Notes to Quarterly Report

1. Basis of Accounting and Accounting Policies.

These condensed consolidated interim financial statements for the period ended 31 Dec 2022, 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. 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 2021 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 RM35.350 million against RM32.619 million in the previous year corresponding quarter. The profit before tax for the current quarter increased by 106.4% to RM4.237 million from RM2.052 million in the previous year corresponding quarter.

The Group registered a record revenue of RM129.024 million in FY2022, representing an increase of 23.3% over the FY2021. Profit before tax was at historical high at RM15.422 million, representing an increase of 70.4% over FY2021

The main factors affecting the financial performances are as follow

i) The market condition – The domestic sales in Q4 of 2022 was very strong with broad-base improvement in various sales channels while export division remain challenging .

ii) Level of operating activities – The Group was operating at satisfactory level in Q4 of 2022 for our mattress division for domestic market but latex division for export market remain weak with capacity utilization of about 50%.

iii) Key factors affecting revenue, costs and profit margin

a. The average latex price was trending lower in Q4 with average price of approximately 10% lower compared to those in Q3. The full year average latex price was about 6.6% higher compared to the full year of 2021, partly due to weakening Ringgit against the US Dollars.

b. Staff cost was higher due to the implementation of minimum wages since May 2022.

c. The finance cost was higher due to the recent interest rate hike as announced by Bank Negara Malaysia. The overall impact to the Group is not expected to be material as the Group is in net cash position.

iv) Unusual or one-off issue – there is no unusual or one-off issue in Q4 of 2022.

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 – There is no Merger and acquisition exercise during the period under review.

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 a total impairment of approximately RM1.392 million for the period under review, consists of stock impairment of approximately RM0.90 million, impairment of RM0.210 million on trade receivable pursuant to the Cuckoo Napure rental sales and impairment of RM0.282 million on the robotic arm automation project.

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 higher minimum wage 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 (restated)	Changes %
	31/12/2022	30/09/2022	
	RM' 000	RM' 000	
Revenue	35,350	31,717	+ 11.5%
Operating Profit	3,917	783	+400.3%
Other Income	605	2,400	-74.8%
Finance cost	(285)	(95)	+ 200.0%
Profit Before Tax	4,237	3,088	+ 37.2%
Profit After Tax	3,806	2,420	+ 57.3%
Profit Attributable to Ordinary Equity Holders of the Parent	3,799	2,430	+ 56.3%

The revenue for current quarter increased by 11.5% to RM35.350 from RM31.717 million in the preceding quarter. Profit before tax increased by 37.2% from RM3.088 million to RM4.237 million against preceding quarter. The operating profit and other income in the preceding quarter were restated mainly due to some reclassification of impairment cost. The other income in the immediate preceding quarter includes insurance compensation of RM1.99 million pursuant to the flood incident happened in Dec 2021.

14. Other Income / Expenses

	Current Quarter	Preceding year Corresp'g quarter
	RM' 000	RM' 000
Interest income	89.9	42.4
Other income / (Expenses)	484.9	442.8
Changes in (Provision for)/recovery of doubtful debts	-	-
Gain/ (loss) on disposal of Fixed assets	30.0	-
Changes in (Provision for)/recovery of Stocks	-	-

Higher interest income is due to the interest rate hike as announced by Bank Negara Malaysia. Other income mainly consists mainly of transportation charges, reduction in doubtful debts and forex gains.

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 2022
Tax effect of	RM' 000
Excess of capital allowance over accumulated depreciation on property, plant & equipments	3,328
Recognition of deferred tax assets on adjusted business loss and net balancing charge	-
	3,328

16. Group Borrowings

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

	As at 4th Quarter ended 2022					
	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	-	3,994		2,596	-	6,590

Unsecured	-	-	-	-	-	-

	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	-	6,191	-	4,284	-	10,475
Unsecured	-	-	-	-	-	

b) Group net gearing or net cash position

	Current Quarter	Preceding year Corresp'g quarter
	RM' 000	RM' 000
Total borrowings	(6,590)	(10,475)
Cash	23,434	21,111
Net (Borrowings)/ Cash	16,844	10,636
Net Assets	70,748	62,024
Net Gearing Ratio	Net cash	Net cash

Commentaries on Group Borrowings and Debt Securities

i) Total borrowings decreased from RM10.475 million to RM6.590 million against previous year corresponding quarter due to positive cashflow from operations.

ii) The net cash position increased to RM16.844 million in Q4 of 2022 from RM10.636 million in previous year corresponding quarter due to improved cashflows from our operations.

iii) The interest rates are on the upward trend for period under review, though the impact is not expected to be material to the Group.

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	6,590

18. Financial Instruments under MFRS 139

As at 31 Dec 2022, 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	-	(721.9)	(607.1)	114.8
	Total		(721.9)	(607.1)	114.8

19. Foreign Exchange Exposure / Hedging Policy

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 up to 60 months and the Group would recognize profit spreading over the period.

During the period under review, there is an impairment of RM0.21 million pursuant to the Cuckoo Napure rental sales.

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 2023 :

i) The demand from oversea market which is currently weak amid high global inflation and high interest rates which dampens consumer spending.

ii) Any resurgence of The Covid 19 or other pandemic that may result in lockdowns of operations by the Government.

iii) Key Raw Material – The fluctuation of the centrifuged latex price which is the main raw materials for the Group's operation.

iv) The Cuckoo Napure mattress collaboration – this is expected to be a strong growth pillar for the Group. Any increase in sales under this collaboration is expected to bring in significant income for the group in the following 3 to 5 years. With increased sales, the Group is expected to channel substantial working capital to finance this which would put our excess cash in hand into profitable use.

v) 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.
   b. The natural hedging of USD by matching majority of imports and exports in same currency.

vi) Consumer sentiment and confidence level in spending.

vii) 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.

viii) Workers – The imposition of the revised minimum wages to RM1,500 from May 2022 had caused operation cost to increase. The amendment to the Employment Act 1955 on the reduction of working hours from 48 to 45 per week, and overtime entitlement for those below RM4,000 with effect from 1st Jan 2023 are expected to increase the Group's operation cost. Nevertheless, the Group is well positioned at the premium bedding segment to absorb or pass on the cost increase.

24. Material Litigation

The Group does not have any material litigation as at 21 Feb 2023.

25. Dividend

For FY 2022, the Board proposes an interim dividend of 3.5 sen per ordinary shares amounting to approximately RM5.65 million, representing an increase of 40% over FY 2021.

The interim dividend of 2.5 sen per ordinary shares for FY 2021 amounting to approximately RM4.04 million was paid on 31 Mar 2022.

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 161,412,304 in issue (net of treasury shares).

	YTD ended 31 Dec 2022
	RM' 000
Profit attributable to ordinary equity holders of the parent	13,030
No of Ordinary shares of RM0.10 each (net of treasury shares)	161,412
Net EPS - Basic (sen)	8.07
Net EPS – Diluted (sen)	8.07

By Order of the Board

Dato' Eric Lee
Managing Director

21 Feb 2023