

UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2011

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 (“Homeriz” or the “Company”) and its subsidiaries (“Group”) for the financial year ended 31 August 2010 and the accompanying explanatory notes attached to these 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 January 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 to FRS 8: Operating Segments

Amendment to FRS 107: Statement of Cash Flows

Amendment to FRS 110: Events after the Reporting Period

Amendment to FRS 116: Property, Plant and Equipment

Amendment to FRS 118: Revenue

Amendment to FRS 136: Impairment of Assets

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

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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
 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 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 statements 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 statements 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 YEAR ENDED 31 AUGUST 2011**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 reporting 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 as disclosed in the statements of changes in equity. The effect of the reclassification to the comparative of the prior financial year's consolidated statements 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

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.

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 issuances, 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. Dividends Paid

A final single tier dividend of 10.5% per share amounting to RM4.2 million in respect of financial year ended 31 August 2010 was approved by the shareholders during the Annual General Meeting held on 22 February 2011 and subsequently paid on 18 March 2011.

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On 25 July 2011, the Board of directors declared a first interim single tier tax-exempt dividend of 3% equivalent to 0.6 sen per share amounting RM1.2 million in respect of financial year ended 31 August 2011 and was subsequently paid on 23 September 2011 to all holders of ordinary shares whose names appear in the Record of Depositors at the close of business on 25 August 2011.

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 materials events subsequent to the current quarter ended 31 August 2011 that have not been reflected in this report.

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, except for the following:

On 1 Jun 2011, the Company had completed the transactions of transfer of Assets by the Company in exchange for 100,000 new ordinary shares of RM1.00 each representing 50% of the enlarged issued and paid-up share capital of Embrace Industries Sdn. Bhd. ("EISB") and an acquisition of 30,000 ordinary shares of RM1.00 each representing 15% of enlarged and paid-up share capital of EISB from Ms Wu Ai Hiong. Following this completion, EISB is now a 65% owned subsidiary of the Company.

An announcement was duly made to Bursa Malaysia Securities Berhad on 1 Jun 2011 for the abovementioned.

12. Contingent Liabilities

There were no material contingent liabilities as at 31 August 2011.

13. Capital Commitments

The capital commitments of the Group as at 31 August 2011 are as follow:-

Property, plant and equipment	RM'000
Contracted but not provided for	10

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.

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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 for the current financial year ended 31 August 2011 (FY 2011) of RM89.8 million was 18.3% lower than the revenue for the prior corresponding financial year ended 31 August 2010 (FY2010) of RM110.0 million. However, the Group's profit before tax (PBT) for FY 2011 declined by higher percentage of 44.5% to RM 12.0 million compared to PBT of RM21.7 million recorded in FY 2010. This decline in revenue was mainly due to the lower customer order received as a result of the economic uncertainties especially in our major market (Europe) and the weakening of US dollars. The larger drop in PBT was mainly due to the lower profit margin as a result of lower sales and weakening of US dollars.

The Group's revenue of RM25.8 million for the fourth quarter ended 31 Aug 2011 (Q42011) was higher than the revenue in the previous corresponding fourth quarter ended 31 Aug 2010 (Q42010) of RM23.8 million. In general, the increase of revenue was attributed to the increase of demand from customers and increase of the certain product pricing.

During Q42011, the Group has diversified into manufacturing of metal frames for upholstered dining chairs by acquiring of EISB. As a result, the Group enjoys cost saving from production of metal frames which was previously purchase them externally.

On the back of the improved revenue and cost saving of metal frames, the Group achieved profit before tax of RM4.529 million for Q42011 despite the depreciation of United State Dollars (USD) in Q42011 in comparison to Q42010.

2. Comparison with Preceding Quarter's Results

The Group's profit before tax for the current quarter (Q42011) improved to RM4.529 million as compared to profit before tax of RM1.906 million in the preceding quarter (Q32011). The improvement was generally due to:

- a) Increase of revenue of the Group by 28% from RM20.1 million recorded in Q32011 to RM25.8 million in Q42011;
- b) The increase of the certain product pricing;
- c) The diversification into manufacturing of metal frames for upholstered dining chairs with acquisition of EISB since 1 Jun 2011.

3. Current Year Prospects

This is a challenging period, as the Group is operating in global economic uncertainties as well as facing increases in its raw materials costs and fluctuation in foreign exchange rate. 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's prospects for the financial year ending 31 August 2012 would remain satisfactory.

4. Variance on Forecast Profit/Profit Guarantee

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

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5. Taxation

	Current Quarter RM'000	Period To Date RM'000
Income tax	265	765
Deferred tax	90	200
	355	965

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.

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 has been fully utilised in the following manner:

Details of the utilisation of proceeds	Proposed Utilisation (RM'000)	Actual Utilisation as at 31-Aug-11 (RM'000)	Estimated timeframe for utilisation from the date of Listing
Capital expenditure [^]	5,720	5,720	Within 24 months
General working capital*	151	151	Within 12 months
Estimated listing expenses*	2,000	2,000	Within 3 months
	7,871	7,871	

* Unutilised estimated listing expenses of approximately RM0.3 million were used for working capital
[^]Unutilised estimated capital expenditure of approximately RM0.1 million was used for working capital.

UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2011**9. Group Borrowings and Debt Securities**

The Group borrowings as at 31 August 2011 are as follow:

	Amount RM'000
Short term – secured	1,734
Long term – secured	3,056
	4,790

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 31 August 2011 are as follows:-

	Notional Amount RM'000	Derivative Financial Asset / (Liability) RM'000
Foreign currency forward contracts:		
Less than one year	14,078	309

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.

11. Material Litigation

There were no material litigations pending since the last annual reporting date.

12. Realised and Unrealised Profits/Losses

The breakdown of the retained profits of the Group as at 31 August 2011, into realised and unrealised profits, pursuant to a directive issued by Bursa Securities on 25 March 2010 and 20 December 2010 is as follows :

	As at 31 Aug 2011 RM'000	As at 31 May 2011 RM'000
Total retained profits of the Homeritz Corporation Berhad and its subsidiaries:		
- Realised	21,924	19,225
- Unrealised	(2,056)	(2,071)
Total group retained profits as per consolidated accounts	19,868	17,154

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The determination of realised and unrealised profits is made based on the Guidance on Special Matter No. 1, *determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

13. Dividends

The Board of Directors is pleased to propose a single tier final dividend of 8.25% equivalent to 1.65 sen per share amounting to RM3.3 million for the financial year ended 31 August 2011. The proposed final dividend is subject to shareholders' approval in the forthcoming Annual General Meeting.

The total dividend paid and proposed by the Company in respect of the financial year ended 31 August 2011 is 11.25% of par value (equivalent to 2.25 sen per share) amounting to approximately RM4.5 million. This represents about 42% of the consolidated net profit for financial year ended 31 August 2011.

14. 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 31-Aug-2011	Preceding Year Quarter Ended 31-Aug-2010	Current Year To Date 31-Aug-2011	Preceding Year To Date 31-Aug-2010
Profit attributable to equity holders of the Company (RM'000)	3,914	4,137	10,811	20,055
Weighted average number of ordinary shares in issue ('000)	200,000	200,000	200,000	165,116
Basic earnings per share (sen)	1.96	2.07	5.41	12.15

15. Authorisation for Issue of Report

The unaudited interim financial statements were authorised for issue on 27 October 2011 by the Board of Directors.

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