

## 11. FINANCIAL INFORMATION

### 11.1 HISTORICAL AND PRO FORMA FINANCIAL INFORMATION

Our audited combined financial statements throughout the FYEs 2015 to 2018 and FPE 2019 have been prepared in accordance with MFRS and IFRS. Our audited combined financial statements for the FYEs 2015 to 2018 and FPE 2019 under review were not subject to any audit qualifications. Additionally, the unaudited combined statements of profit or loss and other comprehensive income for FPE 2018 have been prepared for comparison purpose only.

#### 11.1.1 Historical financial information

The following summary should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" set out in Section 11.2 and the Accountants' Report set out in Section 12.

##### (a) Historical combined statements of profit or loss and other comprehensive income

The following table sets out a summary of our historical audited combined statements of profit or loss and other comprehensive income for the FYEs 2015 to 2018 and FPEs 2018 to 2019:

	Audited			
	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	FYE 2018 RM'000
Revenue	36,425	41,287	48,276	50,382
Cost of sales	(25,112)	(28,366)	(34,152)	(36,000)
GP	11,313	12,921	14,124	14,382
Other income	89	614	768	842
Selling and distribution expenses	(1,116)	(1,551)	(1,599)	(1,569)
Administrative expenses	(1,823)	(2,016)	(2,156)	(3,153)
Other expenses	(160)	(258)	(912)	(1,753)*
Finance costs	(199)	(116)	(83)	(316)
PBT	8,104	9,594	10,142	8,433
Tax expense	(910)	(2,120)	(2,282)	(2,204)
<b>PAT</b>	<b>7,194</b>	<b>7,474</b>	<b>7,860</b>	<b>6,229</b>
Other comprehensive income	-	-	-	7,514*
<b>Total comprehensive income</b>	<b>7,194</b>	<b>7,474</b>	<b>7,860</b>	<b>13,743</b>
EBIT <sup>(1)</sup>	8,301	9,694	10,184	8,673
EBITDA <sup>(1)</sup>	9,578	11,296	12,034	10,577
GP margin (%)	31.1	31.3	29.3	28.5
PBT margin (%)	22.2	23.2	21.0	16.7
PAT margin (%)	19.8	18.1	16.3	12.4
Effective tax rate (%)	11.2	22.1	22.5	26.1
EPS (sen) <sup>(2)</sup>	2.3	2.4	2.5	2.0
Diluted EPS (sen) <sup>(3)</sup>	1.7	1.8	1.9	1.5

Note:

- \* During FYE 2018, we undertook a revaluation of our properties to determine its fair value for the Acquisition of Spring Art. Resulting from the revaluation, we recorded a revaluation gain of RM7.5 million (for Land 1 and Land 2) and a revaluation loss of RM1.5 million (for Land 3 and Investment Land).

**11. FINANCIAL INFORMATION (Cont'd)**

	<b>Unaudited</b>	<b>Audited</b>
	<b>FPE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>	<b>RM'000</b>
Revenue	15,626	18,297
Cost of sales	(11,559)	(13,292)
GP	4,067	5,005
Other income	63	98
Selling and distribution expenses	(549)	(692)
Administrative expenses	(988)	(1,064)
Other expenses	(143)	(127)
Finance costs	(74)	(107)
PBT	2,376	3,113
Tax expense	(640)	(537)
<b>PAT</b>	<b>1,736</b>	<b>2,576</b>
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>1,736</b>	<b>2,576</b>
EBIT <sup>(1)</sup>	2,406	3,192
EBITDA <sup>(1)</sup>	2,927	3,707
GP margin (%)	26.0	27.4
PBT margin (%)	15.2	17.0
PAT margin (%)	11.1	14.1
Effective tax rate (%)	26.9	17.3
EPS (sen) <sup>(2)</sup>	0.5	0.8
Diluted EPS (sen) <sup>(3)</sup>	0.4	0.6

Notes:

(1) EBIT and EBITDA are calculated as follows:

	<b>Audited</b>				<b>Unaudited</b>	<b>Audited</b>
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
PAT	7,194	7,474	7,860	6,229	1,736	2,576
Less:						
Interest income	(2)	(16)	(41)	(76)	(44)	(28)
Add:						
Finance costs	199	116	83	316	74	107
Taxation	910	2,120	2,282	2,204	640	537
<b>EBIT</b>	<b>8,301</b>	<b>9,694</b>	<b>10,184</b>	<b>8,673</b>	<b>2,406</b>	<b>3,192</b>
Add:						
Depreciation and amortisation	1,277	1,602	1,850	1,904	521	515
<b>EBITDA</b>	<b>9,578</b>	<b>11,296</b>	<b>12,034</b>	<b>10,577</b>	<b>2,927</b>	<b>3,707</b>

(2) Calculated based on our PAT divided by the share capital of 318,000,000 Shares before our IPO.

(3) Calculated based on our PAT divided by the enlarged share capital of 415,687,000 Shares after our IPO.

**11. FINANCIAL INFORMATION (Cont'd)****(b) Historical combined statements of financial position**

The following table sets out our historical combined statements of financial position as at 31 December 2015, 2016, 2017 and 2018 as well as 30 April 2018 and 2019:

	<b>Audited</b>			
	<b>As at 31 December</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	14,601	14,881	16,689	31,058
<b>Total non-current assets</b>	<b>14,601</b>	<b>14,881</b>	<b>16,689</b>	<b>31,058</b>
<b>Current assets</b>				
Inventories	4,816	4,568	5,950	6,778
Trade receivables	4,477	5,290	4,064	5,854
Other receivables	473	890	2,138	2,773
Derivative financial instruments	-	-	106	17
Fixed deposits with licensed banks	450	1,100	2,303	1,401
Cash and bank balances	507	1,180	3,546	2,271
<b>Total current assets</b>	<b>10,723</b>	<b>13,028</b>	<b>18,107</b>	<b>19,094</b>
<b>TOTAL ASSETS</b>	<b>25,324</b>	<b>27,909</b>	<b>34,796</b>	<b>50,152</b>
<b>EQUITY AND LIABILITIES</b>				
Share capital	500	500	500	500
Retained earnings	16,776	18,451	26,311	28,123
Revaluation reserve	-	-	-	7,430
<b>Total equity</b>	<b>17,276</b>	<b>18,951</b>	<b>26,811</b>	<b>36,053</b>
<b>Non-current liabilities</b>				
Borrowings	3,418	3,187	2,937	6,186
Deferred tax liabilities	367	321	439	2,599
<b>Total non-current liabilities</b>	<b>3,785</b>	<b>3,508</b>	<b>3,376</b>	<b>8,785</b>
<b>Current liabilities</b>				
Trade payables	1,926	2,251	1,929	2,912
Other payables	694	731	750	1,358
Derivative financial instruments	314	572	-	-
Finance lease liabilities	61	-	-	-
Borrowings	887	901	1,208	592
Tax payables	381	995	722	452
<b>Total current liabilities</b>	<b>4,263</b>	<b>5,450</b>	<b>4,609</b>	<b>5,314</b>
<b>TOTAL LIABILITIES</b>	<b>8,048</b>	<b>8,958</b>	<b>7,985</b>	<b>14,099</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>25,324</b>	<b>27,909</b>	<b>34,796</b>	<b>50,152</b>

**11. FINANCIAL INFORMATION (Cont'd)**

	<u>Unaudited</u>	<u>Audited</u>
	<u>As at 30 April</u>	
	<u>2018</u>	<u>2019</u>
	<u>RM'000</u>	<u>RM'000</u>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	22,864	31,361
<b>Total non-current assets</b>	<b>22,864</b>	<b>31,361</b>
<b>Current assets</b>		
Inventories	5,170	8,747
Trade receivables	4,872	3,907
Other receivables	2,305	4,303
Derivative financial instruments	99	-
Fixed deposits with licensed banks	-	3,285
Cash and bank balances	1,725	3,115
<b>Total current assets</b>	<b>14,171</b>	<b>23,357</b>
<b>TOTAL ASSETS</b>	<b>37,035</b>	<b>54,718</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital	500	500
Retained earnings	23,546	30,755
Revaluation reserve	-	7,375
<b>Total equity</b>	<b>24,046</b>	<b>38,630</b>
<b>Non-current liabilities</b>		
Borrowings	6,580	5,990
Deferred tax liabilities	439	2,740
<b>Total non-current liabilities</b>	<b>7,019</b>	<b>8,730</b>
<b>Current liabilities</b>		
Trade payables	2,310	4,569
Other payables	1,272	1,527
Derivative financial instruments	-	94
Finance lease liabilities	-	-
Borrowings	1,706	888
Tax payables	682	280
<b>Total current liabilities</b>	<b>5,970</b>	<b>7,358</b>
<b>TOTAL LIABILITIES</b>	<b>12,989</b>	<b>16,088</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>37,035</b>	<b>54,718</b>

**11. FINANCIAL INFORMATION (Cont'd)****(c) Historical audited combined statements of cash flows**

The following table sets out our audited combined statements of cash flows for the FYEs 2015 to 2018 and FPEs 2018 to 2019:

	<b>Audited</b>				<b>Unaudited</b>	<b>Audited</b>
	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FPE</b>	<b>FPE</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2018</b>	<b>2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Operating Activities</b>						
PBT	8,104	9,594	10,142	8,433	2,376	3,113
Adjustments for:						
Unrealised (gain) / loss on foreign exchange	(54)	(120)	93	51	(19)	(70)
Depreciation of property, plant and equipment	1,277	1,602	1,850	1,903	521	515
Gain on disposal of property, plant and equipment	(13)	-	-	(766)	-	-
Impairment loss on property, plant and equipment	-	-	-	1,520	-	-
Interest expenses	199	116	83	316	74	107
Interest income	(2)	(16)	(41)	(76)	(44)	(28)
Fair value loss / (gain) on derivative financial instruments	126	258	(678)	88	6	111
<b>Operating profit before working capital changes</b>	<b>9,637</b>	<b>11,434</b>	<b>11,449</b>	<b>11,469</b>	<b>2,914</b>	<b>3,748</b>
Changes in working capital:						
Inventories	(1,387)	248	(1,381)	(827)	780	(1,970)
Receivables	(1,565)	(1,193)	(45)	(2,483)	(911)	442
Payables	(451)	355	(301)	1,597	900	1,823
Bankers' acceptances	(1,300)	40	(440)	-	1,143	290
<b>Cash generated from operations</b>	<b>4,934</b>	<b>10,884</b>	<b>9,282</b>	<b>9,756</b>	<b>4,826</b>	<b>4,333</b>
Interest paid	(198)	(116)	(83)	(316)	(73)	(107)
Tax refunded	145	-	-	-	-	-
Tax paid	(495)	(1,552)	(2,437)	(2,441)	(680)	(568)
<b>Net cash from operating activities</b>	<b>4,386</b>	<b>9,216</b>	<b>6,762</b>	<b>6,999</b>	<b>4,073</b>	<b>3,658</b>
<b>Investing Activities</b>						
Interest received	2	15	41	76	44	29
Proceeds from disposal of property, plant and equipment	13	-	-	10	-	-
Purchase of property, plant and equipment	(1,525)	(1,881)	(3,659)	(7,395)	(6,696)	(818)
<b>Net cash used in investing activities</b>	<b>(1,510)</b>	<b>(1,866)</b>	<b>(3,618)</b>	<b>(7,309)</b>	<b>(6,652)</b>	<b>(789)</b>

**11. FINANCIAL INFORMATION (Cont'd)**

	Audited				Unaudited	Audited
	FYE	FYE	FYE	FYE	FPE	FPE
	2015	2016	2017	2018	2018	2019
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Financing Activities</b>						
Repayment of term loans	(119)	(265)	(234)	(460)	(94)	(189)
Drawdown of term loans	-	-	-	4,000	4,000	-
Dividends paid	(1,500)	(5,800)	-	(4,500)	(4,500)	-
Repayments of finance lease liabilities	(1,097)	(61)	-	-	-	-
Proceeds from issuance of share capital	-	-	-	*	*	-
<b>Net cash used in financing activities</b>	<b>(2,716)</b>	<b>(6,126)</b>	<b>(234)</b>	<b>(960)</b>	<b>(594)</b>	<b>(189)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	160	1,224	2,910	(1,270)	(3,173)	2,680
Effect of foreign currency translation differences	(7)	91	(72)	1	(43)	48
Cash and cash equivalents at the beginning of the financial year	635	788	2,103	4,941	4,941	3,672
<b>Cash and cash equivalents at the end of the financial year</b>	<b>788</b>	<b>2,103</b>	<b>4,941</b>	<b>3,672</b>	<b>1,725</b>	<b>6,400</b>
<b>Cash and cash equivalents consists of:</b>						
Fixed deposits with licensed banks	450	1,100	2,303	1,401	-	3,285
Cash and bank balances	506	1,180	3,546	2,271	1,725	3,115
Bank overdrafts	(168)	(177)	(908)	-	-	-
	<b>788</b>	<b>2,103</b>	<b>4,941</b>	<b>3,672</b>	<b>1,725</b>	<b>6,400</b>

Note:

\* Negligible

**11. FINANCIAL INFORMATION (Cont'd)****11.1.2 Pro forma combined statements of financial position**

The following table sets out a summary of the pro forma combined statements of financial position of our Group, to show the effects of the Acquisition of Spring Art, Public Issue and utilisation of IPO proceeds.

