

KODA™

Press Release – first quarterly report: 3Q & 9M FY2008 results

SGX-LISTED FURNITURE ORIGINAL DESIGN MANUFACTURER, KODA, COMMENCES QUARTERLY REPORTING; POSTS 9M08 YTD NET PROFIT OF US\$4.7 MILLION

US\$'000	9M FY08	9M FY07	%chg	3Q FY08	3Q FY07	%chg
Revenue	44,655	46,095	(3.1)	9,689	12,001	(19.3)
Gross Profit	13,090	12,650	3.5	2,908	3,381	(14.0)
Net Profit to shareholders ("Net Profit")	4,718	4,562	3.4	539	716	(24.7)
Gross profit margin	29.3%	27.5%		29.9%	28.2%	
Net profit margin	10.5%	10.0%		5.6%	6.0%	

- Year-to-date results (9-month) – both Revenue and Net Profit for the 9 months ended 31 March 2008 are almost at par with that achieved for the prior 9 months ended 31 March 2007; despite disappointing results for the seasonally weakest quarter, 3Q08, sustainable margins were earned:
 - 3Q08 Revenue affected by shorter production days and compounded by delay in orders received from US clients as well as the changing buying psychology of clients on more apparent US slowdown
 - 3Q08 Net Profit affected by lower gross profit (higher material costs), higher fixed operating expenses (as a percentage of sales) and higher effective tax rate (tax holiday in Vietnam lapsed)
- Very encouraging new orders received from the annual series of international furniture fairs held during 3Q08 – a new record-high of US\$7.3 million worth of on-the-spot orders
- Diversifying markets – acquired record-high 92 new customers mainly from Europe, Middle East, Africa, India and other Asia Pacific countries during the international furniture fairs
- Outlook: the Directors find that the current situation in the USA, and to a lesser extent the EU, is too volatile for any great certainty. However, based on the year-to-date (9-month) results ended 31 March 2008, the directors believe that FY2008 performance could be at par with that of FY2007

Singapore, 29 April 2008 – SGX Mainboard-listed Koda Ltd (“Koda” or “the Group”), a home-grown original design manufacturer (“ODM”) and global exporter of home furniture for the mid to upper-end market segments worldwide, today commenced its first quarterly reporting with the release of the third quarter (“3Q08”) or January-March 2008 results – the Group’s seasonally weakest quarter in respect of earnings, in line with customer buying patterns and the Group’s lower production capacity utilization during the holiday session.

With Koda and its competitors unveiling many new designs during the series of major international furniture fairs held during January to March across Europe and Asia each year, international buyers tend to hold back some orders until they have previewed the new lines launched at these fairs.

Consequently, new product development efforts and expenses are intensified in 3Q. Production capacity-wise, the Group operates the shortest number of production days in 3Q, in keeping with the tradition of extended holidays for Chinese New Year and Vietnamese New Year celebrations in Singapore, Malaysia and Vietnam.

Koda's increasingly less aggressive sales policy adopted for its US market, specifically reducing credit exposure and refocusing on driving non-US sales continued to shape the changing profile of Group revenue through 3Q08.

As US economic slowdown and job/consumer insecurity become more apparent towards end of 2007, the buying psychology of Koda's customers inevitably changed – delaying orders, ordering in smaller batches and smaller amount, and expecting faster delivery turnaround – in turn led the Group to post disappointing financial results for 3Q08.

The delay by a US customer in respect of US\$2.0 million worth of orders placed previously exacerbated the decline in US sales revenue. While the customer did not cancel the orders, it needed time to study the impact of the sub-prime fallout, particularly the slowdown in housing sales and the rate of declining housing prices.

Fortunately, the Group's increasing diversified revenue base helped to mitigate the impacts of unfavourable US news on discretionary consumer spending and Rossano's concept stores in Vietnam continue to deliver strong local retail sales.

Consequently, the Group recorded 19.3% decrease in revenue to US\$9.7 million for 3Q08. Revenue for the nine months year-to-date of financial year 2008 ("9M08"), ie, June 2007 to March 2008, amounted to US\$44.7 million, or 3.1% decrease over 9M07.

Rossano's local retail operations' better margins coupled with the expansion of Koda's central sourcing facilities in Dongguan, Southern China and effective outsourcing of base component production operations in Vietnam helped to improve gross profit margin in 3Q08 to about 30%.

Commenting on the Group's performance, Mr TK Koh, Non-executive Chairman of Koda said, "Our business environments have become very challenging in the last six months. North America – not including Canada – is one of our major markets (about 28% of our last year's revenue), so now the US market is very uncertain because of credit issues and housing slowdown in the US. Consumer confidence is lower as well. So, we cut down our credit sales to the US market. We would rather make less money. However, we have many more clients from other countries like Europe, Middle East and Asia Pacific – we cannot ignore Asia as potential key markets in future."

