

## UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 30 NOVEMBER 2010

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### NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

#### PART A – EXPLANATORY NOTES PURSUANT TO THE FINANCIAL REPORTING STANDARDS (“FRS”) 134: INTERIM FINANCIAL REPORTING

##### 1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of Financial Reporting Standards (FRS) 134: Interim Financial Reporting and Chapter 9, Appendix 9B of the Listing Requirements.

The interim financial statements should be read in conjunction with the audited financial statements of Homeritz Corporation Berhad (“Homeritz” or the “Company”) and its subsidiaries (“Group”) for the financial year ended 31 August 2010 and the accompanying explanatory notes attached to this interim financial statements.

These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 August 2010.

##### 2. Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 August 2010 except for the adoption of the following new Financial Reporting Standards (“FRSs”) and Issues Committee Interpretations (“IC Interpretations”) effective for financial periods beginning on or after 1 September 2010.

FRS 4: Insurance Contracts  
FRS 7: Financial Instruments: Disclosures  
FRS 101: Presentation of Financial Statements (revised)  
FRS 123: Borrowing Costs  
FRS 139: Financial Instruments: Recognition and Measurement  
Amendments to FRS 1: First-time Adoption of Financial Reporting Standards and FRS 127:  
Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly  
Controlled Entity or Associate  
Amendments to FRS 2: Share-based Payments- Vesting Conditions and Cancellations  
Amendment to FRS 5: Non-current Assets Held For Sale and Discontinued Operations  
Amendment FRS 8: Operating Segments  
Amendment to FRS 108: Accounting Policies, Changes in Accounting Estimates and Errors  
Amendment to FRS 117: Leases  
Amendment to FRS 119: Employee Benefits  
Amendment to FRS 120: Accounting for Government Grants and Disclosure of Government  
Assistance  
Amendment to FRS 123: Borrowing Costs  
Amendment to FRS 127: Consolidated and Separate Financial Statements  
Amendment to FRS 128: Investment in Associates  
Amendment to FRS 129: Financial Reporting in Hyperinflationary Economies  
Amendment to FRS 131: Interests in Joint Ventures  
Amendments to FRS 132: Financial Instruments: Presentation  
Amendment to FRS 134: Interim Financial Reporting  
Amendment to FRS 138: Intangible Assets  
Amendments to FRS 139: Financial Instruments: Recognition and Measurement, FRS 7: Financial  
Instruments: Disclosures and IC Interpretation 9: Reassessment of Embedded Derivatives  
Amendment to FRS 140: Investment Property

**UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 30 NOVEMBER 2010**

IC Interpretation 9: Reassessment of Embedded Derivatives  
 IC Interpretation 10: Interim Financial Reporting and Impairment  
 IC Interpretation 11: FRS 2: Group and Treasury Share Transactions  
 IC Interpretation 13: Customer Loyalty Programmes  
 IC Interpretation 14: FRS 119 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction  
 TR i-3: Presentation of Financial Statements of Islamic Financial Institutions  
 Amendments to FRS 132 Financial Instruments: Presentation - Classification of Rights Issues  
 FRS 1: First-time Adoption of Financial Reporting Standards  
 FRS 3: Business Combinations (revised)  
 FRS 127: Consolidated and Separate Financial Statements (amended)  
 Amendments to FRS 2: Share-based Payments  
 Amendments to FRS 5: Non-current Assets Held For Sale and Discontinued Operations  
 Amendments to FRS 138: Intangible Assets  
 Amendments to IC Interpretation 9: Reassessment of Embedded Derivatives  
 IC Interpretation 12: Service Concession Arrangements  
 IC Interpretation 16: Hedges of a Net Investment in a Foreign Operation  
 IC Interpretation 17: Distributions of Non-cash Assets to Owners

The adoption of these new FRSs, amendments to FRS and IC Interpretations do not have material financial impact on the results and the financial position of the Group except for the adopting of the following FRSs :-

**FRS 101 (revised), Presentation of Financial Statements**

The Group applies revised FRS 101 (2009) which became effective as of 1 January 2010. As a result, the Group presents all non-owner changes in equity in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it is in conformity with the revised standard. Since the change only affects presentation aspects, there is no impact on earnings per ordinary share.

**Amendment to FRS 117: Leases**

The adoption of the Amendment to FRS 117 has resulted in retrospective change in the accounting policy relating to the classification of the leasehold land. Prior to 1 September 2010, the considerations paid for the leasehold land were classified and presented as prepaid lease payments in the statement of financial position.

With the adoption of the Amendment to FRS 117, the Group has reassessed and determined that all leasehold land of the Group which is in substance financial leases and has reclassified the leasehold land to property, plant and equipment. The change in accounting policy has been made retrospectively in accordance with the transitional provisions of the amendment.

