. In particular, the sales of our principal products, namely, upholstered bed frames, dining chairs and sofas increased by RM6.6 million, RM5.2 million and RM1.9 million respectively during the year. Further, in August 2007, we commissioned our Factory C with built up area of 185,300 sq. ft. Nevertheless, it had minimal impact on our results as the commissioning of factory was near to the financial year end.

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**12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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**Cost of Sales and Gross Profit Margin**

The expanded production capacity had enabled us to reduce the sub-contract wages significantly during the year. In addition, the cost of the upholstery materials had also decreased slightly during the year. As a result, our cost of sales only increased by a lower rate of 15.1% or RM7.5 million from RM49.6 million in FYE 2006 to RM57.1 million in FYE 2007 despite our higher revenue growth recorded during the year.

On the other hand, our gross profit increased to RM16.7 million from RM10.8 million recorded for FYE 2006 in line with higher sales. Similarly, our gross profit margin improved significantly to 22.7% from 17.9% in the previous year which was mainly attributable to the cost savings in sub-contract wages.

**Operating Expenses**

We incurred higher operating expenses of RM6.0 million for the FYE 2007 from RM4.7 million for FYE 2006. The increase in operating expenses was mainly due to the increase in transport and haulage charges and personnel costs.

**PBT and PBT Margin**

For FYE 2007, our PBT increased from RM6.8 million recorded for FYE 2006 to RM11.7 million. Our PBT margin also achieved a better improvement to 15.8% for FYE 2007 from 11.2% for FYE 2006 as a result of the higher gross profit margin.

**PAT and PAT Margin**

In tandem with overall better performance, our PAT increased from RM6.2 million for FYE 2006 to RM10.5 million for FYE 2007. Correspondingly, our PAT margin improved from 10.3% for FYE 2006 to 14.2% for FYE 2007. The effective tax rate was lower than the statutory income tax rate which was attributable to the utilisation of certain tax incentives enjoyed by the Group.

**FYE 2008 vs FYE 2007****Revenue**

Our production capacity was further increased with the successful commissioning of Factory C in August 2007. As a result, we were able to meet higher demand for our products and our revenue grew by about 25.4% to RM92.6 million from RM73.8 million recorded in FYE 2007 led by 54.4% growth in the sales of upholstered sofas to RM47.9 million and 50.0% growth in the sales of upholstered bed frames to about RM14.7 million. This was achieved despite the depreciation of USD. The increase in overall sales was partially offset by the reduction in the sales of upholstered dining chair of about 9.6% during the year.

**Cost of Sales and Gross Profit Margin**

In line with the increase in our sales volume, our cost of sales increased from RM57.1 million to RM71.9 million or approximately 26.0%. In general, the increase in the cost of sales was consistent with sales growth. During the year, we had also diversified into an upstream activity by producing our own wooden chair frames instead of purchasing them externally. As a result, we were able to reduce the costs of wooden chair frames. Besides, there were no significant increases in the costs of upholstery materials, foam, labour and factory overheads during the year.

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**12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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Our gross profit also improved from RM16.7 million to RM20.7 million during the year due mainly to the increased sales. Nevertheless, our gross profit margin decreased slightly from 22.7% to 22.3% which was mainly due to the unfavourable foreign exchange rate. The decrease in gross profit margin was partially cushioned with our plan to diversify into producing our own wooden chair frames instead of sourcing from external parties.

**Operating Expenses**

We incurred a total operating expenses of RM7.2 million for the FYE 2008 compared to RM6.0 million for the FYE 2007, which represented an increase of 20% that mainly due to higher cost of exhibition, transport and haulage charges, as well as loss on foreign exchange.

**PBT and PBT Margin**

On the back of improved gross profit, we achieved a higher PBT of RM13.7 million for the FYE 2008, an increase of 17.1% from the RM11.7 million PBT recorded for the FYE 2007. Nevertheless, our PBT margin decreased slightly to 14.8% from 15.8% for FYE 2007 in line with the marginal decrease in the gross profit margin.

**PAT and PAT Margin**

In line with better performance during the year and improved PBT, our PAT for FYE 2008 increased to RM12.4 million from RM10.5 million recorded in FYE 2007. Nonetheless, our PAT margin decreased marginally from 14.2% in FYE 2007 to 13.4% in FYE 2008, which was consistent with the decrease in gross profit and PBT margins. The effective tax rate was lower than the statutory income tax rate which was attributable to the utilisation of certain tax incentives enjoyed by the Group.

**FYE 2009 vs FYE 2008****Revenue**

On the back of a stronger and favourable foreign exchange rate, we registered a revenue of RM108.4 million for the FYE 2009 which was 17.2% higher than the RM92.6 million recorded in FYE 2008. The sale of upholstered sofas recorded the highest improvement, from RM47.9 million to RM60.1 million whilst the revenue contribution from the upholstered dining chairs improved from RM28.7 million to RM31.9 million. However, the sale of upholstered bed frames decreased marginally from RM14.7 million to RM14.0 million. The sale of other products also increased to RM2.4 million from RM1.3 million recorded in FYE 2008.

**Cost of Sales and Gross Profit Margin**

Despite the higher revenue, our cost of sales only increased from RM71.9 million to RM75.9 million for the FYE 2009, an increase of 5.6%. The lower increase in the cost of sales was mainly due to the significant decrease in the pricing of certain major raw materials, in particular, foam and upholstery materials during the year. The drop in the pricing of foam, which was particularly significant, was caused by the sharp decrease in the crude oil price, an important material in the production of foam. In addition, the costs of wood-based materials notably the wooden chair frames have continued to decrease due to our in-house production capability. We had also managed to further reduce the sub-contract wages during the year.