The pro forma combined statements of financial position are presented for illustrative purposes only and should be read in conjunction with the Reporting Accountants' report together with the notes and assumptions accompanying the Pro forma Combined Financial Information as set out in Section 13.

	<b>Spring Art Holdings</b>	<b>I</b>	<b>II</b>	<b>II</b>
	<b>As at 30 April 2019</b>	<b>After Acquisition of Spring Art</b>	<b>After I and after Public Issue</b>	<b>After II and after utilisation of IPO proceeds</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	-	31,361	31,361	55,864
<b>Total non-current assets</b>	<b>-</b>	<b>31,361</b>	<b>31,361</b>	<b>55,864</b>
<b>Current assets</b>				
Inventories	-	8,747	8,747	8,747
Trade receivables	-	3,907	3,907	3,907
Other receivables	128	4,303	4,303	3,157
Fixed deposits with licensed banks	-	3,285	3,285	3,285
Cash and bank balances	32	2,115	26,536	5,779
<b>Total current assets</b>	<b>160</b>	<b>22,357</b>	<b>46,778</b>	<b>24,875</b>
<b>TOTAL ASSETS</b>	<b>160</b>	<b>53,718</b>	<b>78,139</b>	<b>80,739</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to owners of the Company</b>				
Share capital	*	31,800	56,222	55,422
Revaluation reserve	-	7,375	7,375	7,375
Merger deficit	-	(31,300)	(31,300)	(31,300)
(Accumulated losses)/Retained earnings	(60)	29,755	29,754	27,354
<b>Total equity</b>	<b>(60)</b>	<b>37,630</b>	<b>62,051</b>	<b>58,851</b>
<b>Non-current liabilities</b>				
Borrowings	-	5,990	5,990	11,790
Deferred tax liabilities	-	2,740	2,740	2,740
<b>Total non-current liabilities</b>	<b>-</b>	<b>8,730</b>	<b>8,730</b>	<b>14,530</b>
<b>Current liabilities</b>				
Trade payables	-	4,569	4,569	4,569
Other payables	220	1,527	1,527	1,527
Derivative financial instruments	-	94	94	94
Borrowings	-	888	888	888
Tax payables	-	280	280	280
<b>Total current liabilities</b>	<b>220</b>	<b>7,358</b>	<b>7,358</b>	<b>7,358</b>
<b>TOTAL LIABILITIES</b>	<b>220</b>	<b>16,088</b>	<b>16,088</b>	<b>21,888</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>160</b>	<b>53,718</b>	<b>78,139</b>	<b>80,739</b>

**11. FINANCIAL INFORMATION (Cont'd)**

	<b>Spring Art Holdings</b>	<b>I</b>	<b>II</b>	<b>II</b>
	<b>As at 30 April 2019</b>	<b>After Acquisition of Spring Art</b>	<b>After I and after Public Issue</b>	<b>After II and after utilisation of IPO proceeds</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Number of Shares in issue ('000)	^	318,000	415,687	415,687
Net (liabilities)/asset per share (RM)	(301.22)	0.12	0.15	0.14
Borrowings (All interest bearing debts)	-	6,878	6,878	12,678
Gearing (times) <sup>(1)</sup>	-	0.18	0.11	0.22
Current ratio (times) <sup>(2)</sup>	0.73	3.17	6.36	3.38

Notes:

\* Representing RM20.00 only.

^ Representing 200 Shares only.

<sup>(1)</sup> Calculated based on the total borrowings (i.e. finance lease payables and bank borrowings) of our Group divided by the total equity of our Group.<sup>(2)</sup> Calculated based on total current assets divided by total current liabilities of our Group.**11.2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The discussion of our business, financial condition and results of operations for the FYEs 2015 to 2018 and FPE 2019 refers to the historical audited combined financial information of our Group. Our audited financial statements have been prepared in accordance with MFRS and IFRS for the FYEs 2015 to 2018 and FPE 2019.

The following discussion and analysis of our Group's financial performance and results of operations should be read in conjunction with the Accountant's Report as sets out in Section 12 and the Reporting Accountant's letter on the pro forma combined statements of financial position as set out in Section 13.

**11.2.1 Overview of our operations**

Our Group is principally involved in the manufacturing of ready-to-assemble furniture products, where we undertake the design and development, manufacturing as well as marketing and sales of office furniture, bedroom furniture, living room furniture as well as other types of furniture.

Our Group's revenue is mainly derived from sales of ready-to-assemble furniture products which consist of:

- (a) office furniture such as office workstations, filing cabinets and pedestals;
- (b) bedroom furniture such as beds, night stands, wardrobes, dressing tables, dressing stools and study desks;
- (c) living room furniture such as computer desks, television consoles, sideboards, shoe cabinets, bookshelves and drawer chests; and



**11. FINANCIAL INFORMATION (Cont'd)**

- (d) other furniture which includes customised complementary furniture products manufactured as and when ordered by customers, such as dining tables and kitchen cabinets.

Our revenue is generated entirely from overseas sales and the currency used in invoicing is USD and SGD. Approximately 98.3%, 98.9%, 99.0% and 98.9% of our revenues were denominated in USD for FYEs 2015, 2016, 2017 and 2018 respectively, with the remainder denominated in SGD.

Approximately 99.4% of our revenues were denominated in USD for FPE 2019, with the remainder denominated in SGD.

The significant factors affecting our business include the following:

**(i) Fluctuation of foreign exchange rate**

Our revenue is denominated in USD and SGD as all of our furniture products are exported to foreign markets. Our export market comprises among others, UAE, India, Japan, Bahrain, Canada, Saudi Arabia and Singapore.

Any significant change in foreign exchange rates may affect our Group's financial results. For the FYEs 2015, FYE 2016, FYE 2017 and FYE 2018, approximately 98.3%, 98.9%, 99.0% and 98.9% of our revenues were denominated in USD. For the FPE 2019, approximately 99.4% of our revenue was denominated in USD.

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Sales transacted in USD	35,794	98.3	40,853	98.9	47,792	99.0	49,822	98.9
Sales transacted in SGD	631	1.7	434	1.1	484	1.0	560	1.1
	<b>36,425</b>	<b>100.0</b>	<b>41,287</b>	<b>100.0</b>	<b>48,276</b>	<b>100.0</b>	<b>50,382</b>	<b>100.0</b>

	Unaudited FPE 2018		Audited FPE 2019	
	RM'000	%	RM'000	%
Sales transacted in USD	15,522	99.3	18,180	99.4
Sales transacted in SGD	104	0.7	117	0.6
	<b>15,626</b>	<b>100.0</b>	<b>18,297</b>	<b>100.0</b>

Any appreciation or depreciation of the USD against RM will affect the costs of our raw materials.

We maintain foreign currency accounts to receive proceeds of our sales in USD and SGD. Additionally, we also enter into foreign currency forward exchange contracts with banking institutions to sell the USD received from our customers at agreed exchange rates for fixed periods of time to reduce the exposure of our receivables. Our Group mitigates the foreign exchange risk through a natural hedge via operating foreign currency accounts using payment received from our export sales to pay imported purchases.

Notwithstanding the above, there is no assurance that any fluctuation in foreign exchange rates would not have an impact on our financial performance.

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**11. FINANCIAL INFORMATION (Cont'd)**

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**(ii) Fluctuation in the prices of raw materials**

Our main raw materials include particle boards and MDF. The prices of these raw materials used in our manufacturing processes may fluctuate due to demand and supply conditions. As such, any shortage or disruption in the supply of raw materials which results in fluctuation in the prices of raw materials may adversely affect both our Group's operations and financial performance.

Nonetheless, most of our raw material purchases are only made upon receipt of confirmed orders from our customers which minimise the impact of any adverse price fluctuations in our main raw materials. Our suppliers regularly keep us abreast of the supply condition and price trend of our main raw materials so we may be prepared for any price increase of raw materials.

**(iii) Competition risk**

Our Group faces competition from both existing and new players in local and foreign countries with lower cost of production and labour cost, such as Indonesia, Vietnam, Thailand and China. Competition from these countries may result in loss of customers or erosion of our profit margins.

We believe that our Group would be able to stay competitive due to our strengths as outlined in Section 6.8. In addition, we are committed to continuously improve the quality of our products. As part of our business strategies, we will continue to focus on our design and development efforts to expand our product range.

**(iv) We are dependent on our major customers and suppliers, and do not have long term agreements with our major customers and major suppliers**

We have not entered into any long-term contracts with our customers as we manufacture our furniture products based on purchase orders. Further, we also do not have long-term contracts with our suppliers. Thus, we place great emphasis in developing long-term business relationships with our customers and suppliers as we believe this will ensure our business continuity and growth.

As at the LPD, we have established long-term business relationships of more than 4 years with our top 5 suppliers and more than 7 years with 3 of our top 5 customers.

There is no assurance that the absence of long-term contracts with our customers and supplier will not affect our business and financial performance.

**(v) Interruptions in our operations**

Our manufacturing flow could be disrupted or delayed due to unforeseeable circumstances. Such risks which are inherent in furniture manufacturing include, amongst others, fire hazards and power shortage.

Any disruption at our manufacturing facilities will result in longer lead time for the production of our furniture products. Consequently, this may lead to a delay in delivery to our customers. Such failure to meet delivery deadlines may result in the loss of business or claims against us, thereby affecting our financial performance and reputation.

**11. FINANCIAL INFORMATION (Cont'd)****11.2.2 Revenue**

Revenue from sale of goods is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised upon delivery of goods and customer acceptance, if any, when the significant risks and rewards of ownership of the goods has been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

**(i) Revenue by product category**

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Office furniture	16,295	44.7	11,390	27.6	10,005	20.7	8,846	17.6
Bedroom furniture	15,300	42.0	24,282	58.8	30,984	64.2	34,326	68.1
Living room furniture	4,514	12.4	5,564	13.5	7,222	15.0	6,766	13.4
Other furniture	316	0.9	51	0.1	65	0.1	444	0.9
	<b>36,425</b>	<b>100.0</b>	<b>41,287</b>	<b>100.0</b>	<b>48,276</b>	<b>100.0</b>	<b>50,382</b>	<b>100.0</b>

	FPE 2018		FPE 2019	
	RM'000	%	RM'000	%
Office furniture	2,814	18.0	2,347	12.8
Bedroom furniture	10,703	68.5	12,694	69.4
Living room furniture	2,034	13.0	3,161	17.3
Other furniture	75	0.5	95	0.5
	<b>15,626</b>	<b>100.0</b>	<b>18,297</b>	<b>100.0</b>

**(ii) Sales volume by units**

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	Units	%	Units	%	Units	%	Units	%
Office furniture	128,646	49.8	92,179	31.5	82,270	26.6	73,588	23.6
Bedroom furniture	96,510	37.4	157,593	53.8	177,591	57.4	189,417	60.7
Living room furniture	31,570	12.2	42,747	14.6	49,320	15.9	46,316	14.9
Other furniture	1,448	0.6	252	0.1	365	0.1	2,573	0.8
	<b>258,174</b>	<b>100.0</b>	<b>292,771</b>	<b>100.0</b>	<b>309,546</b>	<b>100.0</b>	<b>311,894</b>	<b>100.0</b>

	FPE 2018		FPE 2019	
	Units	%	Units	%
Office furniture	23,866	24.0	18,569	17.4
Bedroom furniture	58,960	59.4	67,800	63.6
Living room furniture	16,108	16.2	19,646	18.4
Other furniture	403	0.4	552	0.5
	<b>99,337</b>	<b>100.0</b>	<b>106,567</b>	<b>100.0</b>