The following comparative figures on the face of statement of financial position have been restated following the adoption of the amendments to FRS 117:

31 August 2010	As previously reported RM'000	Reclassification RM'000	As restated RM'000
Prepaid lease payment	1,168	(1,168)	-
Property, plant & equipment	27,132	1,168	28,300

**UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 30 NOVEMBER 2010****FRS 139: Financial instruments: Recognition and Measurement**

Prior to the adoption of FRS 139, financial derivatives were recognised on their settlement dates. Outstanding derivatives at the balance sheet date were not recognised. With the adoption of FRS 139, all financial assets and liabilities, including derivatives, are recognised at contract dates when, and only when, the Company or any subsidiary becomes a party to the contractual provision of the instruments.

In accordance with FRS 139, the recognition, derecognition and measurement requirement are applied prospectively from 1 September 2010. The effects of the remeasurement on 1 September 2010 of the financial assets and financial liabilities brought forward from the previous financial year are adjusted to the opening retained profits and other operating reserves as disclosed in the statement of changes in equity. The effect of the reclassification to the comparative of the prior financial year's consolidated statement of financial position is as follows:

1 September 2010	As previously reported RM'000	Adjustment RM'000	As restated RM'000
Derivative financial instrument at fair value	-	(230)	(230)
Retained Profit	14,227	230	14,457

The Group has not adopted the following new/revised FRSs, Amendments and IC Interpretations that were issued but not yet effective:

**Effective for financial periods beginning on or after 1 January 2011:**

Amendments to FRS 1: Limited Exemption from Comparative FRS 7 Disclosure for First-time Adopters

Amendments to FRS 2: Group Cash-settled Share-based Payment Transactions

Amendments to FRS 7: Improving Disclosures about Financial Instruments

IC Interpretation 4: Determining whether an Arrangement contains a Lease

IC Interpretation 18: Transfers of Assets from Customers

TR i - 3: Guidance on Disclosures of Transition to IFRSs

TR i - 4: Shariah Compliant Sale Contracts

**Effective for financial periods beginning on or after 1 January 2012:**

IC Interpretation 15: Agreements for the Construction of Real Estate

**3. Auditors' Report on Preceding Annual Financial Statements**

There was no qualified report issued by the auditors in the financial statements of the Group for the financial year ended 31 August 2010.

**4. Seasonality or Cyclicity of Operations**

There were no material seasonal or cyclical factors affecting the business operations of the Group in the current quarter.

**5. Unusual Items**

There were no unusual items affecting the assets, liabilities, equity, net income or cash flows for the current financial quarter under review.

## UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 30 NOVEMBER 2010

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### 6. Material Changes In Estimates

There were no material changes in estimates amount that had a material effect for the current financial period under review.

### 7. Issuance, Cancellation, Repurchase, Resale or Repayment of Debt and/or Equity Securites

There were no issuance, cancellation, repurchase, resale or repayment of debt and/or equity securities, share buy-backs, share cancellations, share held as treasury shares and resale of treasury shares for the current financial quarter under review.

### 8. Dividend Paid

There were no dividends paid during the period under review.

### 9. Valuation of Property, Plant and Equipment

The valuations of property, plant and equipment have been brought forward without amendment from the audited financial statements for the financial year ended 31 August 2010.

### 10. Material Event Subsequent to the End of the Current Financial Quarter

There were no material events between the end of current quarter under review and the date of this announcement, which will substantially affect the results of the Group.

### 11. Changes in the Composition Of the Group

There were no other changes in the composition of the Group during the current quarter under review.

### 12. Contingent Liabilities

The Company provides corporate guarantee to financial institutions for credit facilities granted to subsidiary amounting to RM 6.2 million as at 30 November 2010.

### 13. Capital Commitments

The capital commitments of the Group as at 30 November 2010 are as follow:-

Property, plant and equipment	RM'000
Contracted but not provided for	3,383

### 14. Segment Information

The Group operates in a single industry in the business of design, manufacture and sale of upholstery furniture products in Malaysia. Accordingly, segmental information by industry and geographical segments has not been presented.

**UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 30 NOVEMBER 2010****B. EXPLANATORY NOTES PURSUANT TO CHAPTER 9, APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD****1. Review of Performance**

The Group's revenue of RM24.5 million for the current financial period ended 30 November 2010 (Q12011) is lower than the revenue in the previous corresponding financial period ended 30 November 2009 (Q12010) of RM30.7 million. The decrease of 20.19% in turnover is mainly due to lower sales volume and the weakening of the US dollar. The profit before tax for Q12011 decreased substantially to RM3.819 million as compared to RM6.388 million recorded in the Q12010. This is mainly attributed by lower revenue generated in current quarter, the continued weakening of the US dollar coupled with the time lag in passing on the higher costs to its customers and recognition of net fair value loss on foreign exchange derivatives in Q12011.

