Notes to Quarterly Report

1. Basis of Accounting and Accounting Policies.

These condensed consolidated interim financial statements for the period ended 31 Dec 2017, have been prepared in accordance with MRFS 134, Interim Financial Reporting and Paragraph 9.22 of the Bursa Malaysia Securities Berhad (Bursa Securities) Listing Requirements. For the periods up to and including the year ended 31 Dec 2016, the Group prepared its financial statements in accordance with applicable Financial Reporting Standards ("FRS")

2. Audit Report on Financial Statements.

The financial statements of the Group for the financial year ended 31 December 2016 have been reported without any audit qualification.

3. Seasonal or Cyclical Factors

The business activities of the Group tend to have higher sales near the year end festive season but are not significantly affected by any cyclical factors.

4. Unusual Items Affecting the Assets, Liabilities, Equity, Net Income or Cash Flows

There is no unusual item affecting the assets, liabilities, equity, net income or cash flows of the Group for the period under review.

5. Material changes in estimates

There is no material change in estimates for the period under review.

6. Issuance and Repayment of Debt and Equity Securities

There is no issuance or repayment of any debt and equity securities during the period under review.

7. Segmental Information for the Current Financial Period

No segmental information is presented, as the Group is principally involved in latex bedding business with operations in Malaysia and no overseas plant or office.

8. Valuation of Property, Plant & Equipment

All assets under the Group have not been revalued and are carried at historical cost.

9. Effect of Changes in the Composition of the Group

There is no change in the composition of the Group during the period under review.

10. Status of the Corporate Proposals

There is no corporate proposal being undertaken by the Group as at the reporting date.

11. Profit Forecast / Guarantee

Not applicable.

12. Discussion and Analysis on Group's Financial Performance

a) Financial review for current quarter and financial year to date

The revenue of the Group for the current quarter increased by 39.6% to RM22.83 million against RM16.36 million in the previous year corresponding quarter due to robust sales from both export and domestic markets. The YTD revenue increased by 16.7% from RM64.20 million to RM74.93 million mainly due to robust sales in Q3 and Q4, which make up for poor sales in Q1 for this financial year.

Accruing to the robust sales, the profit before tax for the current quarter increased by 59.1% to RM3.69 million from RM2.32 million in the previous year corresponding quarter. The Group achieved record profit with full year profit before tax increased by 20.6% from RM5.67 million in 2016 to RM6.84 million in 2017. The main factors affecting the financial performances are as follows

i) The market condition – Export demand for latex bedding has shown strong recovery in the Q3 and Q4, against weak sales in Q1. Besides, the domestic sales has picked up in line with our promotional activities, which in total contributed to the 16.7% increase in total revenue in 2017

ii) Level of operating activities – There is no significant changes to the level of operating activities save for the increase in sales as per i) above.

iii) Key factors affecting revenue, costs and profit margin

a. The robust growth of 39.6% in sales has contributed to 59.1% growth in profit before tax in Q4 against previous year corresponding quarter.

b. The average centrifuged latex price has come down from peak in Q1 to a level close to those in previous year corresponding period, which contributed to improved profit for 2017 in line with improved revenue.

c. Volume of latex in production in Q4 increased 48% to 1,290 tons from 870 tons in previous year corresponding quarter due to strong demand for latex bedding. On full year basis, total volume of latex in production increased by 8.9% from 3,720 tons in 2016 to 4,050 tons in 2017

d. Labour shortage continued to affect our operational efficiency to optimize our production capacity.

e. During the period under review, the Group's operation is not affected by any natural disasters or unusual disruptions, save for the labour issue.

f. There is no significant changes in staff costs for the period under review

g. The finance cost has reduced by 26.9% for the period under review compared to previous year corresponding period, due to strong free cashflows and prudent financial management.

iv) Unusual or one-off issue – There is no significant unusual or one-off issue during the period under review.

v) Diversification or penetration into new market – The Group has penetrated into in-bound tourist market with our latex bedding products. The results are encouraging and are contributing positively to the Group.

vi) Merger and acquisition exercises – There is no merger and acquisition exercise for the period under review.

vii) New contracts / termination of existing contract – there is no significant new contract or termination of existing contract for the period under review.

viii) Impairment of Assets or receivables – there is no significant impairment of assets or receivables for the period under review.

ix) Fair value gain / loss on investment – there is no fair value gain or loss on investment for the period under review

x) Foreign labour issues – the Group is facing labour shortage as discussed above. The Group is actively taking steps to alleviate the issues and is expected to minimize the shortage this year.