**11. FINANCIAL INFORMATION (Cont'd)****(iii) Revenue by countries/region**

Countries	Region	Audited							
		FYE 2015		FYE 2016		FYE 2017		FYE 2018	
		RM'000	%	RM'000	%	RM'000	%	RM'000	%
India	Asia Pacific	9,464	26.0	11,792	28.6	15,716	32.6	17,520	34.8
Japan	Asia Pacific	7,013	19.3	5,802	14.1	4,368	9.0	3,164	6.3
UAE	Middle East	5,969	16.4	15,535	37.6	18,473	38.3	13,622	27.0
Saudi Arabia	Middle East	4,136	11.4	475	1.2	1,801	3.7	8,059	16.0
Canada	North America and Latin America	2,256	6.2	1,570	3.8	2,738	5.7	2,308	4.6
Bahrain	Middle East	2,124	5.8	1,737	4.2	2,983	6.2	3,708	7.4
Others	-	5,463	14.9	4,376	10.5	2,197	4.5	2,001	3.9
		<b>36,425</b>	<b>100.0</b>	<b>41,287</b>	<b>100.0</b>	<b>48,276</b>	<b>100.0</b>	<b>50,382</b>	<b>100.0</b>

Countries	Region	Unaudited		Audited	
		FPE 2018		FPE 2019	
		RM'000	%	RM'000	%
India	Asia Pacific	5,604	35.9	5,042	27.5
Japan	Asia Pacific	1,559	10.0	982	5.4
UAE	Middle East	2,617	16.7	4,248	23.2
Saudi Arabia	Middle East	3,388	21.7	6,049	33.1
Canada	North America and Latin America	740	4.7	392	2.1
Bahrain	Middle East	1,051	6.7	1,348	7.4
Others	-	667	4.3	236	1.3
		<b>15,626</b>	<b>100.0</b>	<b>18,297</b>	<b>100.0</b>

Other countries include:

Region	Countries
Asia Pacific	Singapore, Hong Kong, Taiwan, Vietnam, and Philippines, Australia and New Zealand
North America and Latin America	USA and Panama
Africa	Algeria, Ethiopia, Tanzania, Benin, Kenya, Malawi, Uganda, Ghana, Zambia, Rwanda and Nigeria
Europe	Republic of Ireland, United Kingdom and Greece

**(iv) Commentary on revenue****(aa) Comparison between FYE 2015 and FYE 2016**

Our revenue increased by 13.5% from RM36.4 million in the preceding financial year to RM41.3 million in FYE 2016. Total sales volume for the financial year increased by 13.4%. Revenue from office furniture and bedroom furniture contributed 86.4% of our Group's revenue for the financial year.

Overall, our revenue growth was a result of higher sales volume from repeat sales orders made by existing customers by 22.7% as compared to the previous financial year as well as the depreciation of RM against USD which has resulted in an increase of 6.1% in our revenue.

**11. FINANCIAL INFORMATION (Cont'd)**

In terms of volume, office furniture and bedroom furniture contributed an aggregate of 85.3% of total sales volume for FYE 2016. Sales volume for office furniture decreased by 28.3% from the preceding financial year while bedroom furniture increased by 63.3% from the preceding financial year.

The WAFEX improved by approximately 6.1% from USD1:RM3.8865 in FYE 2015 to USD1:RM4.1236 in FYE 2016, which resulted in our revenue denominated in RM being higher as the RM weakened against the USD.

In FYE 2016, we experienced highest sales growth in the UAE of 158.3% from RM6.0 million to RM15.5 million mainly due to increase in sales to RNA Resources Group Ltd of RM9.5 million or 166.7% from RM5.7 million in FYE 2015 to RM15.2 million in FYE 2016. Revenue from India grew 24.2% from RM9.5 million in the preceding financial year to RM11.8 million in FYE 2016 mainly due to the increase in sales to Future Retail Limited to RM3.8 million.

**(bb) Comparison between FYE 2016 and FYE 2017**

Our revenue increased by 16.9% from RM41.3 million in the preceding financial year to RM48.3 million in FYE 2017. Total sales volume for the financial year increased by 5.7%.

The revenue from office furniture and bedroom furniture contributed 84.9% of our Group's revenue for the financial year and 84.0% of total sales volume. Sales volume for office furniture decreased by 10.7% while bedroom furniture increased by 12.7%.

Overall, revenue growth was a result of higher sales volume from existing customers by 11.4% as compared to the previous financial year as well as the further depreciation of RM against USD. The WAFEX rose by approximately 4.5% from USD1:RM4.1236 in FYE 2016 to USD1:RM4.3091 in FYE 2017 which has resulted in an increase of 4.5% in our revenue.

In FYE 2017, the increase in sales was mainly due to increase in orders from RNA Resources Group Ltd by RM4.9 million and from Future Retail Limited by RM4.6 million.

We recorded an increase in sales from India by RM3.9 million or 33.1% which was mainly due to increase in sales to Future Retail Limited.

**(cc) Comparison between FYE 2017 and FYE 2018**

Our revenue increased by 4.3% from RM48.3 million in FYE 2017 to RM50.4 million in FYE 2018. Total sales volume for the financial year increased by 0.8%.

The revenue from office furniture and bedroom furniture contributed 85.7% of our Group's revenue for the financial year and 84.3% of total sales volume. Sales volume for office furniture decreased by 10.6% while bedroom furniture increased by 6.7%.

The WAFEX decreased by approximately 6.1% from USD1:RM4.3091 in FYE 2017 to USD1:RM4.0470 in FYE 2018. Despite of the appreciation of RM against USD, we recorded an increase in revenue mainly as a result of higher sales volume derived from our sales. Sales volume increased from 309,546 units in FYE 2017 to 311,894 units in FYE 2018, mainly due to the increase in sale of bedroom furniture from 177,591 units in FYE 2017 to 189,417 units in FYE 2018.

**11. FINANCIAL INFORMATION (Cont'd)**

In FYE 2018, we recorded an increase in sales to India of RM1.8 million or 11.5% mainly due to increase in sales to Godrej & Boyce Mfg Co of RM1.2 million. We recorded an increase in sales to RNA Resources Group Ltd of RM1.1 million to RM21.2 million of which RM8.1 million was shipped to Saudi Arabia and RM13.1 million was shipped to UAE.

Sales to Japan decreased by RM1.2 million or 27.3% due to decrease in orders from Nitori Co Ltd from RM4.2 million to RM3.0 million in FYE 2018.

**(dd) Comparison between FPE 2018 and FPE 2019**

Our revenue increased by 17.3% from RM15.6 million in FPE 2018 to RM18.3 million in FPE 2019. Total sales volume for the financial period increased by 7.3%.

The revenue from bedroom furniture and living room furniture contributed 86.7% of our Group's revenue for the financial period and 82.0% of total sales volume. Sales volume for bedroom furniture increased by 15.0% and living room increased by 22.0% while sales volume for office furniture decreased by 22.2%.

The WAFEX increased by approximately 4.1% from USD1:RM3.9336 in FPE 2018 to USD1:RM4.0938 in FPE 2019, which also contributed to our increase in revenue in FPE 2019.

Overall, the increase in revenue was mainly a result of higher sales volume as well as favourable foreign exchange rate derived from our export sales. Sales volume increased from 99,337 units in FPE 2018 to 106,567 units in FPE 2019, mainly due to the increase in bedroom furniture from 58,960 units in FPE 2018 to 67,800 units in FPE 2019 and increase in living room furniture from 16,108 units in FPE 2018 to 19,646 units in FPE 2019.

In FPE 2019, we experienced sales growth in Saudi Arabia of RM2.7 million or 79.4% as well as in UAE of RM1.6 million or 61.5% mainly due to increase in sales to RNA Resources Group Ltd. However, sales to India and Japan decreased by RM0.6 million or 10.7% and RM0.6 million or 37.5% respectively due to decrease in orders from Future Retail Limited and Nitori Co Ltd.

**11.2.3 Cost of sales, GP and GP margin****(i) Analysis of cost of sales by cost items**

The components of our cost of sales are as follows:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Direct materials	19,007	75.7	21,417	75.5	25,169	73.7	26,781	74.4
Direct labour	3,100	12.3	3,496	12.3	4,249	12.4	4,545	12.6
Production overheads	3,005	12.0	3,453	12.2	4,734	13.9	4,674	13.0
	<b>25,112</b>	<b>100.0</b>	<b>28,366</b>	<b>100.0</b>	<b>34,152</b>	<b>100.0</b>	<b>36,000</b>	<b>100.0</b>

**11. FINANCIAL INFORMATION (Cont'd)**

	FPE 2018		FPE 2019	
	RM'000	%	RM'000	%
Direct materials	8,714	75.4	9,557	71.9
Direct labour	1,405	12.1	1,904	14.3
Production overheads	1,440	12.5	1,831	13.8
	<b>11,559</b>	<b>100.0</b>	<b>13,292</b>	<b>100.0</b>

**(aa) Direct materials**

Direct materials mainly consist of boards (particle boards and MDF), metal components (screws, nuts and mounting brackets), PVC edges as well as packaging materials (corrugated cartons and packing tapes).

Direct materials were the largest component of our cost of sales, representing between 71.9% to 75.7% of our total cost of sales.

The increase in direct material costs for the past FYEs/FPE was in line with the increase in total revenue for the financial years/period under review; where the change in our sales volume is in tandem with the change in our direct material requirements, mainly particle boards and MDF.

For the FYEs/FPE under review, we did not experience any significant fluctuations in prices of direct materials.

**(bb) Direct labour**

Direct labour consists mainly of production related labour costs, which includes payroll and other related expenses such as transport allowance and staff welfare.

Our direct labour represents between 12.1% to 14.3% of our total cost of sales. For the past FYEs/FPE, the change in our direct labour costs is in tandem with the change in production headcount which is in line with the change in our production volume.

**(cc) Production overheads**

Our production overheads consist mainly of depreciation of manufacturing-related assets, electricity charges, repair and maintenance of machinery and building.

Production overheads represented between 12.0% and 13.9% of our total cost of sales. Throughout the FYEs 2015 to FYE 2017, we recorded a continued increase in our production overheads which was in line with the increase in sales volume. In FYE 2017, we recorded higher production overheads of RM4.7 million due to the installation of 1 production line in June 2016 which resulted in higher machinery depreciation expenses and electricity usage.

**11. FINANCIAL INFORMATION (Cont'd)****(ii) Analysis of GP and GP margin by product category**

Our GP and GP margin for the financial years/period under review is set out below:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Revenue	36,425	41,287	48,276	50,382	15,626	18,297
Cost of sales	(25,112)	(28,366)	(34,152)	(36,000)	(11,559)	(13,292)
GP	11,313	12,921	14,124	14,382	4,067	5,005
GP margin (%)	31.1	31.3	29.3	28.5	26.0	27.4

Our GP and GP margin for the financial years/period under review by product category is set out below:

	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>	
	<b>GP</b>	<b>GP margin</b>	<b>GP</b>	<b>GP margin</b>	<b>GP</b>	<b>GP margin</b>	<b>GP</b>	<b>GP margin</b>
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Office furniture	4,533	27.8	3,390	29.8	2,659	26.6	2,259	25.5
Bedroom furniture	5,114	33.4	7,559	31.1	9,088	29.3	9,955	29.0
Living room furniture	1,572	34.8	1,955	35.1	2,361	32.7	2,031	30.0
Other furniture	94	29.6	17	34.2	16	23.9	137	30.9
	<b>11,313</b>	<b>31.1</b>	<b>12,921</b>	<b>31.3</b>	<b>14,124</b>	<b>29.3</b>	<b>14,382</b>	<b>28.5</b>
	<b>FPE 2018</b>		<b>FPE 2019</b>					
	<b>GP</b>	<b>GP margin</b>	<b>GP</b>	<b>GP margin</b>				
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>				
Office furniture	712	25.3	612	26.1				
Bedroom furniture	2,861	26.7	3,365	26.5				
Living room furniture	477	23.5	1,005	31.8				
Other furniture	17	22.7	23	24.2				
	<b>4,067</b>	<b>26.0</b>	<b>5,005</b>	<b>27.4</b>				

**(iii) Commentary on cost of sales, GP and GP margin****(aa) Comparison between FYE 2015 and FYE 2016**

Our cost of sales increased by RM3.3 million or 13.1% to RM28.4 million in FYE 2016, which is in tandem with the increase in our total revenue of 13.5%. Corresponding to the increase in sales volume, we recorded higher direct materials cost of RM2.4 million or 12.7% as we utilise more direct materials in the production. In addition, our direct labour cost and production overheads cost increased by 12.8% and 14.9% respectively.

