

Notes to Quarterly Report

1. Basis of Accounting and Accounting Policies.

These condensed consolidated interim financial statements for the period ended 30 Jun 2021, 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 2020, 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 2020 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 79.7% to RM26.36 million against RM14.67 million in the previous year corresponding quarter. The profit before tax for the current quarter increased by 1,248.7% to RM2.11 million from RM0.16 million in the previous year corresponding quarter.

The main factors affecting the financial performances are as follow

- i) The market condition – Q2 of 2020 was affected by MCO 1.0 with total lock-down which abruptly affected the Group's operation. The Group was allowed to operate at 60% for the export market during MCO 3.0 for Q2 of 2021. The Group was having robust sales in Q2 until the imposition of MCO 3.0.
- ii) Level of operating activities – The Group was operating at below optimum operating level in Q2 of 2021 due to MCO 3.0.
- iii) Key factors affecting revenue, costs and profit margin
 - a. The Group has revised its pricing starting from 2021 to pass on the surge in centrifuged latex price.
 - b. Volume of latex consumed in Q2 of 2021 increased by 42.6% to 1,483 tons from 1,040 tons in previous year corresponding quarter mainly due to lockdown during MCO 1.0 in Q2 of 2020.
 - c. During the period under review, the Group's operation was not affected by any natural disasters or unusual disruptions, except the Covid-19 pandemic.
 - d. There is no significant change in staff costs for the period under review.
 - e. The finance cost has decreased slightly for the period under review compared to previous year corresponding period, mainly due to lower interest rates.
- iv) Unusual or one-off issue – There is no unusual or one-off issue for 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 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. The Group has taken an impairment charge of RM1 million in Q4 of 2020.
- 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 no 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 wage issue as well as the temporary freeze of all new foreign labour intake. The Group is actively taking steps to mechanize and automate its operations to mitigate the issue and increase productivity and efficiencies

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

	Current Quarter	Immediate Preceding Quarter	Changes %
	30/06/2021	31/03/2021	
	RM' 000	RM' 000	
Revenue	26,358	26,269	+ 0.3%
Operating Profit	1,820	3,447	- 47.2%
Other Income	365	287	+ 27.2%
Finance cost	(76)	(98)	- 22.4%
Profit Before Tax	2,109	3,636	- 42.0%
Profit After Tax	1,772	3,054	- 42.0%
Profit Attributable to Ordinary Equity Holders of the Parent	1,796	3,071	- 41.5%

The revenue for current quarter increased by 0.3% to RM26.36 million from RM26.27 million in the preceding quarter. Profit before tax decreased by 42.0% from RM3.64 million to RM2.11 million against preceding quarter mainly due to partial lockdown of domestic operation during MCO 3.0 which enjoyed much higher margin, as well as higher average centrifuged latex price in Q2 compared to Q1 of 2021.

14. Other Income / Expenses

	Current Quarter	Preceding year Corresp'g quarter
	RM' 000	RM' 000
Interest income	48.6	38.8
Other income	316.8	76.2
Changes in (Provision for)/recovery of doubtful debts	-	-
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 2021
	RM' 000
Tax effect of	
Excess of capital allowance over accumulated depreciation on property, plant & equipments	(2,689)
Recognition of deferred tax assets on adjusted business loss and net balancing charge	27
	(2,662)

16. Group Borrowings

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

	As at 2 nd Quarter ended 2021					
	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	-	6,460	-	2,747	-	9,207
Unsecured	-	-	-	-	-	-

Notes to Quarterly Reports (cont'd)

	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	-	-	-	-	-	-

b) Group net gearing or net cash position

	Current Quarter	Preceding year Corresp'g quarter
	RM' 000	RM' 000
Total borrowings	(9,207)	(8,961)
Cash	17,680	14,731
Net (Borrowings)/ Cash	8,473	5,770
Net Assets	59,332	53,488
Net Gearing Ratio	Net cash	Net cash

Commentaries on Group Borrowings and Debt Securities

- i) Total borrowings increased from RM8.96 million to RM9.21 million against previous year corresponding quarter due drawdown of machineries term loan.
- ii) The net cash position increased to RM8.47 million in Q2 of 2021 from RM5.77 million in previous year corresponding quarter mainly due to healthy sales and collection.
- iii) The interest rates range from 2.5% to 5% 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 9,207
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18. Financial Instruments under MFRS 139

As at 30 Jun 2021, 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				
	- Less than 1 year	-	-	-	-
	- 1 year to 3 years	-	-	-	-
	- More than 3 years	-	-	-	-
2	Trade related balances	-	3,260.0	3,226.6	(33.4)
	Total		3,260.0	3,226.6	(33.4)

Notes to Quarterly Reports (cont'd)

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 2021 :

- i) The Group was having very strong growth momentum with record monthly sales until May 2021. The resurgent of the Covid-19 cases in Malaysia which resulting in the introduction of MCO 3.0 from Jun 2021 and EMCO from July 2021 has affected the operations of the Group.
- 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 average latex price was approximately 15% higher compared to Q1 which partly resulted in lower margin in Q2. The latex price has since stabilised and softened from the hike starting from Q3.
- 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 was greatly affected starting from MCO 3.0 from Jun 21 and extended through the EMCO from Jul 2021. The export market was allowed to operate at 60% capacity during MCO 3.0 but was locked down during the EMCO period from Jul 2021. We were allowed to resume export operation late Jul 2021.
- 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 23 Aug 2021.

25. Dividend

The interim tax-exempt dividend of 2.5 sen per ordinary shares for FY 2020 amounting to approximately RM4.04 million was paid on 31 Mar 2021.

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

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 2021
	RM' 000
Profit attributable to ordinary equity holders of the parent	4,867
No of Ordinary shares of RM0.10 each (net of treasury shares)	161,755
Net EPS - Basic (sen)	3.01
Net EPS – Diluted (sen)	3.01

By Order of the Board

Dato' Eric Lee
Managing Director

23 Aug 2021