The average US dollar against Ringgit weakened by 9.3%, (from RM3.43 in 1Q2010 to RM3.11 in 1Q2011) during the quarter under review compared with the previous corresponding quarter.

**2. Comparison with Preceding Quarter's Results**

The Group recorded a profit before tax of RM3.819 million for the current quarter as compared to a profit before tax of RM4.585 million in the preceding quarter. The decrease was mainly due to the continued weakening of the US dollar coupled with the time lag in passing on the higher costs to its customers and recognition of net fair value loss on foreign exchange derivatives in current quarter.

**3. Current Year Prospects**

The Group will continue to remain focused in its core business of design, manufacture, and sale of upholstered home furniture which includes upholstered sofas, upholstered dining chairs and upholstered bed frames. The Group is continuing with the effort to develop new products, new design for existing products, derive better cost efficiencies and effective cost management across all functions. Barring unforeseen circumstances, the Board believes that the Group would continue to be profitable in the current financial year ending 31 August 2011.

**4. Variance on Forecast Profit/Profit Guarantee**

The Group has not issued any profit forecast or profit guarantee.

**5. Taxation**

	Current Quarter RM'000	Period To Date RM'000
Income tax	300	300
Deferred tax	80	80
	380	380

**Notes:**

The effective tax rate was lower than the statutory tax rate principally due to the utilisation of certain tax incentives enjoyed by the Group.

**6. Profit on Sale of Unquoted Investments and/or Properties**

There was no sale of investments and properties for the current quarter and financial period-to-date.

**UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 30 NOVEMBER 2010****7. Purchases and Sales of Quoted Securities**

There was no purchase or disposal of quoted securities by the Group during the current financial quarter and current financial period to-date under review.

**8. Status of Corporate Proposals and Utilisation of Proceeds****(a) IPO**

On 27 January 2010, the Company issued a prospectus for the public issue of up to 9,000,000 new Homeritz Shares at an issue price of RM0.65 per ordinary share payable in conjunction with its listing on the Main Market of Bursa Securities.

The entire enlarged issued and paid-up share capital of RM40,000,000-00 comprising of 200,000,000 ordinary shares of RM0.20 each of the Company is listed on the Main Market of Bursa Securities on 19 February 2010.

**(b) Utilisation of Proceeds**

The gross proceeds from the Right Issue and Public Issue of approximately RM7.87 million shall be utilised in the following manner:

Details of the utilisation of proceeds	Proposed Utilisation (RM'000)	Actual Utilisation as at 30-Nov-10 (RM'000)	Estimated timeframe for utilisation from the date of Listing
Capital expenditure	5,720	3,391	Within 24 months
General working capital*	151	151	Within 3 – 24 months
Estimated listing expenses*	2,000	2,000	Within 3 - 24 months
	7,871	5,542	

\* Unutilised estimated listing expenses of approximately RM0.3 million were used for working capital

**9. Group Borrowings and Debt Securities**

The Group borrowings as at the end of the current quarter are as follow:

	Current Year To Date 31-Aug-11 RM'000
Short term – secured	512
Long term – secured	3,447
	3,959

**UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 30 NOVEMBER 2010****10. Derivative Financial Instruments**

During the financial period, the Group entered into forward foreign exchange contracts to hedge exposures to currency risk for receivables which are denominated in a currency other than the functional currency of the Group.

The details of the outstanding foreign currency forward contracts agreement as at 30 November 2010 are as follows:-

	Notional Amount As At 30 November 2010 RM'000	Fair Value As At 30 November 2010 RM'000
Foreign currency forward contracts:		
Less than one year	9,742	9,846

The above instruments are executed with credit worthy financial institutions in Malaysia. The Directors are of the view that the possibility of non-performance by these financial institutions is remote on the basis of their financial strength.

There are also no cash requirements risks as the Group only uses forward foreign currency contracts as its hedging instruments.

With the adoption of FRS139, the fair value changes has been recognised in the profit or loss.

**11. Material Litigation**

There were no material litigations pending since the last annual balance sheet.

**12. Dividends**

The Board of Directors does not recommend any dividend payment for the period under review.

**13. Earnings Per Share**

The basic earnings per share has been calculated by dividing the Company's profit for the current financial quarter and current financial year to-date by the number of ordinary shares in issue during the current financial quarter and current financial year to-date under review.

	Current Year Quarter Ended 30-Nov-10	Current Year Quarter Ended 30-Nov-09	Current Year To Date 30-Nov-10	Preceding Year To Date 30-Nov-09
Profit attributable to equity holders of the Company (RM'000)	3,439	5,913	3,439	5,913
Weighted average number of ordinary shares in issue ('000)	200,000	67,301	200,000	67,301
Basic earnings per share (sen)	1.72	8.79	1.72	8.79

## UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 30 NOVEMBER 2010

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### 14. Authorisation for Issue of Report

The unaudited interim financial statements were authorised for issue on 28 January 2011 by the Board of Directors.

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