In FYE 2016, our GP increased by approximately RM1.6 million or 14.2% from the preceding financial year. During the year, we recorded an increase in GP for bedroom furniture and living room furniture while recording a decrease in GP for office furniture. In view that GP margin of bedroom furniture and living room furniture is higher as compared to office furniture, our overall GP margin recorded a slight improvement from 31.1% in FYE 2015 to 31.3% in FYE 2016. The GP margin for office furniture is generally lower as study desk tops uses melamine laminated tops which are more expensive.



**11. FINANCIAL INFORMATION (Cont'd)**

In addition, higher GP margin is also attributed to the favourable foreign exchange rate.

Largest GP contributor for FYE 2016 was bedroom furniture. Sales of bedroom furniture had increased mainly due to increase in orders for bedroom furniture from our major customer, RNA Resources Group Ltd. Our second largest GP contributor for FYE 2016 was from office furniture.

**(bb) Comparison between FYE 2016 and FYE 2017**

Our cost of sales increased by RM5.8 million or 20.4% to RM34.2 million in FYE 2017. The increase in cost of sales was attributable to the increase in all components of the cost of sales. Corresponding to the increase sales volume, we recorded higher direct materials cost of RM3.8 million or 17.8% as we utilise more direct materials in the production. In addition, our direct labour cost and production overheads cost increased by 21.5% and 37.1% respectively.

In FYE 2017, we recorded an increase in GP of approximately RM1.2 million or 9.3% from the preceding the financial year. The increase in GP was due to a further increase in sales of bedroom furniture and living room furniture while sales of office furniture had continued to decrease.

Notwithstanding the increase in GP, our GP margin had decreased from 31.3% in FYE 2016 to 29.3% in FYE 2017 due to:

- (i) a lower increase in exchange rate of 4.5% in FYE 2017 as compared to an increase in exchange rate of 6.1% in FYE 2016; and
- (ii) higher cost of sales of 20.4% arising from the installation of 1 new production line in June 2016 which led to higher machinery depreciation expenses and higher electricity usage.

As the production line was newly commissioned, it operated at a lower production rate as the production team was still in the midst of calibrating it. Even though it operated at a lower production rate, it incurred the same electricity usage as other production lines and hence we recorded a lower GP margin.

During FYE 2017, RNA Resources Group Ltd, our major customer from the UAE had continued to increase orders for bedroom furniture. As a result, bedroom furniture was the highest GP contributor. Similar to FYE 2016, office furniture was our second largest GP contributor.

**(cc) Comparison between FYE 2017 and FYE 2018**

Our cost of sales increased by RM1.8 million or 5.3% to RM36.0 million in FYE 2018. The increase in cost of sales was mainly attributable to the increase in direct materials cost of RM1.6 million or 6.3%.

For FYE 2018, our GP was higher by approximately RM0.3 million or 2.1% as compared to FYE 2017. The increase in GP was due to the increase in sales of bedroom furniture and other furniture while sales of office furniture and living room furniture decreased.

Notwithstanding the increase in GP, our GP margin had decreased from 29.3% in FYE 2017 to 28.5% in FYE 2018 mainly due to a decrease in WAFEX by approximately 6.1% in FYE 2018 as compared to an increase in exchange rate of 4.5% in FYE 2017.

**11. FINANCIAL INFORMATION (Cont'd)**

Sale of bedroom furniture contributed the largest GP for FYE 2018 which was mostly from sales to our major customer, RNA Resources Group Ltd.

**(dd) Comparison between FPE 2018 and FPE 2019**

Our cost of sales increased by RM1.7 million or 14.7% to RM13.3 million in FPE 2019. The increase in cost of sales was mainly attributable to the increase in direct materials cost of RM0.8 million or 9.2%, direct labour cost of RM0.5 million or 35.7% and production overheads cost of RM0.4 million or 28.5%.

For FPE 2019, our GP was higher by approximately RM0.9 million or 22.0% as compared to FPE 2018 due to increase in sales volume for bedroom furniture, living room furniture and other furniture while sales volume of office furniture decreased.

Our overall GP margin recorded an improvement from 26.0% in FPE 2018 to 27.4% in FPE 2019 mainly due to an improvement in the GP margin for living room furniture. GP margin of living room furniture increase as we secured orders with higher selling prices.

In addition, higher GP margin is also attributed to the favourable foreign exchange rate in FPE 2019 and higher sales volume.

**11.2.4 Other income**

The breakdown of our other income is as follows:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Interest income	2	2.2	16	2.6	41	5.3	76	9.0
Compensation	12	13.5	-	-	-	-	-	-
Sundry income	8	9.0	39	6.4	49	6.4	-	-
Gain on disposal of fixed assets	13	14.6	-	-	-	-	766	91.0
Net fair value gain on derivative financial instrument	-	-	-	-	678	88.3	-	-
Foreign exchange gain								
- realised	-	-	439	71.5	-	-	-	-
- unrealised	54	60.7	120	19.5	-	-	-	-
	<b>89</b>	<b>100.0</b>	<b>614</b>	<b>100.0</b>	<b>768</b>	<b>100.0</b>	<b>842</b>	<b>100.0</b>
	FPE 2018		FPE 2019					
	RM'000	%	RM'000	%				
Interest income	44	69.8	28	28.6				
Compensation	-	-	-	-				
Sundry income	-	-	-	-				
Gain on disposal of fixed assets	-	-	-	-				
Net fair value gain on derivative financial instrument	-	-	-	-				
Foreign exchange gain								
- realised	-	-	-	-				
- unrealised	19	30.2	70	71.4				
	<b>63</b>	<b>100.0</b>	<b>98</b>	<b>100.0</b>				

**11. FINANCIAL INFORMATION (Cont'd)****Comparison between FYE 2015 and FYE 2016**

In FYE 2015, other income comprises mainly unrealised foreign exchange gain of approximately RM0.05 million, gain on disposal of fixed assets (production machinery) of approximately RM0.01 million as well as insurance compensation of approximately RM0.01 million for damaged inventory and machinery due to overflow of water resulting from blocked public drainage. This issue has since been rectified by the relevant local authorities.

For FYE 2016, other income increased to approximately RM0.6 million, mainly due to foreign exchange gain of RM0.6 million.

**Comparison between FYE 2016 and FYE 2017**

For FYE 2017, other income increased by approximately RM0.2 million or 33.3% to approximately RM0.8 million, mainly due to net fair value gain of forward currency contracts as at 31 December 2017. The WAFEX rose by approximately 4.5% from USD1:RM4.1236 in FYE 2016 to USD1:RM4.3091 in FYE 2017.

**Comparison between FYE 2017 and FYE 2018**

For FYE 2018, other income increased by approximately RM0.07 million or 9.1% as we recorded gain on disposal of the hostel and land held under title GM 1612 Lot 1849 situated in Mukim of Sungai Raya, District of Muar, State of Johor ("Hostel") amounting to RM0.8 million.

On 13 March 2018, we entered into a sale and purchase agreement with Kejora Bitara Sdn Bhd to dispose the Hostel at the consideration price of RM2,100,000. The disposal was completed on 30 May 2018. Additional information on this disposal is set out in Section 9.1.

We did not record any net fair value gain of forward currency contracts as at 31 December 2018 as compared to the preceding FYE 2017.

**Comparison between FPE 2018 and FPE 2019**

For FPE 2019, the higher other income was mainly due to higher unrealised foreign exchange gain. The WAFEX increased by approximately 4.1% from USD1:RM3.9336 in FPE 2018 to USD1:RM4.0938 in FPE 2019.

**11.2.5 Selling and distribution expenses**

The breakdown of our selling and distribution expenses is as follows:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Advertisement	4	0.4	3	0.2	4	0.3	1	0.1
Exhibition expenses	144	12.9	166	10.7	107	6.7	116	7.4
Sales commission	35	3.1	67	4.3	119	7.4	184	11.7
Transportation charges	15	1.3	77	5.0	73	4.6	69	4.4
Forwarding and handling charges	918	82.3	1,238	79.8	1,296	81.0	1,199	76.4
	<b>1,116</b>	<b>100.0</b>	<b>1,551</b>	<b>100.0</b>	<b>1,599</b>	<b>100.0</b>	<b>1,569</b>	<b>100.0</b>

**11. FINANCIAL INFORMATION (Cont'd)**

	FPE 2018		FPE 2019	
	RM'000	%	RM'000	%
Advertisement	-	-	-	-
Exhibition expenses	89	16.2	136	19.7
Sales commission	46	8.4	69	10.0
Transportation charges	34	6.2	57	8.2
Forwarding and handling charges	380	69.2	430	62.1
	<b>549</b>	<b>100.0</b>	<b>692</b>	<b>100.0</b>

**Comparison between FYE 2015 and FYE 2016**

For FYE 2016, selling and distribution expenses increased by RM0.4 million or 39.1% as compared to the preceding financial year. The increase was mainly attributable to the following:

- (i) higher forwarding and handling charges, which was a result of higher sales volume; and
- (ii) increase in exhibition expenses by RM0.02 million due to higher travelling charges to attend Furniture China in Shanghai, China. Please refer to Section 6.12(i) for further details of the trade fairs that we have participated.

**Comparison between FYE 2016 and FYE 2017**

For FYE 2017, we did not record any significant change to our selling and distribution expenses. The selling and distribution expenses of RM1.6 million mainly comprises of:

- (i) forwarding and handling charges of RM1.3 million, which was slightly higher due to the increase in sales volume; and
- (ii) exhibition expenses of RM0.1 million where we participated in 1 exhibition during the financial year.

**Comparison between FYE 2017 and FYE 2018**

For FYE 2018, we did not record any significant change to our selling and distribution expenses. The selling and distribution expenses of RM1.6 million mainly comprises of:

- (i) forwarding and handling charges of RM1.2 million, which was slightly lower as compared to FYE 2017 as we secured lower charges offered by our forwarding agent;
- (ii) sales commission of RM0.2 million, which was higher due to the increase in sales; and
- (iii) exhibition expenses of RM0.1 million where we participated in 1 exhibition during the financial year.

**Comparison between FPE 2018 and FPE 2019**

The selling and distribution expenses recorded in FPE 2019 increased by RM0.1 million or 18.2% lower as compared to the preceding financial period, mainly due to:

- (i) higher forwarding and handling charges, which was a result of higher sales volume; and
- (ii) increase in exhibition expenses as we secured a larger exhibition booth for our participation in the Malaysian International Furniture Fair during the financial period, hence requiring higher expenses.

**11. FINANCIAL INFORMATION (Cont'd)****11.2.6 Administrative expenses**

The breakdown of our administrative expenses is as follows:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Staff costs	294	16.1	383	19.0	501	23.2	916	29.0
Director's remuneration	722	39.6	794	39.4	794	36.8	1,083	34.4
Depreciation	135	7.4	200	9.9	190	8.8	214	6.8
Bank charges	209	11.5	146	7.2	124	5.8	100	3.2
Upkeep and maintenance	8	0.4	21	1.1	8	0.4	38	1.2
Printing and stationery	152	8.3	133	6.6	125	5.8	189	6.0
Utilities	92	5.1	98	4.9	108	5.0	112	3.5
Legal and professional fees	26	1.4	31	1.5	91	4.2	157	5.0
Motor vehicle expenses	21	1.2	34	1.7	61	2.8	71	2.3
Other expenses <sup>(1)</sup>	164	9.0	176	8.7	154	7.2	273	8.6
	<b>1,823</b>	<b>100.0</b>	<b>2,016</b>	<b>100.0</b>	<b>2,156</b>	<b>100.0</b>	<b>3,153</b>	<b>100.0</b>

	FPE 2018		FPE 2019	
	RM'000	%	RM'000	%
Staff costs	296	29.9	426	40.0
Director's remuneration	360	36.4	360	33.8
Depreciation	64	6.5	42	3.9
Bank charges	54	5.5	37	3.5
Upkeep and maintenance	10	1.0	8	0.8
Printing and stationery	28	2.8	63	5.9
Utilities	42	4.3	40	3.8
Legal and professional fees	63	6.4	4	0.4
Motor vehicle expenses	7	0.7	11	1.0
Other expenses <sup>(1)</sup>	64	6.5	73	6.9
	<b>988</b>	<b>100.0</b>	<b>1,064</b>	<b>100.0</b>

Note:

<sup>(1)</sup> Other expenses include security charges, real property gains tax, quit rent and assessment as well as transportation charges for administrative staff.

