

# **KODA**

Press Release – 1H FY08 results

## **FURNITURE ORIGINAL DESIGN MANUFACTURER, KODA ANNOUNCES 1H08 US\$4.2 MILLION NET PROFIT; INTERIM DIVIDEND OF S0.5 CENT LESS 18% TAX**

- Healthy 8.7% y-o-y net profit growth outpaced 2.6% revenue growth on more diversified client base, less aggressive stance on sales to US markets
- Gross margin improved 1.9 % points to 29.1% on effective outsourcing policy in Dongguan and Vietnam, and stronger and better-margin retail sales from Rossano's concept stores in Vietnam; recorded sustainable net profit margin of 12%
- Promising 2008 kick-off at imm Cologne Furniture Fair in Germany – Koda secured aggregate orders worth US\$1.5 million (about 50% higher than 2007) mainly from UK/Europe and upcoming Middle East markets
- Rossano: successful debut at imm Cologne – its 1<sup>st</sup> European trade show yet signed substantial trial orders
- Growth strategies: to enlarge market share from non-US markets and expand Rossano concept stores to meet strong local retail sales in Vietnam. Whilst overall demand could be less stable this year due to anticipated weakening of US economy, FY2008 NPAT shall be equal to or slightly better than FY2007
- Conversion of Rossano to Joint Stock company announced Jan 2008 – to tap fund raising opportunity from Vietnamese capital markets, if and when required, for any future expansion

**Singapore, 1 February 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, announced today that its net profit attributable to equity holders for the six months ended 31 December 2007 (“1H08”) increased 8.7% to US\$4.2 million from US\$3.8 million achieved for 1H07.**

Despite 1H08's challenging operating environment for the global furniture industry with the sub-prime fallout in US and generally higher raw material prices, particularly of leather and packaging materials, revenue grew 2.6% to US\$35.0 million with higher gross profit and improved gross profit margin of US\$10.2 million and 29.1% respectively.

The modest topline growth was largely due to a delay in a significant US order as well as the Group's more cautious sales policy toward the US markets and conscientiously changing its sales profile, to a more diversified client base especially outside the US. This prudence should reduce market concentration risk given the Group's increasing concerns over credit issues arising from the sub-prime fallout.

Commenting on the Group's performance, Mr TK Koh, Non-executive Chairman of Koda said, "We are facing a more challenging business environment and we must be adaptive to the changes. We have many international clients outside the US and they are very supportive. I also like Rossano business in Vietnam. I think the retail sales can grow fast in the next few years."

Basic earnings per share ("EPS") correspondingly rose to 3.1 US cents in 1H08 compared to 2.9 US cents (as computed on 1-for-5 bonus issue) in 1H07. With stronger assets backing, net asset value ("NAV") per share rose to 21.3 US cents as at 31 December 2007 compared to 18.4 US cents as at 30 June 2007. Cash at bank increased by a healthy US\$1.3 million to US\$7.2 million and total borrowings continued to fall by some 12.4% to US\$2.5 million as at 31 December 2007. Gearing ratio thus improved to 0.08 times, compared to 0.12 times as at 30 June 2007.

Pre-empting a worst-case scenario for the US economy, the Group has been channelling more marketing activities and resources to deepen business development outreach efforts and gain market shares across worldwide markets. The Group's diversified client base extends from UK/ Europe and Asia Pacific markets.

"Given the challenging operating climate during the end of 2007, we have fared well and earned sustainable profit margins. Koda has been focusing on the mid-upper end market segments, hence, other than the delay in a significant US order, by and large, our US orders book held firm in 1H08 in spite of our cautious stance." Mr James Koh said.

"It is good to be prudent in our sales policy towards the US markets until visibility on the US economy improves. We are extending market coverage and continuing our expansion plans in Vietnam. We are now founded on a long term perspective and strong fundamentals." added Mr. James Koh.