13. Financial Review for current quarter compared with immediate preceding quarter

	Current Quarter	Immediate Preceding Quarter	Changes %
	31/12/2017	30/09/2017	
	RM' 000	RM' 000	
Revenue	22,830	19,990	+14.2%
Operating Profit	3,635	1,698	+114.1%
Other Income	118	45	+162.2%
Finance cost	(63)	(72)	-12.5%
Profit Before Tax	3,690	1,671	+120.8%
Profit After Tax	3,023	1,646	+83.7%
Profit Attributable to Ordinary Equity Holders of the Parent	3,023	1,646	+83.7%

The revenue for current quarter increased by 14.2% to RM22.83 from RM19.99 million in the preceding quarter, due to increase in both export and domestic sales. Profit before tax increased by 114.1% from RM1.67 mil to RM3.64 million against preceding quarter mainly due to higher sales recorded in the current quarter as well as softening in the centrifuged latex price.

14. Other Income / Expenses

	Current Quarter	Preceding year Corres quarter
	RM' 000	RM' 000
Interest income	47.5	3.0
Other income	71.5	427.2
Changes in (Provision for)/recovery of doubtful del	10.9	26.2
Gain/ (loss) on disposal of Fixed assets	-	19.8
Changes in (Provision for)/recovery of Stocks	6.7	(592.6)

15. Deferred Taxation

The deferred tax liabilities on deductible temporary differences recognised in the financial statements as required under the MFRS 112 were as follows: -

	YTD ended 31 Dec 2017
Tax effect of	RM' 000
Excess of capital allowance over accumulated depreciation on property, plant & equipments	(1,475)
Recognition of deferred tax assets on adjusted business loss and net balancing charge	21
	(1,454)

16. Group Borrowings

a) The Group borrowings as at the end of the reporting quarter are as follows:

	As at 4th Quarter ended 2017					
	Long Term		Short Term		Total Borrowings	
	Foreign deno' RM' 000	RM deno'n RM' 000	Foreign deno' RM' 000	RM deno'n RM' 000	Foreign deno' RM' 000	RM deno'n RM' 000

Secured	-	6,222		2,282		8,504
Unsecured	-	-	-	-	-	-

	As at 4th Quarter ended 2016					
	Long Term		Short Term		Total Borrowings	
	Foreign deno' RM' 000	RM deno'n RM' 000	Foreign deno' RM' 000	RM deno'n RM' 000	Foreign deno' RM' 000	RM deno'n RM' 000
Secured	-	7,933	793	2,087	793	10,020
Unsecured	-	-	-	-	-	

b) Group net gearing or net cash position

	Current Quarter	Preceding year Corresp'g quarter
	RM' 000	RM' 000
Total borrowings	(8,504)	(10,813)
Cash	16,654	13,900
Net (Borrowings)/ Cash	8,150	3,087
Net Assets	45,465	42,232
Net Gearing Ratio	Net cash	Net cash

Commentaries on Group Borrowings and Debt Securities

i) Total borrowings reduced from RM10.02 million to RM8.50 million against previous year corresponding quarter due to strong free cashflows.

ii) The net cash position improved from RM3.09 million in Q4 of 2016 to RM8.15 million in the current quarter.

iii) The Group has embarked on an expansion project with an approved budget of RM8million. The total term loan approved for this project is RM6.2 million. As at the reporting date, the capital-work-in-progress totaling RM7.44 million was paid in cash, as the Group has yet to drawdown on the term loan.

iv) The interest rates ranges from 2.5% to 7% for the period under review. Some of the term loan interest is calculated after netting off the cash balance in specific bank accounts, thus resulting in savings in overall interest costs.

v) The Group sometimes financed certain import purchase denominated in USD using Foreign Currency Trade Loan (FCTL). The Group is having more USD proceeds from export than USD imports thus is practicing natural hedging for USD imports as well as settlement of FCTL.