**Comparison between FYE 2015 and FYE 2016**

For FYE 2016, administrative expenses increased by approximately RM0.2 million or 11.1% as compared to the preceding financial year. The increase was mainly attributable to higher staff costs, Director's remuneration and depreciation.

Staff costs increased by approximately RM0.1 million mainly due to the addition of 3 employees, which include the Purchasing Assistant, IT and Admin Executive and Export Sales Executive. Director's remuneration increased by approximately RM0.07 million while depreciation increased by approximately RM0.07 million due to addition of a motor vehicle during the financial year.

**11. FINANCIAL INFORMATION (Cont'd)****Comparison between FYE 2016 and FYE 2017**

For FYE 2017, administrative expenses increased by approximately RM0.1 million or 5.0% as compared to the preceding financial year. The increase was mainly attributable to higher staff costs as well as legal and professional fees.

Staff costs increased by RM0.1 million mainly due to the addition of 1 employee, being Loo Soon Chuan, our Marketing Manager who joined in September 2016. Legal and professional fees increased by approximately RM0.06 million due to preliminary listing expenses incurred.

**Comparison between FYE 2017 and FYE 2018**

For FYE 2018, administrative expenses increased by approximately RM1.0 million or 45.5% as compared to the preceding financial year. The increase was mainly attributable to higher staff cost of RM0.4 million mainly due to the addition of 7 employees as well as increase in Director's remuneration by RM0.3 million.

During the financial year, our Group incurred real property gains tax amounting to RM0.06 million due to the sale of hostel and land held under GM 1612 Lot 1849 situated in the Mukim of Sungai Raya, District of Muar, State of Johor. In addition, legal and professional fees increased by RM0.07 million mainly due to our listing expenses.

**Comparison between FPE 2018 and FPE 2019**

For FPE 2019, administrative expenses increased by approximately RM0.1 million or 7.6% as compared to the preceding financial period. The increase was mainly attributable to higher staff cost of RM0.1 million due to the addition of 4 employees during FPE 2019.

**11.2.7 Other expenses**

The breakdown of our other expenses is as follows:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Net fair value loss on derivative financial instrument	126	78.8	258	100.0	-	-	88	5.0
Revaluation loss on property, plant and equipment	-	-	-	-	-	-	1,520	86.7
Foreign exchange loss								
- Realised	34	21.2	-	-	819	89.8	94	5.4
- Unrealised	-	-	-	-	93	10.2	51	2.9
	<b>160</b>	<b>100.0</b>	<b>258</b>	<b>100.0</b>	<b>912</b>	<b>100.0</b>	<b>1,753</b>	<b>100.0</b>
	FPE 2018		FPE 2019					
	RM'000	%	RM'000	%				
Net fair value loss on derivative financial instrument	7	4.9	111	87.4				
Revaluation loss on property, plant and equipment	-	-	-	-				
Foreign exchange loss								
- Realised	136	95.1	16	12.6				
- Unrealised	-	-	-	-				
	<b>143</b>	<b>100.0</b>	<b>127</b>	<b>100.0</b>				

**11. FINANCIAL INFORMATION (Cont'd)**

For FYE 2015 and FYE 2016, other expenses mainly comprised net loss on fair value of derivative financial instrument of RM0.1 million and RM0.3 million, respectively.

The derivative financial instruments comprise foreign currency forward contracts entered with banking institutions to sell the USD received from our customers at agreed exchange rates for fixed periods of time to reduce the exposure of our receivables. Further details are set out in Section 11.10.

In FYE 2017, other expenses were due to realised foreign exchange loss of RM0.8 million and an unrealised foreign exchange loss of RM0.1 million.

In FYE 2018, other expenses was mainly due to revaluation loss of RM1.5 million on our properties, namely RM1.4 million for Land 3 and RM0.1 million for Investment Land.

During FYE 2018, we undertook a revaluation of all properties owned by our Group. However, the market value for Land 3 and Investment Land were lower than its net book value and we recorded revaluation loss of RM1.5 million. Further details are set out below:

	<b>Land 3</b>	<b>Investment Land</b>
	<b>RM'000</b>	<b>RM'000</b>
Total cost of acquisition for Land 3 / Net book value of Investment Land as at FYE 2017	6,434	2,086
Net book value as at FYE 2018	5,000*	2,000
Revaluation loss	(1,434)	(86)

Note:

\* Excluding the consultant fee of RM18,000 paid for the land conversion.

In FPE 2019, other expenses were mainly due to net loss on fair value of derivative financial instrument of RM0.1 million.

**11.2.8 Finance costs**

Finance costs consist of interest on bank overdraft, term loan, bankers' acceptance and hire purchase.

The breakdown of our finance costs is as follows:

	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Bank overdraft	16	8.0	12	10.3	1	0.9	3	0.9
Term loan	113	56.8	92	79.3	82	99.1	283	89.6
Banker's acceptances	28	14.0	11	9.5	-	-	30	9.5
Hire purchase	42	21.2	1	0.9	-	-	-	-
	<b>199</b>	<b>100.0</b>	<b>116</b>	<b>100.0</b>	<b>83</b>	<b>100.0</b>	<b>316</b>	<b>100.0</b>

**11. FINANCIAL INFORMATION (Cont'd)**

	FPE 2018		FPE 2019	
	RM'000	%	RM'000	%
Bank overdraft	-	-	-	-
Term loan	64	86.5	103	96.3
Banker's acceptances	10	13.5	4	3.7
Hire purchase	-	-	-	-
	<b>74</b>	<b>100.0</b>	<b>107</b>	<b>100.0</b>

Bank overdraft is used to finance our working capital while bankers' acceptances are used to finance purchases of raw materials while term loans are used to finance the construction of Factory B. Hire purchase is used to finance the purchase of motor vehicle.

**Comparison between FYE 2015 and FYE 2016**

For FYE 2016, finance costs decreased by approximately RM0.08 million as compared to the preceding financial year. The decrease was mainly attributable to lower term loan interest, banker's acceptances interest and hire purchase interest. Most of our hire purchase were paid off in FYE 2015, leading to a lower hire purchase interest for FYE 2016.

**Comparison between FYE 2016 and FYE 2017**

For FYE 2017, finance costs decreased by approximately RM0.03 million as compared to the preceding financial year. The decrease was mainly attributable to lower term loan interest and the absence of banker's acceptances interest and hire purchase interest.

**Comparison between FYE 2017 and FYE 2018**

For FYE 2018, finance cost increased by approximately RM0.2 million as compared to the preceding financial year. The increase in interest cost was mainly due to the term loan of RM4.0 million drawn for the purchase of Land 3.

**Comparison between FPE 2018 and FPE 2019**

For FPE 2019, our finance cost increased by RM0.03 million. The slight increase was mainly due to the increase in interest cost due to the term loan of RM4.0 million drawn for the purchase of Land 3.

**11.2.9 Tax expense, PBT and PAT**

The following tables sets out the comparison between the statutory tax rates and our effective tax rates for the financial years/period under review:

	FYE 2015	FYE 2016	FYE 2017	FYE 2018	FPE 2018	FPE 2019
	%	%	%	%	%	%
Statutory tax rate <sup>(1)</sup>	20 / 25	19 / 24	18 / 24	18 / 24	18 / 24	17 / 24
Effective tax rate	11.2	22.1	22.5	26.1	26.9	17.3

Note:

<sup>(1)</sup> We qualify for lower statutory tax rates of 20.0%, 19.0%, 18.0%, 18.0%, 18.0% and 17.0% on the first chargeable income of RM500,000 for FYEs 2015, 2016, 2017, 2018 and FPEs 2018 and 2019 respectively.



**11. FINANCIAL INFORMATION (Cont'd)**

The following tables sets out the PBT, PBT margin, PAT and PAT margin for the financial years/period under review:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2018</b>	<b>FPE 2019</b>
PBT (RM'000)	8,104	9,594	10,142	8,433	2,376	3,113
PBT margin (%)	22.2	23.2	21.0	16.7	15.2	17.0
PAT (RM'000)	7,194	7,474	7,860	6,229	1,736	2,576
PAT margin (%)	19.8	18.1	16.3	12.4	11.1	14.1

**Comparison between FYE 2015 and FYE 2016**

For FYE 2015, we registered a PBT and PAT of RM8.1 million and RM7.2 million respectively, with PBT margin and PAT margin of 22.2% and 19.8% respectively. The effective tax rate of 11.2% is lower than the statutory tax rate due to utilisation of reinvestment allowance of RM4.4 million during the financial year.

For FYE 2016, as a result of increase in revenue and GP, our PBT and PBT margin improved from approximately RM8.1 million and 22.2% for FYE 2015 to approximately RM9.6 million and 23.2% for FYE 2016. Correspondingly, our PAT and PAT margin increased from approximately RM7.2 million or 19.8% to approximately RM7.5 million and 18.1% in FYE 2016. The effective tax rate increased to 22.1% due to lower reinvestment allowance of RM0.8 million utilised during the financial year.

**Comparison between FYE 2016 and FYE 2017**

As a result of increase in revenue and GP, our PBT improved from approximately RM9.6 million to approximately RM10.1 million for FYE 2017. In line with higher PBT, PAT increased by approximately RM0.4 million to approximately RM7.9 million in FYE 2017.

However, we recorded decrease in PBT margin from to 23.2% to 21.0% and decrease in PAT margin dropped from 18.1% to 16.3% mainly due to foreign exchange loss of RM0.9 million. During FYE 2017, reinvestment allowance utilised was lower at RM0.7 million and our effective tax rate increased to 22.5%. Correspondingly, we recorded lower PAT margin of 16.3%.

**Comparison between FYE 2017 and FYE 2018**

While our GP for FYE 2018 was higher as compared to FYE 2017, our PBT decreased from approximately RM10.1 million in FYE 2017 to approximately RM8.4 million in FYE 2018. This was mainly due to revaluation loss on Land 3 of RM1.4 million. Resulting from the revaluation loss, our PBT margin decreased from 21.0% to 16.7% and our PAT margin decreased from 16.3% to 12.4%.

In line with lower PBT, PAT decreased from approximately RM7.9 million in FYE 2017 to approximately RM6.2 million in FYE 2018.

During FYE 2018, we recorded fair value loss on derivative financial instruments, revaluation loss on Land 3 and Investment Land as well as real property gain tax from the disposal of hostel and land. These expenses are not allowed for tax deduction. As such, our effective tax rate for FYE 2018 increased to 26.1%.

**11. FINANCIAL INFORMATION (Cont'd)****Comparison between FPE 2018 and FPE 2019**

For FPE 2019, as a result of increase in revenue and GP, our PBT and PBT margin improved from approximately RM2.4 million and 15.2% for FPE 2018 to approximately RM3.1 million and 17.0% for FPE 2019. Correspondingly, our PAT and PAT margin increased from approximately RM1.7 million or 11.1% to approximately RM2.6 million and 14.1% in FPE 2019.

The effective tax rate was higher at 26.9% in FPE 2018 due to as certain expenses (such as realised exchange rate loss) are not allowed for tax deduction. We recorded a decrease in the effective tax rate to 17.3% in FPE 2019 as we qualified for tax allowance of RM0.1 million as we have successfully increased our export.

**11.2.10 Review of financial position****(a) Assets**

Our assets for the financial years/period under review comprise the following:

	<b>Audited</b>			
	<b>As at 31 December</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	14,601	14,881	16,689	31,058
<b>Total non-current assets</b>	<b>14,601</b>	<b>14,881</b>	<b>16,689</b>	<b>31,058</b>
<b>Current assets</b>				
Inventories	4,816	4,568	5,950	6,778
Trade receivables	4,477	5,290	4,064	5,854
Other receivables	473	890	2,138	2,773
Derivative financial instruments	-	-	106	17
Fixed deposits with licensed banks	450	1,100	2,303	1,401
Cash and bank balances	507	1,180	3,546	2,271
<b>Total current assets</b>	<b>10,723</b>	<b>13,028</b>	<b>18,107</b>	<b>19,094</b>
<b>TOTAL ASSETS</b>	<b>25,324</b>	<b>27,909</b>	<b>34,796</b>	<b>50,152</b>
	<b>Unaudited</b>	<b>Audited</b>		
	<b>As at 30 April</b>			
	<b>2018</b>	<b>2019</b>		
	<b>RM'000</b>	<b>RM'000</b>		
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	22,864	31,361		
<b>Total non-current assets</b>	<b>22,864</b>	<b>31,361</b>		
<b>Current assets</b>				
Inventories	5,170	8,747		
Trade receivables	4,872	3,907		
Other receivables	2,305	4,303		
Derivative financial instruments	99	-		
Fixed deposits with licensed banks	-	3,285		
Cash and bank balances	1,725	3,115		
<b>Total current assets</b>	<b>14,171</b>	<b>23,357</b>		
<b>TOTAL ASSETS</b>	<b>37,035</b>	<b>54,718</b>		

**11. FINANCIAL INFORMATION (Cont'd)**

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**FYE 2016****Non-current assets**

Our non-current assets increased by RM0.3 million mainly due:

- (i) purchase of 2 units of CNC woodworking machines of RM1.4 million;
- (ii) purchase of motor vehicles, improvement made to buildings and purchase of office equipment amounting to RM0.5 million; and
- (iii) decrease in property, plant and equipment of RM1.6 million resulting from depreciation charges during the year.