Accordingly, topline growth in 1H08 came from Asia Pacific markets (Vietnam, Australia & NZ). Sales to North America market did show a slight dip period-on-period; nevertheless it remained above 40% of total revenue. Gross profit increased 9.9% or US\$0.9 million to US\$10.2 million with gross margin improving 1.9 percentage points to 29.1%. This achievement was mainly attributed to the growth of better-margin retail sales from Rossano's concept stores in Vietnam and more cost-effective sourcing of components and raw materials in Vietnam and Dongguan, PRC.

"Our measures to address market concentration risks in the last few years have enabled us to re-balance sales mix as and when necessary. In 1H08, we invested further in riding on our European markets and greater penetration of new markets and the fruits of our conscientious marketing efforts I should be progressively reflected in our forthcoming quarters," he said.

Selling and administrative costs rose 12.9%, in line with a greater emphasis on marketing across Europe, increase in head count and the need to raise salaries, as well as the opening of new stores by Rossano. On the other hand, finance costs reduced 33.3% to

less than US\$0.1 million as improved operating cash inflows facilitated lower borrowings and thus interest savings.

On market outlook ahead, Mr James Koh said, "Overall, we are bracing for a less stable furniture market. Nevertheless, we kicked off 2008 on a promising note from our traditional season-opening major show, imm Cologne 2008 International Furniture Show in Germany. We signed orders amounting to US\$1.5 million which is about 50% higher than those in last year. More than half of these orders came from our core UK/Europe market. Another booster was Rossano's successful debut at imm Cologne, its first European show. Given that international buyers tend to be very cautious with first-time exhibitors, Rossano clinched substantial trial orders.

"Going forward, we believe that Rossano has a strong potential to quickly penetrate the international markets as a Vietnam-based specialist for leather and fabric-upholstered sofas, with Koda's established delivery track record helping to fast-track the signatures of prospective buyers. Rossano will be attending the upcoming international furniture show in Singapore and Vietnam which will further expose Rossano's products more internationally" said Mr James Koh.

In addition, Rossano's concept stores in Vietnam enjoyed strong retail sales in tapping the pent-up demand of its expanding consumer class with improving disposable income in synch with the country's rapid economic development. Rossano owns and manages 20 retail and franchise stores in Vietnam and opened its first concept store in Cambodia last year. Coupled with continuing momentum internationally, Rossano will be ready to embark on its own expansion plans in the near future.

Having converted to joint stock status in January 2008, Rossano is able to directly tap Vietnam's capital markets to fund its future plans to ramp up manufacturing capacity, expand its distribution network and boost its retail branding in Vietnam.

The Group expects to continue building order books at the upcoming Asian circuit of International Furniture Fairs during March 2008 – Singapore, Malaysia and Guangzhou as well as the inaugural Vietnam International Furniture Fair in Ho Chi Minh City which Koda and Rossano are expected to fare well.

On strategies ahead, Mr Koh added, "When market dynamics are in a flux, many players will tend to gauge the efficacy of proposed fiscal and other initiatives by the US government to stave off mounting recessionary pressures and pump-prime consumer spending. Our worldwide customers have generally remained highly supportive, but we expect them to similarly exercise prudence in committing orders and seek shorter delivery lead times."

Given the Group's strategies and barring unforeseen circumstances, the directors are of the opinion that net profit after tax for FY2008 shall be equal to or slightly better than what was achieved for FY2007.

On the progress of Koda's Phase 1 plant expansion in Long An, near Ho Chi Minh City, Mr Koh explained, "Our original construction schedules were inevitably delayed by the shortages in building materials and prices of iron ore and cement spiked. We saw no point in significantly busting our original capex. We made alterations to the original design and

architectural plans and kept to our budget without making major compromise on facilities and functionality. We are now working towards starting production trial runs in 3QFY2008.”

In view of the Group’s performance and having considered the operating cash flow position and capital investment plans, the Directors have announced an interim gross dividend of US0.33 cent (0.5 Singapore cent) per ordinary share (less 18% tax) in respect of 1H08 – the Group paid the same amount of interim dividend for 1H07.

*Issued on behalf of the Company by WeR1 Consultants Pte Ltd*

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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.*