

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

These condensed consolidated interim financial statements for the period ended 30 Jun 2020, 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 2019, the Group prepared its financial statements in accordance with applicable Malaysian Financial Reporting Standards ("MFRS")

2. Audit Report on Financial Statements.

The financial statements of the Group for the financial year ended 31 December 2019 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 by 35.5% to RM14.67 million against RM22.76 million in the previous year corresponding quarter. The profit before tax for the current quarter decreased by 92.7% to RM0.13 million from RM1.56 million in the previous year corresponding quarter.

The main factors affecting the financial performances are as follows

- i) The market condition – The Covid-19 pandemic has had an adverse impact on the Group. The imposition of movement control order “MCO” by the Malaysian Government on 18th March 2020 had effectively severely affected our business. The Group has resumed operations during the Conditional MCO period from early May. The export orders have since back to normal level. The domestic market was slow in early May but has since rebounded strongly since June.
- ii) Level of operating activities – The Group was not allowed to operate during the MCO period as our product was not considered essential items.
- iii) Key factors affecting revenue, costs and profit margin
 - a. The lower operating profit for Q2 was predominantly due to the imposition of MCO which resulted in depressed turnover and thus lower profit margin.
 - b. Volume of latex consumed in Q2 of 2020 decreased by 7.8% to 1,127 tons from 1,222 tons in previous year corresponding quarter mainly due to the imposition of MCO.
 - c. The Group has engaged in active cost-cutting measures, including a temporary salary reduction with those local staffs with salaries above RM4,000. The quantum of reduction ranges from 20% to 40% depending on staff grading.
 - d. During the period under review, the Group's operation was not affected by any natural disasters or unusual disruptions, except the Covid-19 pandemic as mentioned above.
 - e. There is no significant change in staff costs for the period under review.
 - f. The finance cost has decreased slightly for the period under review compared to previous year corresponding period, due to temporary moratorium imposed by Government on loan repayments.
 - g. The Group has actively negotiated for rental rebate for our showrooms which were not allowed to operate under MCO. These savings in rental were to partly mitigate the loss of revenue during the MCO period.
- iv) Unusual or one-off issue – There is no significant unusual or one-off issue during the period under review save for the Covid-19 pandemic as mentioned above.
- 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 Group has paid part payment of approximately RM3 million. However, the vendor was unable to fulfill certain conditions precedent and thus the operations was not consolidated into the Group's account in the current financial year. The Group is currently in the midst of negotiation to rescind the arrangement with the vendor. The imposition of MCO has delayed the on-going negotiation.
- vii) New contracts / termination of existing contract – there is no significant new contract or termination of existing contract for the period under review, save for item vi) above.
- viii) Impairment of Assets or receivables – there is an impairment of receivables for RM0.16 million for the period under review.

Notes to Quarterly Reports (cont'd)

- 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 %
	30/06/2020	31/03/2020	
	RM' 000	RM' 000	
Revenue	14,669	21,925	- 33.1%
Operating Profit	122	1,312	- 90.7%
Other Income	115	198	- 41.9%
Finance cost	(80)	(132)	- 39.4%
Profit Before Tax	156	1,378	- 88.7%
Profit After Tax	132	1,268	- 89.6%
Profit Attributable to Ordinary Equity Holders of the Parent	152	1,283	- 88.2%

The revenue for current quarter decreased by 33.1% to RM14.67 million from RM21.93 million in the preceding quarter. Profit before tax decreased by 88.7% from RM1.38 million to RM0.16 million against preceding quarter mainly due to lower sales recorded in the current quarter caused by the imposition of MCO.

14. Other Income / Expenses

	Current Quarter	Preceding year Corresp'g quarter
	RM' 000	RM' 000
Interest income	38.8	42.1
Other income	76.2	96.2
Changes in (Provision for)/recovery of doubtful debts	-	2.0
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 2020
Tax effect of	RM' 000
Excess of capital allowance over accumulated depreciation on property, plant & equipments	(2,601)
Recognition of deferred tax assets on adjusted business loss and net balancing charge	17
	(2,584)

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 nd Quarter ended 2020					
	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	-	5,830	-	3,131	-	8,961
Unsecured	-	-	-	-	-	-

	As at 2 nd 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	-	-	-	-	-	-

b) Group net gearing or net cash position

	Current Quarter	Preceding year Corresp'g quarter
	RM' 000	RM' 000
Total borrowings	(8,961)	(11,331)
Cash	14,731	19,803
Net (Borrowings)/ Cash	5,770	8,472
Net Assets	53,488	52,238
Net Gearing Ratio	Net cash	Net cash

Commentaries on Group Borrowings and Debt Securities

- i) Total borrowings decreased from RM11.33 million to RM8.96 million against previous year corresponding quarter due active repayment of instalments.
- ii) The net cash position decreased to RM5.77 million in Q2 of 2020 from RM8.47 million in previous year corresponding quarter mainly due to poor sales in the current 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
8,961

18. Financial Instruments under MFRS 139

As at 30 Jun 2020, the unrealized gains or loss for the Group is as follows

	Derivatives / year end balances	Contract value (RM' 000)	Balance Sheet value (RM' 000)	Fair Value (RM' 000)	Unrealised Gain (loss) (RM' 000)
1	Foreign Exchange Contracts				

Notes to Quarterly Reports (cont'd)

	- Less than 1 year	-	-	-	-
	- 1 year to 3 years	-	-	-	-
	- More than 3 years	-	-	-	-
2	Trade related balances	-	1450	1483	33
	Total				33

19. Foreign Exchange Exposure / Hedging Policy

Exports constituted approximately 50% 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 some of the expected excess USD proceeds.

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.

21. Related Party Transactions

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.

22. Material Impairment of Assets

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

23. 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 2020 :

- i) The Covid-19 pandemic has caused significant adverse impact on the operation of the Group. Nevertheless, the Group has experienced strong rebound in both export and domestic sales since operations were resumed.
- ii) Key Raw Material – The fluctuation of the centrifuged latex price which is the main raw materials for the Group's operation. For the period under review, the latex price was rather stable.
- 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 domestic market has experienced encouraging rebound, while export market has remained resilient.
- v) Property sector - The health of the property sector will have direct impact on furnishing requirements, the re-introduction of Home Ownership Campaign "HOC" is expected to bring in positive demand for furnishing requirements from the domestic market.
- vi) Foreign workers - the Group is actively embarking on ways to mechanise and automate its operations to reduce reliance on foreign labour.

Notes to Quarterly Reports (cont'd)

24. Material Litigation

The Group does not have any material litigation as at 24 Aug 2020.

25. Dividend

For FY 2019, the interim tax-exempt dividend of 2.5 sen per ordinary shares amounting to approximately RM4.05 million was paid on 31 Mar 2020.

For FY 2018, the interim tax-exempt dividend of 2.5 sen per ordinary shares amounting to approximately RM4.08 million was paid on 04 April 2019.

26. 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.

27. 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 161,755,304 in issue (net of treasury shares).

	YTD ended 30 Jun 2020
	RM' 000
Profit attributable to ordinary equity holders of the parent	1,435
No of Ordinary shares of RM0.10 each (net of treasury shares)	161,755
Net EPS - Basic (sen)	0.87
Net EPS – Diluted (sen)	0.87

By Order of the Board

Dato' Eric Lee
Managing Director

24 Aug 2020