**Current assets**

Our current assets increased by RM2.3 mainly due to:

- (i) increase of RM0.8 million in trade receivables due to higher revenue,
- (ii) increase of RM0.4 million in other receivables mainly due to levy paid for foreign workers and higher GST receivable; and
- (iii) increase of RM1.3 million in fixed deposits and cash and bank balances due to higher internally generated funds contributed by higher sales in FYE 2016.

The increase in current assets was partially offset by the decrease in inventories of RM0.2 million.

**FYE 2017****Non-current assets**

Our non-current assets increased by RM1.8 million mainly due:

- (i) purchase 3 units of edge banding machines and 1 unit of CNC panel saw machine of RM1.4 million;
- (ii) improvement made to buildings and purchase of office equipment amounting to RM0.2 million;
- (iii) purchase of the Investment Land for RM2.0 million; and
- (iv) decrease in property, plant and equipment of RM1.8 million resulting from depreciation charges during the year.

**Current assets**

Our current assets increased by RM5.1 million mainly due to:

- (i) increase of RM1.4 million in inventories to cater for increasing orders;
- (ii) increase of RM1.2 million in other receivables mainly due to deposits paid for acquisition of Land 3 as well as higher levy paid for foreign workers, utility deposits, prepayment of listing expenses and higher GST receivable; and
- (iii) increase of RM3.6 million in fixed deposits and cash and bank balances due to higher internally generated funds contributed by higher sales in the FYE 2017.

## **11. FINANCIAL INFORMATION (Cont'd)**

However, we recorded a decrease in trade receivables of RM1.2 million due to lower trade receivable turnover days of 35 days recorded in FYE 2017 as compared to 43 days recorded in FYE 2016.

### **FYE 2018**

Our non-current assets increased by RM14.4 million mainly due to:

- (i) purchase of motor vehicles, improvement made to buildings and purchase of office equipment amounting to RM0.3 million;
- (ii) purchase of the Land 1 for RM2.1 million and Land 3 for RM6.0 million as well as related transaction costs of RM0.9 million; and
- (iii) revaluation gain of RM4.3 million for Land 1 (including Factory A1 and A2) and RM5.3 million for Land 2 (including Factory B).

The increase in non-current assets was offset by:

- (i) impairment loss on revaluation gain of RM1.4 million for Land 3 and RM0.1 million for the Investment Land;
- (ii) disposal of a hostel and land held under GM 1612 Lot 1849 situated in the Mukim of Sungai Raya, District of Muar, State of Johor which has a NBV of RM1.4 million; and
- (iii) decrease in property, plant and equipment of RM1.9 million resulting from depreciation charges during the year.

### **Current assets**

Our current assets increased by RM1.0 million mainly due to:

- (i) the increase in trade receivables of RM1.8 million due to higher revenue for FYE 2018;
- (ii) increase of RM0.8 million in inventories to cater for increasing orders; and
- (iii) increase of RM0.6 million in other receivables mainly due to increase in the prepayment of listing expenses, levy paid for foreign workers, utility deposits and GST receivable.

The increase was offset by the decrease in fixed deposits and cash and bank balances amounting to RM2.2 million.

### **FPE 2019**

#### **Non-current assets**

Our non-current assets increased by RM0.3 million as compared to non-current assets as at 31 December 2018 of RM31.1 million mainly due to:

- (i) purchase of machineries, improvement made to buildings and purchase of office equipment amounting to RM0.5 million; and
- (ii) consultant fees and application fees paid for the planning permit of Land 3 of RM0.3 million.

**11. FINANCIAL INFORMATION (Cont'd)**

The increase in non-current assets was offset by the decrease in property, plant and equipment of RM0.5 million resulting from depreciation charges.

**Current assets**

Our current assets increased by RM4.3 million as compared to current assets as at 31 December 2018 of RM19.1 million mainly due to:

- (i) the increase of RM2.0 million in inventories to cater for increasing orders;
- (ii) the increase in other receivables of RM1.5 million mainly consist of the deposits for purchases of machineries and prepayments of listing expenses; and
- (iii) the increase of fixed deposits and cash and bank balances amounting to RM2.7 million.

The increase was offset by a decrease in trade receivables of RM1.9 million due to lower trade receivable turnover days of 35 days recorded in FYE 2018 as compared to 32 days recorded in FPE 2019.

**(b) Liabilities**

Our liabilities for the financial years/period under review comprise the following:

	<b>Audited</b>			
	<b>As at 31 December</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Non-current liabilities</b>				
Borrowings	3,418	3,187	2,937	6,186
Deferred tax liabilities	367	321	439	2,599
<b>Total non-current liabilities</b>	<b>3,785</b>	<b>3,508</b>	<b>3,376</b>	<b>8,785</b>
<b>Current liabilities</b>				
Trade payables	1,926	2,251	1,929	2,912
Other payables	694	731	750	1,358
Derivative financial instruments	314	572	-	-
Finance lease liabilities	61	-	-	-
Borrowings	887	901	1,208	592
Tax payables	381	995	722	452
<b>Total current liabilities</b>	<b>4,263</b>	<b>5,450</b>	<b>4,609</b>	<b>5,314</b>
<b>TOTAL LIABILITIES</b>	<b>8,048</b>	<b>8,958</b>	<b>7,985</b>	<b>14,099</b>

**11. FINANCIAL INFORMATION (Cont'd)**

	<u>Unaudited</u>	<u>Audited</u>
	<u>As at 30 April</u>	
	<u>2018</u>	<u>2019</u>
	<u>RM'000</u>	<u>RM'000</u>
<b>Non-current liabilities</b>		
Borrowings	6,580	5,990
Deferred tax liabilities	439	2,740
<b>Total non-current liabilities</b>	<b>7,019</b>	<b>8,730</b>
<b>Current liabilities</b>		
Trade payables	2,310	4,569
Other payables	1,272	1,527
Derivative financial instruments	-	94
Finance lease liabilities	-	-
Borrowings	1,706	888
Tax payables	682	280
<b>Total current liabilities</b>	<b>5,970</b>	<b>7,358</b>
<b>TOTAL LIABILITIES</b>	<b>12,989</b>	<b>16,088</b>

**FYE 2016****Non-current liabilities**

Our non-current liabilities decreased by RM0.3 million mainly due to decrease in borrowings of RM0.2 million as our Group did not draw down on new borrowings and the existing term loan at that time was fully settled in March 2016.

**Current liabilities**

Our current liabilities increased by RM1.2 million mainly due to:

- (i) increase of RM0.3 million in trade payables due to higher purchase of raw materials and supplies to support our increase in sales;
- (ii) increase of RM0.3 million in derivative financial instruments for the purpose of limiting our foreign currency exposure; and
- (iv) increase of RM0.6 million in tax payables due to higher PBT recorded and less reinvestment allowance utilised.

**FYE 2017****Non-current liabilities**

Our non-current liabilities decreased by RM0.1 million mainly due to decrease in borrowings as our Group did not draw down on new borrowings.

**Current liabilities**

Our current liabilities decreased by RM0.8 million mainly due to:

- (i) decrease of RM0.3 million in trade payables due a decrease in trade payable turnover days from 26 days in FYE 2016 to 22 days in FYE 2017;

**11. FINANCIAL INFORMATION (Cont'd)**

- (ii) decrease in derivative financial instruments of RM0.6 million as we recorded net gain in our foreign currency forward contracts; and
- (iii) decrease in tax payables by RM0.3 million.

The decrease in current liabilities was offset by an increase of RM0.3 million in borrowings due to higher bank overdrafts drawn to for purchase of raw materials to support the increase in production.

**FYE 2018****Non-current liabilities**

Our non-current liabilities increased by RM5.4 million mainly due to:

- (i) increase of RM3.2 million in borrowings due to the drawn down of new term loan in FYE 2018 for the purchase of Land 3; and
- (ii) increase in deferred tax liabilities of RM2.2 million due to the revaluation gain of Land 1 (including Factory A1 and A2) and Land 2 (including Factory B).

**Current liabilities**

Our current liabilities increased by RM0.7 million mainly due to:

- (i) increase of RM1.0 million in trade payables due to higher purchase of raw materials and supplies to support our increase in sales; and
- (ii) increase in other payables by RM0.6 million due to increase in receipt of advance payment from new customers of RM0.4 million, accrued salaries and staff allowance of RM0.2 million.

The increase in current liabilities was offset by decrease in borrowing as no overdraft was drawn in FYE 2018 and decrease in tax payables of RM0.3 million.

**FPE 2019****Non-current liabilities**

Our non-current liabilities decreased slightly by RM0.06 million as compared to non-current liabilities as at 31 December 2018 of RM8.8 million mainly due to repayment of long term loan for the purchase of Land 2 and Land 3.

**Current liabilities**

Our current liabilities increased by RM2.0 million as compared to current liabilities as at 31 December 2018 of RM5.3 million mainly due to:

- (i) increase of RM1.7 million in trade payables due to higher purchase of raw materials and supplies to support our increase in sales;
- (ii) increase of RM0.2 million in other payables due to increase in non-trade payables; and
- (ii) increase in term loan of RM0.3 million for the purchase of Land 3.

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## **11. FINANCIAL INFORMATION (Cont'd)**

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### **11.2.11 Recent developments**

There were no significant events subsequent to our Group's audited combined financial statements for FPE 2019.

### **11.3 LIQUIDITY AND CAPITAL RESOURCES**

#### **11.3.1 Working capital**

We have been financing our operations through existing cash and bank balances, cash generated from our operations and external sources of funds. Our external sources of funds mainly comprise term loans, bank overdrafts and trade facilities such as bankers' acceptance as well as hire purchase financing. As at 30 April 2019, we have:

- (a) cash and bank balances of approximately RM3.1 million; and
- (b) banking facilities (excluding finance lease) up to a limit of RM13.9 million, of which RM6.9 million has been utilised.

The interest rate of our borrowings is based on prevailing market rates. Currently, the principal use of our borrowings is for our Group's business growth and operations, for the acquisition of property, plant and equipment as well as for working capital purposes.

The decision to utilise either internally generated funds or borrowings for our business operations depends on, amongst others, our cash and bank balances, expected cash inflows, future working capital requirements, future capital expenditure requirements and the interest rate on borrowings.

Based on the pro forma combined statements of financial position of our Group as at 30 April 2019 (after the Acquisition of Spring Art but before the Public Issue), our NA position stood at RM38.6 million and our gearing level is 0.2 times. Our NA position and gearing level after the Acquisition of Spring Art and Public Issue (and utilisation of proceeds) are RM58.9 million and 0.2 times respectively.

Our Board is confident that, after taking into account our gearing and cash flow position as well as the banking facilities currently available to our Group, our working capital will be sufficient for our existing and foreseeable requirements for a period of 12 months from the date of this Prospectus.

At this juncture, we do not foresee any circumstances which may materially affect our liquidity. Our Group has not encountered any major disputes with our debtors. Our finance personnel works together closely with our sales and marketing staff for the collection of these outstanding balances on a monthly basis. This measure has proven to be effective while maintaining a cordial relationship with our customers.



**11. FINANCIAL INFORMATION (Cont'd)****11.3.2 Review of cash flows****(a) Cash flow summary**

The table below sets out the summary of our Group's historical audited combined statements of cash flows for FYEs 2015 to 2018 and FPE 2019.

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Net cash from operating activities	4,386	9,216	6,762	6,999	4,073	3,658
Net cash used in investing activities	(1,510)	(1,866)	(3,618)	(7,309)	(6,652)	(789)
Net cash used in financing activities	(2,716)	(6,126)	(234)	(960)	(594)	(189)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>160</b>	<b>1,224</b>	<b>2,910</b>	<b>(1,270)</b>	<b>(3,173)</b>	<b>2,680</b>

**Commentary of cash flows****FYE 2015****Net cash from operating activities**

In FYE 2015, we recorded net operating cash of RM4.4 million. We collected approximately RM33.1 million from our customers which was offset by cash payments of RM28.7 million. Such cash payments were mainly due to:

- (i) Approximately RM24.1 million paid to our suppliers for purchase of raw materials (including packaging materials);
- (ii) Approximately RM4.3 million paid for our operating expenses and salaries; and
- (iii) Income tax paid of RM0.3 million.

