

Notes to Quarterly Report

1. Basis of Accounting and Accounting Policies.

These condensed consolidated interim financial statements for the period ended 30 Jun 2018, 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 2017, 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 2017 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.

Notes to Quarterly Reports (cont'd)**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 30.7% to RM23.00 million against RM17.60 million in the previous year corresponding quarter due to robust sales from both export and domestic markets.

Accruing to the robust sales, the profit before tax for the current quarter increased by 115.4% to RM2.18 million from RM1.01 million in the previous year corresponding quarter. The main factors affecting the financial performances are as follows

- i) The market condition – The Group maintains the strong momentum on sales for both export as well as domestic market for the quarter under review.
- 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 30.7% in sales has contributed to 115.4% growth in profit before tax in Q2 against previous year corresponding quarter, due to high volume and better margin.
 - b. The average centrifuged latex price has normalized in 2018 which contributed to better margin. Q2 of 2017 was affected by high centrifuged latex price which resulted in lower margin for that quarter.
 - c. Volume of latex in production in Q2 of 2018 increased by 50.0% to 1,350 tons from 900 tons in previous year corresponding quarter due to strong demand for latex bedding.
 - d. Labour shortage continued to affect our operational efficiency to optimize our production capacity. The arrival of new approved labour has been slow.
 - e. During the period under review, the Group's operation is not affected by any natural disasters or unusual disruptions.
 - f. There is no significant change in staff costs for the period under review
 - g. The finance cost has reduced by 27.6% for the period under review compared to previous year corresponding period, due to strong free cashflow 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 – The Group acquired the business of Mattress Factory Outlets Sdn Bhd for a total purchase consideration of RM2.78 million on 21 May 2018. The purchase consideration was financed entirely by internally generated fund. The business integration is currently underway.
- 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.

Notes to Quarterly Reports (cont'd)
13. Financial Review for current quarter compared with immediate preceding quarter

	Current Quarter	Immediate Preceding Quarter	Changes %
	30/06/2018	31/03/2018	
	RM' 000	RM' 000	
Revenue	23,004	22,332	+3.0%
Operating Profit	2,146	2,213	-3.0%
Other Income	87	130	-33.1%
Finance cost	(57)	(61)	+6.6%
Profit Before Tax	2,176	2,281	-4.6%
Profit After Tax	2,016	2,061	-2.2%
Profit Attributable to Ordinary Equity Holders of the Parent	2,016	2,061	-2.2%

The revenue for current quarter increased slightly by 3.0% to RM23.00 million from RM22.33 million in the preceding quarter. Profit before tax decreased slightly by 4.6% from RM2.28 million to RM2.18 million against preceding quarter mainly due to certain forex translation loss.

14. Other Income / Expenses

	Current Quarter	Preceding year
	RM' 000	Corresp'g quarter RM' 000
Interest income	29.3	17.2
Other income	57.9	32.8
Changes in (Provision for)/recovery of doubtful debt	2.4	(41.5)
Gain/ (loss) on disposal of Fixed assets	-	-
Changes in (Provision for)/recovery of Stocks	-	-

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 30 Jun 2018
	RM' 000
Tax effect of	
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 2 nd Quarter ended 2018					
	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	-	5,091	-	2,282	-	7,373
Unsecured	-	-	-	-	-	-

Notes to Quarterly Reports (cont'd)

	As at 2 nd 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	-	7,456	1,564	2,024	1,564	9,480
Unsecured	-	-	-	-	-	-

b) Group net gearing or net cash position

	Current Quarter	Preceding year Corresp'g quarter
	RM' 000	RM' 000
Total borrowings	(7,373)	(11,044)
Cash	13,290	10,921
Net (Borrowings)/ Cash	5,917	(123)
Net Assets	48,825	43,597
Net Gearing Ratio	Net cash	0.3%

Commentaries on Group Borrowings and Debt Securities

- i) Total borrowings reduced from RM11.048 million to RM7.37 million against previous year corresponding quarter due to strong free cashflows.
- ii) The net cash position improved to RM5.92 million in Q2 of 2018 from net gearing of RM0.12 million in previous year corresponding quarter.
- iii) 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.
- iv) The Group occasionally 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	7,373

18. Financial Instruments under MFRS 139

As at 30 Jun 2018, 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	8,668	-	8,874	(206)
	- 1 year to 3 years	-	-	-	-
	- More than 3 years	-	-	-	-
2	Trade related balances	-	953	1,023	(70)
	Total				(276)

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 occasionally hedge up to 50% of any excess USD.

Notes to Quarterly Reports (cont'd)**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 party 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 Current Financial Year

The Board expects that 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%.
- ii) Key Raw Material – The fluctuation of the centrifuged latex price which is the main raw material for our latex bedding would have direct impact on the Group's operating margin. The current latex price has been stable and slightly on the downward trend which is conducive to the Group's operation.
- iii) Foreign Exchange - The changes in exchange rate especially the US Dollar which remains the main foreign currency for our export business, would 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 balanced 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 –The Group's effort to actively participate in more consumer fairs to reach out to the consumers has brought in satisfactory growth in the domestic 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 20 Aug 2018.

24. Dividend

The Board does not recommend any dividend for the quarter under review.

The interim tax exempt dividend of 1.5 sen per ordinary share totaling RM2.45 million for the financial year ended 31 Dec 2017 was paid on 15 Apr 2018. (2017 interim dividend : NIL).

Notes to Quarterly Reports (cont'd)
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 163,127,804 in issue (net of treasury shares).

	YTD ended 30 Jun 2018
	RM' 000
Profit after Taxation	4,077
No of Ordinary shares of RM0.10 each (net of treasury shares)	163,128
Net EPS - Basic (sen)	2.50
Net EPS – Diluted (sen)	2.50

By Order of the Board

Dato' Eric Lee
Managing Director

20 Aug 2018