17. Contingent Liabilities

	RM' 000
Corporate guarantees issued to licensed banks for credit facilities granted to subsidiaries	7,395

18. Financial Instruments under MFRS 139

As at 31 Dec 2017, the unrealized gains or loss for the Group is as follows

	Derivatives / year end balances	Contract value (RM' 000)	Balance Shee value (RM' 000)	Fair Value (RM' 000)	Unrealised Gain (loss) (RM' 000)
1	Foreign Exchange Contracts				
	- Less than 1 year	-	-	-	-
	- 1 year to 3 years	-	-	-	-
	- More than 3 years	-	-	-	-
2	Trade related balances	-	2,389	2,084	(305)

	Total				(305)

19. Foreign Exchange Exposure / Hedging Policy

Exports constituted approximately 55% of the Group's total revenue. The main export currency is USD. The Group has imports in USD for certain of its raw materials and trading goods. The Group practices natural hedging for export proceeds with import payments and may sometimes hedge up to 50% of any excess USD.

20. Trade Receivables

The Group practices prudent credit control with average debtor days of within 1-2 months. During the period under review, there is no material provision and write-off of trade receivables.

There is no significant related parties transactions during the period under review, save for some tenancy agreements and advertisement placements. Both the tenancy agreements and advertisement brokerage arrangement are approved Recurrent Related Parties Transactions ("RRPT") duly approved by shareholders during the last AGM.

21. Material Impairment of Assets

There is no material impairment of Assets during the period under review.

22. Prospects for the Next Financial Year

The Board expects the changes in any of the following factors may have a direct impact on the performance of the Group in 2018 :

i) The new expansion and modernization project for our latex division, which would increase our capacity by 50% and increase the varieties of latex pillows in productions.

ii) Key Raw Material - Centrifuged latex price which had risen by more than 80% in Quarter 1 for the current financial year, has softened to level close to those prevailing in 2016. Stability of the latex price would be beneficial to the Group's operations to reduce fluctuation in margins.

iii) Foreign Exchange - The changes in exchange rate especially the US Dollar which remains the main foreign currency for our export business, would have material impact on the Group's operations and margins. Nevertheless, the Group is reasonably well balanced in exposure to foreign currency fluctuation due to the following reasons

a. Reasonably well balance of export and local sales of around 55:45 composition.
b. The natural hedging of USD by matching majority of imports and exports in same currency.

iv) Consumer sentiment and confidence level in spending – Domestic retail spending on consumer durables remain fairly subdued since the implementation of Goods and Services Tax ("GST"). The Group's effort to actively participate in more consumer fairs to reach out to the consumers has successfully mitigated the slow-down in retail sales.

v) Property sector - The health of the property sector will have direct impact on furnishing requirements. With tough environment facing the property sector currently, the demand for new bedding for furnishing new houses would be subdued.

vi) Foreign workers - The availability of foreign workers to run the production is imperative for the Group as a manufacturer. The Group has recently obtained approval for new workers and it is expected to work well in conjunction with our expansion plan in 2018

23. Material Litigation

The Group does not have any material litigation as at 26 Feb 2018.

24. Dividend

The Board is pleased to propose an interim tax exempt dividend of 1.5 sen per ordinary share for the financial year ended 31 Dec 2017, representing an increase of 50% over 2016. The proposed dividend is payable at a date to be determined later.

The first and final, tax exempt dividend of 1 sen per ordinary share totaling RM1,678,157, for the financial year ended 31 Dec 2016 was paid on 15 Jun 2017.

25. Significant Subsequent Events

There are no material events subsequent to the end of the period under review which have not been reflected in this interim financial report.

26. Net Earnings Per Ordinary Share

The earnings per ordinary share is calculated based on the Group's profit after taxation on the number of ordinary shares of RM0.10 each of 164,546,704 in issue (net of treasury shares).

	YTD ended 31 Dec 2017
	RM' 000
Profit after Taxation	6,034
No of Ordinary shares of RM0.10 each (net of treasury shares)	164,547
Net EPS - Basic (sen)	3.67
Net EPS – Diluted (sen)	3.67

By Order of the Board

Dato' Eric Lee Kong Sim
Managing Director

26 Feb 2018