**Net cash used in investing activities**

We recorded a net cash outflow of RM1.5 million from our investing activities in FYE 2015, mainly due to:

- (i) purchase of 2 units of CNC woodworking machines for RM1.1 million;
- (ii) improvement made to buildings and purchase of office equipment amounting RM0.4 million.

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**11. FINANCIAL INFORMATION (Cont'd)**

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**Net cash used in financing activities**

In FYE 2015, the cash outflow in financing activities of RM2.7 million was mainly due to:

- (i) repayment of borrowings of RM0.1 million;
- (ii) repayment of hire purchase of RM1.1 million; and
- (iii) dividend payment of RM1.5 million.

**FYE 2016****Net cash from operating activities**

In FYE 2016, we recorded net operating cash of RM9.2 million. We collected approximately RM40.6 million from our customers which was offset by cash payments of RM31.4 million. Such cash payments were mainly due to:

- (i) Approximately RM25.0 million paid to our suppliers for purchase of raw materials (including packaging materials);
- (ii) Approximately RM4.8 million paid for our operating expenses and salaries; and
- (iii) Income tax paid of RM1.6 million.

**Net cash used in investing activities**

We recorded a net cash outflow of RM1.9 million from our investing activities in FYE 2016, mainly due to:

- (i) purchase of 2 units of CNC woodworking machines for RM1.4 million;
- (ii) purchase of motor vehicles of RM0.3 million;
- (iii) improvement made to buildings and purchase of office equipment amounting RM0.2 million.

**Net cash used in financing activities**

In FYE 2016, we recorded a net cash outflow of RM6.1 million from our financing activities, mainly due to:

- (i) dividend payment of RM5.8 million; and
- (ii) repayment of borrowings of RM0.3 million.

**11. FINANCIAL INFORMATION (Cont'd)**

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**FYE 2017****Net cash from operating activities**

In FYE 2017, we recorded net operating cash of RM6.8 million. For FYE 2017, we collected approximately RM47.0 million from our customers which was offset by cash payments of RM40.2 million. Such cash payments were mainly due to:

- (i) Approximately RM32.2 million paid to our suppliers for purchase of raw materials (including packaging materials);
- (ii) Approximately RM5.6 million paid for our operating expenses and salaries; and
- (iii) Income tax paid of RM2.4 million.

**Net cash used in investing activities**

In FYE 2017, we recorded a net cash outflow of RM3.6 million from our investing activities, mainly due to:

- (i) purchase of 3 units of edge banding machines and 1 unit of CNC panel saw machine for RM1.4 million;
- (ii) purchase of Investment Land (including related transaction costs) of RM2.1 million;
- (iii) improvement made to buildings and purchase of office equipment amounting RM0.2 million.

The outflow was offset with the interest received of approximately RM0.04 million for the fixed deposits placed with licensed banks.

**Net cash used in financing activities**

In FYE 2017, we recorded a net cash outflow of RM0.2 million from our financing activities due to repayment of term loans.

**FYE 2018****Net cash from operating activities**

In FYE 2018, we recorded net operating cash of RM7.0 million. For FYE 2018, we collected approximately RM47.8 million from our customers which was offset by cash payments of RM40.8 million. Such cash payments were mainly due to:

- (i) Approximately RM31.8 million paid to our suppliers for purchase of raw materials (including packaging materials);
- (ii) Approximately RM6.3 million paid for our operating expenses and salaries; and
- (iii) Income tax paid of RM2.4 million.

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**11. FINANCIAL INFORMATION (Cont'd)**

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**Net cash used in investing activities**

In FYE 2018, we recorded a net cash outflow of RM7.3 million from our investing activities, mainly due to:

- (i) purchase of Land 3 (including related transaction costs) of RM6.4 million;
- (ii) improvement made to buildings and purchase of office equipment amounting to RM0.4 million;
- (iii) purchase of machinery amounting to RM 0.4 million; and
- (iv) purchase of motor vehicles of RM0.1 million.

**Net cash used in financing activities**

In FYE 2018, we recorded a net cash outflow of RM1.0 million from our financing activities, mainly due to:

- (i) dividend payment of RM4.5 million; and
- (ii) repayment of borrowings of RM0.5 million.

The outflow was offset by the drawdown of borrowings amounting to RM4.0 million for the acquisition of Land 3.

**FPE 2019****Net cash from operating activities**

In FPE 2019, we recorded net operating cash of RM3.7 million. For FPE 2019, we collected approximately RM18.7 million from our customers which was offset by cash payments of RM15.0 million. Such cash payments were mainly due to:

- (i) Approximately RM11.8 million paid to our suppliers for purchase of raw materials (including packaging materials);
- (ii) Approximately RM2.6 million paid for our operating expenses and salaries; and
- (iii) Income tax paid of RM0.6 million.

**Net cash used in investing activities**

In FPE 2019, we recorded a net cash outflow of RM0.8 million from our investing activities, mainly due to:

- (i) purchase of machinery amounting to RM0.4 million; and
- (ii) consultant fees and application fees paid for the planning permit of Land 3 of RM0.3 million.

**Net cash used in financing activities**

In FPE 2019, we recorded a net cash outflow of RM0.2 million from our financing activities due the repayment of borrowings of RM0.2 million.

**11. FINANCIAL INFORMATION (Cont'd)****11.4 BORROWINGS**

We utilise credit facilities such as bankers' acceptances to partially finance our working capital. In addition, we also utilise term loans to finance the construction of factory building and purchase of machinery.

Our total outstanding bank borrowings as at 30 April 2019 stood at RM6.9 million, details of which are set out below. All our bank borrowings are interest-bearing and denominated in RM.

				<b>As at 30 April 2019</b>
		<b>Purpose</b>	<b>Tenure</b>	<b>Interest rate</b>
				<b>% per annum</b>
				<b>RM'000</b>
<b>Interest bearing short-term borrowings, payable within 1 year:</b>				
Term loans		Acquisition of Land 2 and the construction of Factory B	15 years	4.5
				257
Term loans		Acquisition of Land 3	10 years	4.4
Bankers' acceptances		Working capital requirements	90 to 120 days	4.8
				290
			<b>Sub-total</b>	<b>888</b>
<b>Interest bearing long-term borrowings, payable after 1 year:</b>				
Term loans		Acquisition of Land 2 and the construction of Factory B	15 years	4.5
				2,666
Term loans		Acquisition of Land 3	10 years	4.4
				3,324
			<b>Sub-total</b>	<b>5,990</b>
			<b>Total borrowings</b>	<b>6,878</b>

**Pro forma gearing (times)**

After Acquisition of Spring Art before the Public Issue <sup>(1)</sup>	0.2
After the Public Issue <sup>(2)</sup>	0.2

## Notes:

- (1) Computed based on our pro forma shareholders' funds of RM38.6 million in the pro forma combined statements of financial position after the Acquisition of Spring Art before the Public Issue.
- (2) Computed based on our pro forma shareholders' funds of RM58.9 million in the pro forma combined statements of financial position after the Acquisition of Spring Art and Public Issue (and utilisation of proceeds).

Our pro forma gearing ratio is expected to decrease from 0.2 times (before the Public Issue) to 0.1 times (after the Public Issue) due to the increase in shareholders' funds arising from the issuance of new Shares pursuant to the Public Issue. Thereafter, the gearing ratio will increase to 0.2 times (after utilisation of proceeds) as we intend to part finance the construction of our new Factory C with the drawdown of term loan amounting to RM5.8 million. We have received an indicative loan offer letter from a licensed bank for RM5.8 million.

**11. FINANCIAL INFORMATION (Cont'd)**

Our bank borrowings carry the following interest rates for the FYEs 2015 to 2018 and FPE 2019:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>
	<b>% per annum</b>				
Bankers' acceptances	3.3 – 4.8	3.3 – 4.6	-	-	4.8
Bank overdrafts	7.9 – 8.9	7.9 – 8.9	7.9 – 8.1	-	-
Term loans	4.7 – 6.4	4.7	4.4 – 6.6	4.6 – 4.8	4.4 – 4.5

The following table sets out the maturities of our borrowings and finance lease liabilities:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>				
<b>Bank borrowings</b>					
Within the next 12 months	887	901	1,208	592	888
After the next 12 months:					
Later than 1 year but not later than 5 years	1,101	1,137	1,205	2,645	2,675
More than 5 years	2,317	2,050	1,732	3,541	3,315

As at the LPD, we do not have any borrowings which are non-interest bearing and/or in foreign currency. We have not defaulted on payments of principal sums and/or interests in respect of any borrowings throughout the FYEs 2015 to 2018 and FPE 2019 as well as the subsequent financial period up to LPD.

As at the LPD, neither our Group nor our subsidiary is in breach of any terms and conditions or covenants associated with the credit arrangement or bank loan which can materially affect our financial position and results or business operations or the investments by holders of our securities.

From FYEs 2015 to 2018 and FPE 2019, we have not experienced any claw back or reduction in the facilities limit granted to us by our lenders.

**11.5 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES**

As at the LPD, save for our bank borrowings as disclosed in Section 11.4 and the USD denominated forward contracts entered into as disclosed in Section 11.10.1, we do not utilise any other financial instruments. We maintain foreign currency accounts to receive proceeds of our sales in USD and SGD.

We finance our operations mainly through cash generated from our operations, as well as external sources of funds which mainly comprise bank borrowings. Our bank borrowings as at 30 April 2019 are based on the bank's cost of funds plus a rate which varies depending on the different types of bank facilities.

The principal usages of these banking facilities are for working capital, purchase of raw materials and purchases of fixed assets.

**11. FINANCIAL INFORMATION (Cont'd)****11.6 MATERIAL CAPITAL COMMITMENTS, MATERIAL LITIGATION AND CONTINGENT LIABILITY****11.6.1 Material capital commitments**

Save as disclosed below, as at the LPD, our Group does not have any material capital commitment:

	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Unaudited</b>
	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>	<b>As at the LPD</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Authorised and contracted for:				
Purchase of freehold land <sup>(i)</sup>	5,489	-	-	-
Application for access road <sup>(ii)</sup>	260	260	260	260
Purchase of machinery <sup>(iii)</sup>	-	1,539	994	106
Purchase of computer system	-	15	-	-

Notes:

- (i) On 23 October 2017, Spring Art (as purchaser) had entered into a sale and purchase agreement to purchase Land 3 at a consideration price of approximately RM6.1 million. As at 31 December 2017, a deposit of RM0.6 million has been paid.

As such, the remaining purchase sum payable of RM5.5 million has been recorded as recorded as a material commitment as at 31 December 2017. The acquisition of Land 3 was subsequently completed on 6 February 2018.

- (ii) On 18 June 2017, Spring Art had vide its consultant submitted an application to the Pejabat Tanah Muar to apply for an access road.

The Pejabat Tanah Muar had vide its letter dated 27 July 2017 notified that the cost for the access road is RM520,000, of which a deposit of RM260,000 is payable in order for the application to proceed. Spring Art had on 22 August 2017 made the payment to the Pejabat Tanah Muar.

The remaining amount payable of RM260,000 has been recorded as a material commitment as at 31 December 2018, 30 April 2019 and as at the LPD. This amount, when due, shall be paid via our internally generated funds.

- (iii) For the purchase of the following machines:

<b>Description</b>	<b>No of units/location</b>
(i) Boring machines	1 unit at Factory A2, 1 unit at Factory B and 6 units at subcontractors' factory*
(ii) CNC panel saw machines	3 units at subcontractors' factory*
(iii) Edge banding machines	4 units at subcontractors' factory*

**11. FINANCIAL INFORMATION (Cont'd)**

- \* On 16 May 2019, Spring Art had entered into a subcontractor agreement with Bright Showcase whereby Bright Showcase is appointed as a subcontractor to undertake the manufacturing of our furniture products for sales orders that we are unable to manufacture at our manufacturing factories. A total of 13 machines are placed at the subcontractor's factory for this purpose.

Additional information on the subcontractor agreement is set out in Section 6.16(b).

