Notes to Quarterly Report

1. Basis of Accounting and Accounting Policies.

These condensed consolidated interim financial statements for the period ended 31 Dec 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.

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 8.4% to RM32.619 million against RM30.100 million in the previous year corresponding quarter. The profit before tax for the current quarter decreased by 14.2% to RM2.052 million from RM2.393 million in the previous year corresponding quarter.

The main factors affecting the financial performances are as follow

i) The market condition – The Group was adversely affected by the lockdown of MCO 3.0 beginning in June and the subsequent EMCO in July through Sep 21. The domestic operation was not allowed from June till Sep while the export division was allowed to operate at 60% in June, fully locked down for more than 3 weeks in Jul and could only resume partially starting from end Jul. Moreover, the sudden flood occurred in Dec 21 had disrupted our operations and damaged some of our stocks. The Group has insurance flood cover and does not expect any substantial loss from the flood. Despite all the challenges, the Group sales rebounded strongly in Q4 with revenue of RM32.619 million and full year revenue of RM104.633 million, both a record for the Group. The Group took a hefty impairment charge of RM2.7 million in Q4 due to the Italhouse investment. Without the Italhouse impairment, the core profit before tax for Q4 would have been a record at RM4.752 million.

ii) Level of operating activities – The Group was operating at below optimum operating level in 2021 due to EMCO starting Jul till Sep 2021 that adversely affected our revenue.

iii) Key factors affecting revenue, costs and profit margin

a. The latex price has remained stable in Q4 compared to Q3.

b. Volume of latex consumed in 2021 decreased by 2.1% to 5,425 tons from 5,543 tons in previous year mainly due to lockdown during EMCO in Q3 of 2021 as well as the flood in Dec 21.

c. During the period under review, the Group's operation was affected by the sudden flood in Dec 21, as well as the the Covid-19 pandemic.

d. There is no significant change in staff costs for the period under review. The Group did not exercise temporary salary reduction during this EMCO

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, except the sudden flood in Dec 21. The Group has insurance flood cover and does not expect any substantial loss from the flood.

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. 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 based on the management account of Italhouse for the year ended 30 Jun 2020.

The operation of Italhouse which was based mainly in Johor, remained extremely challenging with the closedown of border with Singapore since 2020. With more than 50% market depending on Singaporean buyers as well as Malaysian working in Singapore, the closedown of border is disastrous to Italhouse's operation. For the 18 months ended 31 Dec 21, Italhouse was forced to close down some stores with heavy write down of renovation assets. These have resulted in the hefty impairment of RM2.7 million impairment charge for the investment in Italhouse in Q4 of 2021.

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, except the Italhouse impairment as disclosed in item vi) above.

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

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

	Current Quarter	Immediate Preceding Quarter	Changes %
	31/12/2021	30/09/2021	
	RM' 000	RM' 000	
Revenue	32,619	19,387	+ 68.3%
Operating Profit	988	787	+ 25.5%
Other Income	1,134	534	+ 112.4%
Finance cost	(69)	(70)	+ 1.4%
Profit Before Tax	2,052	1,251	+ 64.0%
Profit After Tax	1,642	1,050	+ 56.4%
Profit Attributable to Ordinary Equity Holders of the Parent	1,633	1,083	+ 50.8%

The revenue for current quarter increased sharply by 68.3% to RM32.619 million from RM19.387 million in the preceding quarter. Profit before tax increased by 64.0% from RM1.251 million to RM2.052 million against preceding quarter mainly due to EMCO in the previous quarter.

14. Other Income / Expenses

	Current Quarter	Preceding year Corresp'g quarter
	RM' 000	RM' 000
Interest income	42.4	42.5
Other income	442.8	210
Changes in (Provision for)/recovery of doubtful debts	-	5.7
Gain/ (loss) on disposal of Fixed assets	-	8.0
Changes in (Provision for)/recovery of Stocks	-	-

The other income in current quarter includes transportation charge for certain retail customers and Government rebate on salaries under Penjana Scheme.

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 2021
Tax effect of	RM' 000
Excess of capital allowance over accumulated depreciation on property, plant & equipments	(2,882.1)
Recognition of deferred tax assets on adjusted business loss and net balancing charge	17.7
	(2,864.4)

16. Group Borrowings

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

	As at 4th 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	-	5,980		4,494	-	10,474
Unsecured	-	-	-	-	-	-

	As at 4th 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	-	4,695	-	2,820	-	7,515
Unsecured	-	-	-	-	-	

b) Group net gearing or net cash position

	Current Quarter	Preceding year Corresp'g quarter
	RM' 000	RM' 000
Total borrowings	(10,474)	(7,515)
Cash	21,136	24,509
Net (Borrowings)/ Cash	10,662	16,994
Net Assets	62,073	58,550
Net Gearing Ratio	Net cash	Net cash

Commentaries on Group Borrowings and Debt Securities

i) Total borrowings increased from RM7.515 million to RM10.474 million against previous year corresponding quarter due higher trade receivables and stock holdings, mainly resulting from the Cuckoo Napure mattress collaboration.

ii) The net cash position decreased to RM10.662 million in Q4 of 2021 from RM16.994 million in previous year corresponding quarter mainly due to the Cuckoo Napure mattress collaboration. Besides, the Group has kept extra stock in anticipation of the rise in majority of the raw material costs.

iii) The interest rates remain fairly stable 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	10,474

18. Financial Instruments under MFRS 139

As at 31 Dec 2021, 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	-	1,139.3	1,107.4	(31.8)
	Total		1,139.3	1,107.4	(31.8)

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. The increase in total trade receivables compared to previous year corresponding quarter was mainly due to the financing of Cuckoo Napure mattress collaboration under the rental model. Under this rental sharing model, the collection would be spread over 36 months and the Group would recognize profit spreading over the period.

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.

22. Material Impairment of Assets

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

23. Prospects for the Next 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 2022 :

i) The Covid 19 pandemic has resulted in multiple lockdowns of operations by the Government which had greatly affected the Group's performance. At the date of this report the positive cases was again on the upward trend. Any further lockdown would again adversely affect 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 stable.

iii) The Cuckoo Napure mattress collaboration – the collaboration was gaining momentum starting from Mar, with monthly delivery exceeding 1,300 pieces in May. Nevertheless, the MCO 3.0 starting in Jun followed by the EMCO in majority of Q3 had brought this operation to a standstill. The Group is now actively rebuilding the momentum and cautiously optimistic about the contribution from this new growth pillar in 2022.

iv) 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.

v) Consumer sentiment and confidence level in spending –The resurgence of Covid 19 cases in 2022 once again posing uncertainty to the Group's operations

vi) Property sector - The health of the property sector will have direct impact on furnishing requirements, any recovery in the residential property sector would have positive impact on the Group performance.

vii) Foreign workers - the Group is actively embarking on ways to mechanise and automate its operations to reduce reliance on foreign labour.

24. Material Litigation

The Group does not have any material litigation as at 21 Feb 2022.

25. Dividend

For FY 2021, the Board proposes an interim tax-exempt dividend of 2.5 sen per ordinary shares amounting to approximately RM4.04 million.

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 31 Dec 2021
	RM' 000
Profit attributable to ordinary equity holders of the parent	7,583
No of Ordinary shares of RM0.10 each (net of treasury shares)	161,755
Net EPS - Basic (sen)	4.69
Net EPS – Diluted (sen)	4.69

By Order of the Board

Dato' Eric Lee
Managing Director

21 Feb 2022