

**Notes to Quarterly Report****1. Basis of Accounting and Accounting Policies.**

These condensed consolidated interim financial statements for the period ended 30 Jun 2019, 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 2018, 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 2018 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 decreased slightly by 1.1% to RM22.76 million against RM23.00 million in the previous year corresponding quarter.

The profit before tax for the current quarter decreased by 22.1% to RM1.69 million from RM2.18 million in the previous year corresponding quarter. The main factors affecting the financial performances are as follows

- i) The market condition – The global trade war has affected the economies of certain countries of which in turn affected our export sales. The reduction in export sales has eclipsed our growth in the domestic sales, resulting in the slight reduction in total revenue in Q2.
- ii) Level of operating activities – There is no significant changes to the level of operating activities save for the decrease in export sales as per i) above.
- iii) Key factors affecting revenue, costs and profit margin
  - a. The lower operating profit for Q2 of 2019 was predominantly due to higher depreciation charge of RM1.44 million against RM0.68 million in previous year corresponding quarter. The higher depreciation was mainly due to the full capitalization of the new production line of which the utilization has yet to reach optimum level. Earnings before interest, depreciation and tax (EBITDA) for Q2 2019 was RM3.42 million against RM2.91 million in previous year corresponding quarter.
  - b. Starting from Jan 2019, the results have taken into account the effect on the implementation of the new MFRS 16 accounting standard on leases. MFRS 16 requires all operating leases including tenancies to be capitalized and depreciate according to the tenure. The rental cost, finance cost and depreciation cost were affected accordingly. In summary, the net effect on profit before tax is minimum. Whereas the assets and liabilities of the Group were higher concurrently, represented as right-of-use assets and lease liabilities in the consolidated statement of financial position. The effect on net asset was minimum.
  - c. Volume of latex consumed production in Q2 of 2019 decreased slightly by 0.5% to 1,344 tons from 1,350 tons in previous year corresponding quarter.
  - d. Higher minimum wage was mitigated by the mechanization and productivity improvement measures taken by the Group.
  - 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, save for the increase in minimum wage.
  - g. The finance cost has increased for the period under review compared to previous year corresponding period, due to the new presentation format pursuant to the implementation of MFRS 16, as well as higher outstanding borrowings pursuant to the drawdown of term loan for the new production line.
- 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 – there is no diversification or new market penetration for the period under review
- vi) Merger and acquisition exercises – The Group entered into an asset purchase agreement on 27 Jun 2019 to acquire the business of Italhouse furniture retail group through a 70:30 joint venture with the vendor, for a total purchase consideration of approximately RM4.9 million. The purchase consideration was financed entirely by internally generated fund. The business integration is currently underway. The Group continues to look for opportunity to grow through

**Notes to Quarterly Reports (cont'd)**

acquisition of synergistic assets in the related field.

- 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 issue – the Group is facing increasing minimum wages issue. The Group is actively taking steps to mechanize and automate its operations to mitigate the issue and increase productivity and efficiencies

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

	Current Quarter	Immediate Preceding Quarter	Changes %
	30/06/2019	31/03/2019	
	RM' 000	RM' 000	
Revenue	22,759	24,570	- 7.4%
Operating Profit	1,662	2,346	-29.2%
Other Income	140	156	-10.3%
Finance cost	(108)	(99)	+9.1%
Profit Before Tax	1,694	2,404	-29.5%
Profit After Tax	1,559	2,211	-29.5%
Profit Attributable to Ordinary Equity Holders of the Parent	1,559	2,211	-29.5%

The revenue for current quarter decreased by 7.4% to RM22.76 million from RM24.57 million in the preceding quarter. Profit before tax decreased by 29.5% from RM2.40 million to RM1.69 million against preceding quarter due to lower sales and higher promotional cost.

**14. Other Income / Expenses**

	Current Quarter	Preceding year
	RM' 000	Corresp'g quarter RM' 000
Interest income	42.1	29.3
Other income	96.2	57.9
Changes in (Provision for )/recovery of doubtful debt	2.0	2.4
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 2019
Tax effect of	RM' 000
Excess of capital allowance over accumulated depreciation on property, plant & equipments	(2,262)
Recognition of deferred tax assets on adjusted business loss and net balancing charge	4
	(2,258)

**Notes to Quarterly Reports (cont'd)**
**16. Group Borrowings**

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

	As at 2 <sup>nd</sup> Quarter ended 2019					
	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	-	7,866	-	3,465	-	11,331
Unsecured	-	-	-	-	-	-

	As at 2 <sup>nd</sup> 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	-	-	-	-	-	-

b) Group net gearing or net cash position

	Current Quarter	Preceding year Corresp'g quarter
	RM' 000	RM' 000
Total borrowings	(11,331)	(7,373)
Cash	19,803	13,290
Net (Borrowings)/ Cash	8,472	5,917
Net Assets	52,238	48,825
Net Gearing Ratio	Net cash	Net cash

**Commentaries on Group Borrowings and Debt Securities**

- i) Total borrowings increased from RM7.37 million to RM11.33 million against previous year corresponding quarter due to draw down of term loan for the installed production line.
- ii) The net cash position improved to RM8.47 million in Q2 of 2019 from RM5.92 million in previous year corresponding quarter.
- iii) The interest rates range 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**

Corporate guarantees issued to licensed banks for credit facilities granted to subsidiaries

**RM' 000**  
11,331

**18. Financial Instruments under MFRS 139**

As at 30 Jun 2019, 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	-	-	-	-

**Notes to Quarterly Reports (cont'd)**

	- 1 year to 3 years	-	-	-	-
	- More than 3 years	-	-	-	-
2	Trade related balances	-	(115)	74	(189)
	Total				(189)

**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.

**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 2019 :

- i) The current global trade war is having an adverse impact on the economies of certain overseas countries which in turn affects our export sales to such countries.
- ii) Key Raw Material – The fluctuation of the centrifuged latex price which is the main raw materials for 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 50:50 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 current market was subdued for both domestic and certain export markets.
- v) Property sector - The health of the property sector will have direct impact on furnishing requirements.
- vi) Foreign workers - The availability of foreign workers to run the production is imperative for the Group as a manufacturer. Nevertheless, the Group is actively embarking on ways to mechanise and automate its operations to reduce reliance on foreign labour.

**23. Material Litigation**

The Group does not have any material litigation as at 26 Aug 2019.

**Notes to Quarterly Reports (cont'd)**

**24. Dividend**

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

The interim tax exempt dividend of 2.5 sen per ordinary shares amounting to approximately RM4.08 million was paid in 04 April 2019.

**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 2019
	RM' 000
Profit after Taxation	3,770
No of Ordinary shares of RM0.10 each (net of treasury shares)	163,128
Net EPS - Basic (sen)	2.31
Net EPS – Diluted (sen)	2.31

By Order of the Board

**Dato' Eric Lee**  
**Managing Director**

26 Aug 2019