

## **UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 28 FEBRUARY 2014**

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### **NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS**

#### **PART A – EXPLANATORY NOTES PURSUANT TO THE MALAYSIA FINANCIAL REPORTING STANDARDS (“MFRS”) 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 2013 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 2013.

The audited financial statements of the Group for the year ended 31 August 2013 were prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”). The significant accounting policies and method of computations adopted in preparation of this interim financial report are consistent with those adopted in the audited financial statements of the Company for the financial year ended 31 August 2013.

##### **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 2013.

##### **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.

**UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 28 FEBRUARY 2014**

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**7. Dividend Paid**

There was no dividend paid during the quarter under review.

**8. Valuation of Property, Plant and Equipment**

There was no revaluation of property, plant and equipment brought forward from the previous audited financial statements as the Group does not adopt a revaluation policy on its property, plant and equipment.

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

There were no material events subsequent to the current quarter ended 28 February 2014 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 2014.

**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 28 February 2014, 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	-	28	-	28

**UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 28 FEBRUARY 2014**

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**13. Capital Commitments**

The material capital commitments of the Group as at 28 February 2014 are as follow;

Property, plant and equipment	RM'000
Approved but not contracted for	306

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**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 2014

### 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 2014 (Q2FY2014) and Six months ended 28 February 2014 (1HFY2014) compared with the previous corresponding second quarter ended 28 February 2013 (Q2FY2013) and six months ended 28 February 2013 (1HFY2013) are tabled below:

Description	Q2FY2014 RM'000	Q2FY2013 RM'000	Variance %	1HFY2014 RM'000	1HFY2013 RM'000	Variance %
Revenue	28,641	23,512	21.8	64,328	48,540	32.5
Profit before tax	6,412	3,002	113.6	14,275	6,659	114.4

The Group's revenue for the Q2FY2014 and 1HFY2014 improved by 21.8% to RM28.641 million and 32.5% to RM64.328 million respectively compared with the corresponding period last financial year. The Group's profit before tax ("PBT") for the Q2FY2014 and 1HFY2014 improved by 113.6% to RM6.412 million and 114.4% to RM14.275 million respectively compared with the corresponding period last financial year. The improvement in revenue was attributed to an increase in volume of product sold and strengthening of US Dollar.

As of the improvement in revenue and strengthening of US Dollar, the Group achieves a better economic of scale which has resulted in a better profit margin.

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

The Group's performance for the current year second quarter ended 28 February 2014 (Q2FY2014) compared to first quarter ended 30 November 2013 (Q1FY2014) are tabled below:

Description	Q2FY2014 RM'000	Q1FY2014 RM'000	Variance %
Revenue	28,641	35,687	-19.7
Profit before tax	6,412	7,863	-18.4

The Group's revenue for the Q2FY2014 decreased by about 19.7% to RM28.641 million compared with the preceding quarter Q1FY2014. The decrease in revenue was attributed in the decrease in volume of product sold during the months from December 2013 to February 2014.

As of the decrease in revenue, the profit before tax for Q2FY2014 also decreased by 18.4% to RM6.412 million compared with the preceding quarter Q1FY2014.

**UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 28 FEBRUARY 2014**

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**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.

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 concerted efforts 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 2014 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	950	2,250

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 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 2014 are as follow:

	Amount RM'000
Short term	373
Long term	2,117
	2,490

**UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 28 FEBRUARY 2014****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 2014 are as follows:

	Notional Amount RM'000	Derivative Financial Asset / (Liability) RM'000
Foreign currency forward contracts: Less than one year	4,635	28

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 2014, 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 2014 RM'000	As at 30 November 2013 RM'000
Total retained profits of the Homeritz Corporation Berhad and its subsidiaries:		
- Realised	45,721	46,077
- Unrealised	(2,432)	(1,899)
Total group retained profits as per consolidated accounts	43,289	44,178

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.

**UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 28 FEBRUARY 2014****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 2014 RM'000	Current Year To Date 28 Feb 2014 RM'000
Interest income	(333)	(432)
Interest expenses	30	62
Depreciation	610	1,216
Foreign exchange loss / (Gain)	(359)	(77)
Fair value (gain)/loss on foreign exchange contracts	(9)	(166)

**14. Dividends**

On 28 April 2014, the Board of directors declared a first interim single tier tax-exempt dividend of 5.0% equivalent to 1 sen per share amounting RM2 million in respect of financial year ending 31 August 2014 to be paid on 13 Jun 2014 to all holders of ordinary shares whose names appear in the Record of Depositors at the close of business on 28 May 2014.

**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-2014	Preceding Year Quarter Ended 28-Feb-2013	Current Year To Date 28-Feb-2014	Preceding Year To Date 28-Feb-2013
Profit attributable to equity holders of the Company (RM'000)	4,611	2,214	10,403	5,041
Weighted average number of ordinary shares in issue ('000)	200,000	200,000	200,000	200,000
Basic earnings per share (sen)	2.31	1.11	5.20	2.52

**16. Authorisation for Issue of Report**

The unaudited interim financial statements were authorised for issue on 28 April 2014 by the Board of Directors.

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