

UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 28 FEBRUARY 2013

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 Malaysia Financial Reporting Standards (“MFRS”) 134: Interim Financial Reporting and Chapter 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. The interim financial statements also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standard Board.

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 2012 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 2012.

The interim financial statements for the first quarter ended 30 November 2012 is the first set of interim financial statement prepared in accordance to MFRS 1 “*First-Time Adoption of Malaysian Financial Reporting Standards*”, the date of transmission is 1 September 2011.

The accounting policies and methods of computation adopted by the Group in these quarterly financial statements are consistent with those adopted in the most recent annual audited financial statements for the year ended 31 August 2012 except for the following:

Property, plant & equipment

Under FRS 116 “*Property, Plant & Equipment*”, the Group previously adopted revaluation model for its property comprising land and buildings. Revaluation on the assets are made with sufficient regularity at an interval of not more than five years such that the carrying amounts of the assets do not differ materially from their fair values.

Upon transition to MFRS, the Group has elected to apply the optional exemption and measure all its property, plant and equipment using the cost model under MFRS 116 “*Property, Plant and Equipment*”. At the date of transition to MFRS, the Group elected to regard the revalued amounts as deemed cost. This change has no impact to the financial position, performance and cash flows of the Group.

2. 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 2012.

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3. Seasonality or Cyclicity of Operations

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

4. Unusual Items

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

5. Material Changes In Estimates

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

6. Issuance, Cancellation, Repurchase, Resale or Repayment of Debt and/or Equity Securities

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.

7. Dividend Paid

There were no dividend paid during the quarter under review.

8. 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 2012. Upon transition to MFRS, the Group used the previous revaluation at or before the date of transition as deemed cost for property, plant and equipment.

9. Material Event Subsequent to the End of the Current Financial Quarter

There were no materials events subsequent to the current quarter ended 28 February 2013 that have not been reflected in this report.

10. Changes in the Composition Of the Group

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

11. Contingent Liabilities

There were no material contingent liabilities as at 28 February 2013.

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12. Fair Value Hierarchy

The Group uses the following hierarchy for determining the fair value of all financial instruments carried at fair value:

- Level 1 : Fair value measurements derive from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 : Fair value measurements derive from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 : Fair value measurements derive from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 30 November 2012, the Group's financial instruments carried at fair values are analysed as below:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Derivatives assets:				
- Forward foreign currency contracts		2		2

13. Capital Commitments

There were no material capital commitments of the Group as at 28 February 2013.

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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UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 28 FEBRUARY 2013**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 performance for the second quarter ended 28 February 2013 (Q2FY2013) and six months ended 28 February 2013 (1HFY2013) compared with the previous corresponding second quarter ended 29 February 2012 (Q2FY2012) and six months ended 28 February 2012 (1HFY2012) are tabled below:

Description	Q2FY2013 RM'000	Q2FY2012 RM'000	Variance %	1HFY2013 RM'000	1HFY2012 RM'000	Variance %
Revenue	23,512	24,485	-4.0	48,540	51,348	-5.5
Profit before tax	3,002	3,573	-16.0	6,659	7,320	-9.0

The global economic outlook remains uncertain in the period under review. Accordingly, the consumers spending on discretionary item, such as furniture products remain cautious. The Group's revenue for the Q2FY2013 and 1HFY2013 decreased by 4% to RM23.5 million and 5.5% to RM48.5 million respectively compared with the corresponding period last financial year. The lower in revenue were attributed to a decrease in volume of product sold and continue weakening in US Dollars.

The Group's profit before tax ("PBT") in Q2FY2012 and 1HFY2012 decreased by 16.0% to about RM3.0 million and 9% to about RM6.6 million respectively. The decrease in PBT was primarily attributed to the lower profit margin as a result of lower sales, continue weakening in US Dollars and rising of input cost.

2. Comparison with Preceding Quarter's Results

The Group's performance for the current year second quarter ended 28 February 2013 (Q2FY2013) compared to first quarter ended 30 November 2012 (Q1FY2013) are tabled below:

Description	Q2FY2013 RM'000	Q1FY2013 RM'000	Variance %
Revenue	23,512	25,028	-6.1
Profit before tax	3,002	3,657	-17.9

The Group's revenue and PBT for the Q2FY2013 decreased by about 6.1 % and 17.9% respectively compared with the preceding quarter Q1FY2013. The decrease in revenue was also attributed in the decrease in volume of product sold and the weakening of US Dollars.

The decrease in PBT was attributed to lower margin as a result of lower sales, weakening of US Dollars, the rising input costs.

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 rates. Besides this, the Group also faces the challenge of the increase in direct labour cost when the minimum wage policy for both local and foreign worker took effect in January 2013.

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Given the above scenario, 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 2013 would remain profitable.

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	340	790
Deferred Tax	(123)	(243)
	217	547

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 Announced

There were no corporate proposals announced which remain uncompleted during the quarter under review as at the date of this report.

9. Group Borrowings and Debt Securities

The Group borrowings as at 28 February 2013 are as follow:

	Amount RM'000
Short term	356
Long term	2,492
	2,848

UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 28 FEBRUARY 2013**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 28 February 2013 are as follows:

	Notional Amount RM'000	Derivative Financial Asset / (Liability) RM'000
Foreign currency forward contracts: Less than one year	1,862	2

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 28 February 2013, 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 28 February 2013 RM'000	As at 30 November 2012 RM'000
Total retained profits of the Homeritz Corporation Berhad and its subsidiaries:		
- Realised	32,423	34,800
- Unrealised	(2,114)	(2,205)
Total group retained profits as per consolidated accounts	30,309	32,595

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.

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13. Notes to the Statement of Comprehensive Income:

Profit for the period has been arrived at after (crediting) / charging:

	Current Year Quarter Ended 28-Feb-2013 RM'000	Current Year To Date 28-Feb-2013 RM'000
Interest income	(57)	(143)
Interest expenses	34	70
Depreciation	597	1,199
Foreign exchange loss / (Gain)	(327)	(29)
Fair value (gain)/loss on foreign exchange contracts	123	(46)

14. Dividends

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

15. 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 28-Feb-2013	Preceding Year Quarter Ended 29-Feb-2012	Current Year To Date 28-Feb-2013	Preceding Year To Date 29-Feb-2012
Profit attributable to equity holders of the Company (RM'000)	2,214	2,860	5,041	6,034
Weighted average number of ordinary shares in issue ('000)	200,000	200,000	200,000	200,000
Basic earnings per share (sen)	1.11	1.43	2.52	3.02

16. Authorisation for Issue of Report

The unaudited interim financial statements were authorised for issue on 26 April 2013 by the Board of Directors.

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