In line with higher revenue, our gross profit improved further to RM32.5 million from RM20.7 million recorded in FYE 2008. Our gross profit margin also improved significantly to 30.0% for FYE 2009 from 22.3% in FYE 2008 which was mainly attributable to the favourable foreign exchange rate and significant decrease in the pricing of certain major raw materials, in particular, foam and upholstery materials during the year.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Operating Expenses

Our operating expenses increased to RM7.8 million for the FYE 2009 compared to RM7.2 million incurred in FYE 2008. The increase of about 8.3% was mainly due to higher cost of exhibition and personnel costs.

### PBT and PBT Margin

With the higher increase in the gross profit and lower hike in operating expenses, our PBT increased by 82.5% to RM25.0 million from RM13.7 million recorded for FYE 2008. Likewise, our PBT margin improved further to 23.0% from 14.8% for FYE 2008.

### PAT and PAT Margin

In tandem with the higher PBT recorded during the year, our PAT for FYE 2009 improved to RM22.7 million, a significant increase of RM10.3 million or 83.1% from the RM12.4 million recorded in FYE 2008. The effective tax rate was lower than the statutory income tax rate which was attributable to the utilisation of certain tax incentives enjoyed by the Group.

Our PAT margin also increased significantly to 20.9% from 13.4% achieved in 2008.

## 12.4 LIQUIDITY AND CAPITAL RESOURCES

### 12.4.1 Working Capital

Our primary sources of funds are mainly derived from the net cash generated internally from our operations and to a certain extent, external source of funds which comprises credit terms granted by our local suppliers as well as short term and long term bank borrowings facilities available to us. The average credit terms granted to us range from 30 to 120 days. We may raise additional capital/funds through debt or equity offerings in the future to part finance our expansion plans or to meet our financing requirements or should the need arise.

Our Board is of the opinion that, after taking into account our present cash flow position, the banking facilities available to us and the proceeds from the Listing, we would have adequate working capital for our business operations for a period of twelve (12) months from the date of this Prospectus.

### 12.4.2 Group Cash Flow

A summary of our proforma consolidated cash flow statement for the FYE 2009 is set out hereunder.

|   | <b>FYE 2009</b><br><b>RM'000</b> |
|---|----------------------------------|
| Net cash from operating activities                            | 23,681                           |
| Net cash used in investing activities                         | (2,653)                          |
| Net cash used in financing activities                         | (8,878)                          |
| Net increase in cash and cash equivalents                     | 12,150                           |
| Effect of exchange difference                                 | (20)                             |
| Cash and cash equivalents at the beginning of financial year  | 8,574                            |
| <b>Cash and cash equivalents at the end of financial year</b> | <b>20,704</b>                    |



## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Net Cash from Operating Activities

During the financial year, the Group generated a net cash inflow of RM23.7 million from its operating activities on the back of its net profit of RM22.7 million which was mainly due to sales collection from our customers. For the FYE 2009, 81.8% of our revenue is transacted based on cash terms, hence, the higher revenue recorded for FYE 2009 has contributed to the higher net cash position of our Group.

### Net Cash used in Investing Activities

During the financial year, we incurred a net cash outflow of RM2.7 million in investing activities which was mainly due to our purchase of several machinery and equipment in line with our plans to increase production capacity and improve efficiency.

### Net Cash used in Financing Activities

During the financial year, the Group incurred net cash outflow of RM8.9 million for its financing activities mainly due to the payment of dividends amounting to RM13.5 million. In addition, we had also restructured our existing banking facilities that included a settlement of an existing term loan of about RM1.2 million and a drawdown of a separate RM4.0 million term loan in line with our policy of maintaining a more efficient capital structure as well as reducing our cost of borrowings (with lower interest-bearing loans).

#### 12.4.3 Borrowings

As at 31 August 2009, our total borrowings, all of which are interest bearing, comprise the following:-

|                              | RM'000       |
|------------------------------|--------------|
| <b>Current</b>               |              |
| Term loans <sup>1</sup>      | 462          |
| Trade bills                  | 1,904        |
| <b>Non-Current</b>           |              |
| Term loans <sup>1</sup>      | 5,396        |
| Total borrowings             | <u>7,762</u> |
| Gearing (times) <sup>2</sup> | 0.21         |

Notes:-

1 The term loans were secured against our freehold land and leasehold land together with the factory buildings erected thereon, as well as joint and several guarantees by our Directors, Chua Fen Fatt and Tee Hwee Ing and a corporate guarantee from USF. These term loans were granted at an average interest rate of between 3.80% and 6.35% per annum.

2 Calculated based on our proforma shareholders' funds (after Acquisitions but prior to the Rights Issue and Public Issue) for FYE 2009.

We have adopted a conservative stance where gearing is concerned; so far we have incurred minimal borrowings and hence this has resulted in lower finance costs for our Group. The only borrowings we have taken on have been for the purposes of meeting working capital requirements, purchase of sewing machines and motor vehicles as well as acquisitions of Factory A and Lots 4943 & 4944 on which Factory C is located.

As at the date of this Prospectus, we have not defaulted on payments of either principal sums and/or interest in respect of any borrowing throughout the past FYE 2009.