Mr James Koh, Deputy Chairman and Managing Director, said, "Negative financial sector developments prompted by the sub-prime mortgage crisis are still unfolding in the US. We were bracing for classic knee-jerk responses in holding back of discretionary consumer spending for non-impulse, bigger-ticket home furniture items like dining room sets and bedroom furniture. US retailers have little choice but to dangle selective loss-leaders now to draw customers, and/or feature innovative new designs to stimulate actual buying. Accordingly, we are pacing out the orders and have tweaked our operations to offer a shorter order lead-time for smaller batches."

"On the brighter side, our international customers are responding to our selective win-win pricing strategy. The Eurodollar is strong; Middle East economies are thriving and growth of emerging Asia Pacific economies appear sustainable – we have a diversified base of clients. I see many top luxury European cars being showcased in Vietnam's main cities nowadays and the consumer spending mood there is bullish. All these factors should underpin the future prospects of our Rossano concept stores. We have also built up sufficient stock of materials – invested mainly from our internally-generated resources – in meeting the shorter delivery lead time as requested by our customers." added Mr. Koh.

"What's very encouraging amidst all the doom and gloom forecasts from economic experts are that our major international furniture fairs in Germany, China, Malaysia, and Singapore in 3Q this year turned out to be major adrenalin boosters for Koda. Despite less bullish market sentiment, we set a new record of US\$7.3 million worth of on-the-spot orders! Equally important is that our new design lines attracted another record-high 92 new customers to sign on with us compared to 73 new customers last year, and these are mainly from Europe, Middle East, Africa, India and other Asia Pacific countries," enthused Mr Koh.

The continuing focus on ramping up orders from its non-US customer base has reduced market concentration risk; the Group's initial penetration of new geographical markets, e.g., the Middle East, is drawing more trial orders. The Group is further investing more resources to ensure that it builds on the initial momentum of trial orders to establish significant beachheads in these new markets.

On intensified R&D efforts, Mr Koh said, "Our new range of contemporary stylishly affordable furniture continues to spark buying interest. We unveiled several new designs including modern designs incorporating walnut timbers and veneers, black high-gloss contemporary finish embellished with "Crystallized™ - Swarovski Elements" and the ecologically friendly bamboo wood aimed at 'Generation Y'.

"While our post-show follow-ups with new prospects seem favourable, we are wary over the immediate term. In early 2008, the redemption of hedge funds by nervous investors reached its highest level to-date. With global markets closely intertwined, we remain alert to all possible impacts should a prolonged US recession occur. It is not possible to ascertain ahead the extent of any ensuing deterioration in delayed orders, whether to full cancellation, or merely payment delays or order gaps; or how fast our emerging markets can take up the demand."

The financial position remains strong and gearing level is low. However, the Directors do find that the current situation in the USA, and to a lesser extent the EU, is too volatile for any great certainty. However, based on the year-to-date (9-month) results ended 31 March 2008, the directors believe that FY2008 performance could be at par with that of FY2007.

Pre-emptive actions launched in recent months will stand the Group in good stead. These initiatives include market diversification, product stratification, i.e. introducing lower-price Rossano products into regional and international markets; stringent credit control and strengthening its financial position.

“We are thinking out-of-the-box to expand market shares and penetrate previously untapped segments – do give some time for our efforts to bear fruits going forward. For instance, Rossano has recently launched the “Rossano Exclusive’ concept stores that define a new lifestyle-focused living concept for the Vietnamese market, leveraging on the pent-up consumer demand in Vietnam buoyed by a broad improvement of economic affluence across its comparatively young population.”

The Phase 1 construction of Koda’s new Vietnam Plant in Ben Luc Industrial Park has been completed. The Group has taken advantage of the 3Q production low season to commence the progressive relocation of production operations to the new plant about 20 minutes’ drive from the existing plant, starting with warehouses and stores. Production trial runs are targeted to complete by end June and the new plant should start revenue-contributing manufacturing activities in 1Q09. The Group has been paying cash for the construction and purchase of new equipment for this plant.

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About Koda Ltd

Established in Singapore and founded in 1972, Koda is backed by a management with combined experience of close to a century and recognised as a leading Original Design Manufacturer (“ODM”) to the world. Koda is a strong contender for home furniture export and could possibly be the largest dining room furniture exporter in South-East Asia. Koda’s range of design-intensive products exudes individuality, sophistication and elegance.

Koda is well-known for its design strength – leading to appreciation from upscale customers worldwide for its aesthetical and functional pieces. With proven market experience, strong product development and significant in-house design expertise, Koda has been able to offer more than 300 product models, secure orders from more than 200 customers and sell to more than 50 countries. Consistent business strategies and focused growth initiatives differentiates Koda from others. Koda has been emphasising on cost-effective expansion and the enlarged production and sourcing facilities in Vietnam and China enhance its cost competitiveness. Together with its existing manufacturing base in Malaysia, Koda has a total 12 purpose-built factory buildings.