**11.6.2 Material litigation and contingent liability**

We are not engaged in any material litigation, claim or arbitration either as plaintiff or defendant and there are no proceedings pending or threatened or of any fact likely to give rise to any proceeding which might materially or adversely affect our position or business as at the LPD.

There are no contingent liabilities incurred by us or our subsidiary, which upon becoming enforceable, may have a material effect on our financial position or our subsidiary as at the LPD.

**11.7 KEY FINANCIAL RATIOS**

The key financial ratios of our Group for FYEs 2015 to 2018 and FPE 2019 are as follows:

	<b>Audited</b>				
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>
Trade receivable turnover (days) <sup>(1)</sup>	36	43	35	35	32
Trade payable turnover (days) <sup>(2)</sup>	28	26	22	24	33
Inventory turnover (days) <sup>(3)</sup>	59	60	56	64	70
Current ratio (times) <sup>(4)</sup>	2.5	2.4	3.9	3.6	3.2
Gearing ratio (times) <sup>(5)</sup>	0.2	0.2	0.2	0.2	0.2

Notes:

- (1) Computed based on the average trade receivables multiplied by 365 days for FYEs and 120 days for FPE 2019:

	<b>Audited</b>				
	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FPE</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Opening trade receivables	2,836	4,477	5,290	4,064	5,854
Closing trade receivables	4,477	5,290	4,064	5,854	3,907
Revenue	36,425	41,287	48,276	50,382	18,297
Average trade receivables turnover period (days)	36	43	35	35	32



**11. FINANCIAL INFORMATION (Cont'd)**

- (2) Computed based on the average trade payables multiplied by 365 days for FYEs and 120 days for FPE 2019:

	<b>Audited</b>				
	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FPE</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Opening trade payables	1,976	1,926	2,251	1,929	2,912
Closing trade payables	1,926	2,251	1,929	2,912	4,569
Cost of sales	25,112	28,366	34,152	36,000	13,292
Average trade payable turnover period (days)	28	26	22	24	33

- (3) Computed based on the average inventories multiplied by 365 days for FYEs and 120 days for FPE 2019:

	<b>Audited</b>				
	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FPE</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Opening inventory	3,429	4,816	4,568	5,950	6,778
Closing inventory	4,816	4,568	5,950	6,778	8,747
Cost of sales	25,112	28,366	34,152	36,000	13,292
Inventory turnover period (days)	59	60	56	64	70

- (4) Computed based on current assets over current liabilities as at year end for each of the FYEs 2015 to 2018 and FPE 2019.

- (5) Computed based on the total borrowings over total equity as at year end for each of the FYEs 2015 to 2018 and FPE 2019.

**11.7.1 Trade receivables turnover**

The ageing analysis of our trade receivables as at 30 April 2019 is as follows:

	<b>Within credit period</b>	<b>Exceeding credit period</b>				<b>Total</b>
	<b>Neither past due nor impaired</b>	<b>1 to 30 days past due but not impaired</b>	<b>31 to 60 days past due but not impaired</b>	<b>61 - 90 days past due but not impaired</b>	<b>More than 90 days past due but not impaired</b>	
Trade receivables (RM'000)	3,866	41	-	-	-	3,907
% of total trade receivables (%)	99.0	1.0	-	-	-	100
Subsequent collections up to the LPD (RM'000)	3,866	41	-	-	-	3,907
Trade receivables net of subsequent collections (RM'000)	-	-	-	-	-	-
% of trade receivables net of subsequent collections to total trade receivables net of subsequent collections (%)	-	-	-	-	-	-
Turnover period (Days)						32

**11. FINANCIAL INFORMATION (Cont'd)**

As at the LPD, all outstanding trade receivables as at 30 April 2019 have been collected.

Our normal trade terms are cash term and credit terms of up to 90 days. Our credit terms to customers are assessed and approved on a case-by-case basis taking into consideration various factors such as relationship with customers, customers' payment history, credit worthiness and quantum of amount owing. We use ageing analysis to monitor the credit quality of our trade receivables.

Our average trade receivables turnover periods for the FYE 2015, FYE 2016, FYE 2017, FYE 2018 and FPE 2019 were 36 days, 43 days, 35 days, 35 days and 32 days respectively, which is within our credit period.

Our Group has not encountered any major disputes with our debtors and hence no allowance for impairment was provided for as there were no doubtful receivables outstanding for the FYE 2015, FYE 2016, FYE 2017, FYE 2018 and FPE 2019.

**11.7.2 Trade payables turnover**

The ageing analysis of our trade payables as at 30 April 2019 is as follows:

	Exceeding credit period					Total
	Within credit term	1 to 30 days past due	31 to 60 days past due	61 - 90 days past due	More than 90 days past due	
Trade payables (RM'000)	2,572	1,431	272	261	33	4,569
% of total trade payables (%)	56.3	31.3	6.0	5.7	0.7	100
Subsequent payments up to the LPD (RM'000)	2,572	1,431	272	261	33	4,569
Trade payables net of subsequent payments (RM'000)	-	-	-	-	-	-
% of trade payables net of subsequent payments to total trade payables net of subsequent payments (%)	-	-	-	-	-	-
Turnover period (Days)						33

The normal trade terms granted to our Group by our suppliers are cash term and credit terms of up to 90 days.

Our average trade payables turnover period as at for the FYE 2015, FYE 2016, FYE 2017, FYE 2018 and FPE 2019 were 28 days, 26 days, 22 days, 24 days and 33 days respectively, which is within the credit period given.

As at the LPD, all the outstanding trade payables as at 30 April 2019 have been paid.

**11. FINANCIAL INFORMATION (Cont'd)****11.7.3 Inventories**

Our inventories consist of raw materials, packaging materials, work-in-progress, and finished goods. The table below sets out a summary of our Group's inventories for the financial years/period under review:

	<b>Audited</b>				
	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FPE</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Opening inventories	3,429	4,816	4,568	5,950	6,778
Closing inventories	4,816	4,568	5,950	6,778	8,747
Cost of sales	25,112	28,366	34,152	36,000	13,292
Average inventory turnover period (days)	59	60	56	64	70

Average inventory turnover period as at 31 December 2015, 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019 were 59 days, 60 days, 56 days, 64 days and 70 days respectively. Our average inventory turnover period is approximately 2 months and we keep our inventories low as we manufacture on a 'made-to-order' basis.

The inventory turnover of FYE 2018 of 64 days and FPE 2019 of 70 days are higher to cater for increasing in sales in 2019.

As at 30 April 2019, the inventories of our Group amounting to approximately RM8.7 million can be analysed as follows:

	<b>1 to 30</b>	<b>31 to 60</b>	<b>61 to 90</b>	<b>91 days</b>	<b>Total</b>
	<b>days</b>	<b>days</b>	<b>days</b>	<b>and above</b>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Inventories					
- Raw materials (including packaging material)	4,212	184	348	1,084	5,828
- Work-in-progress	918	-	-	-	918
- Finished goods	1,666	-	-	-	1,666
- Goods in transit*	335	-	-	-	335
Inventories	<b>7,131</b>	<b>184</b>	<b>348</b>	<b>1,084</b>	<b>8,747</b>
Turnover period (Days)					70

The closing inventory for the past 4 FYEs and FPE 2019 are as follows:

	<b>Audited</b>				
	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FPE</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Closing inventory					
- Raw materials (including packaging material)	4,323	4,154	4,308	4,801	5,828
- Work-in-progress	29	298	133	412	918
- Finished goods	464	116	1,509	1,240	1,666
- Goods in transit*	-	-	-	325	335
	<b>4,816</b>	<b>4,568</b>	<b>5,950</b>	<b>6,778</b>	<b>8,747</b>

**11. FINANCIAL INFORMATION (Cont'd)**

Note:

\* Goods yet to be received as at financial years/period under review.

Our Group's raw materials mainly consist of boards (particle boards and MDF), metal components (screws, nuts and mounting brackets), PVC edges as well as packaging materials (corrugated cartons and packing tapes).

Our Group's finished goods consist of furniture products.

We conduct a monthly management meeting to review the stockholding level and inventory ageing analysis. Approval is required from authorised personnel at management level for replenishment of stocks and impairment on slow moving stocks.

Our Group practices first-in-first-out basis in computing the cost of inventories, work-in-progress, and finished goods. The costs of raw materials include invoices value of goods purchased and expenditure incurred in acquiring the inventories. The cost of finished goods and work-in-progress comprises raw materials, direct labour and an appropriate proportion of production overhead.

**11.7.4 Current ratio**

Our current ratio, current assets and current liabilities for the financial years/period under review are as follows:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Current assets	10,723	13,028	18,107	19,094	23,357
(Current liabilities)	(4,263)	(5,450)	(4,609)	(5,314)	(7,358)
<b>Net current assets/ (liabilities)</b>	<b>6,460</b>	<b>7,578</b>	<b>13,498</b>	<b>13,780</b>	<b>15,999</b>
Current ratio (times)	2.5	2.4	3.9	3.6	3.2

Our current ratio ranged from 2.4 times to 3.9 times for the financial years/period under review, indicating that our Group is capable of meeting our current obligations as our current assets such as inventory and trade receivables, which can be readily converted to cash, together with our cash in the bank are enough to meet immediate current liabilities.

In FYE 2017, our current ratio increased to 3.9 times mainly due to the increase of RM3.6 million in fixed deposits and cash and bank balances contributed by higher PAT in the FYE 2017.

Kindly also refer to Section 11.2.10 for further details on our current assets and current liabilities.

**11.7.5 Gearing ratio**

Our gearing ratio throughout the financial years/period under review is as follows:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>
Total borrowings (RM'000)	4,305	4,088	4,145	6,778	6,878
Total equity (RM'000)	17,276	18,951	26,811	36,053	38,630
Gearing ratio (times)	0.2	0.2	0.2	0.2	0.2

Our Group's gearing ratio is at 0.2 times for the FYEs/FPE under review.

**11. FINANCIAL INFORMATION (Cont'd)**

During FYE 2016 and FYE 2017, we did not drawdown on any new borrowings. During FYE 2018, our borrowings increased to RM6.8 million mainly due to the drawdown of term loan for the purchase of Land 3.

The improvement in our total equity is as a result of the PAT recorded for the past FYEs/FPE. During FYE 2018 and FPE 2019, we recorded surplus from revaluation of land and buildings of RM7.4 million (net of deferred tax liability) respectively.

**11.8 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES**

There were no government, economic, fiscal or monetary policies or factors which have materially affected our financial performance during the financial years/period under review.

There is no assurance that our financial performance will not be adversely affected by the impact of further changes in government, economic, fiscal or monetary policies or factors moving forward. Risks relating to government, economic, fiscal or monetary policies or factors which may adversely and materially affect our operations are set out in Section 8.

**11.9 IMPACT OF INFLATION**

Our Group is of the view that the current inflation rate does not have a material impact on our business, financial condition or results of our operation. However, any significant increase in future inflation may adversely affect our Group's operations and performance insofar as we are unable to pass on the higher costs to our customers through increase in selling prices.

**11.10 IMPACT OF FOREIGN EXCHANGE RATES, INTEREST RATES AND/OR COMMODITY PRICES****11.10.1 Impact of foreign exchange rates**

We are exposed to transactional currency exposure as approximately 98.3%, 98.9%, 99.0%, 98.9% and 99.4% of our revenues were denominated in USD for FYEs 2015, 2016, 2017 and 2018 and FPE 2019 respectively. Our Group's GP margin is therefore directly affected by the foreign currencies exchange rate fluctuation.

An appreciation of the RM against the USD may ultimately affect our revenue. This may adversely affect our financial performance as it would reduce our GP margin.

**(a) Foreign exchange gain/(loss)**

For the past 4 FYEs 2015 to 2018 and FPE 2019, our gain and losses from the foreign exchange fluctuations are as follows:

	FYE 2015	FYE 2016	FYE 2017	FYE 2018	FPE 2019
	RM'000	RM'000	RM'000	RM'000	RM'000
Realised foreign exchange gain/(loss) <sup>(i)</sup>	(34)	439	(819)	(94)	(16)
Unrealised foreign exchange gain/(loss) <sup>(ii)</sup>	54	120	(93)	(51)	70
<b>Net gain/(loss)</b>	<b>20</b>	<b>559</b>	<b>(912)</b>	<b>(145)</b>	<b>54</b>

**11. FINANCIAL INFORMATION (Cont'd)**

- (i) Realised foreign exchange gain/(loss) represents the difference in the foreign exchange rate as at the date of our invoice as compared to the foreign exchange rate when the payment for the invoice is received.

If the foreign exchange rate as at the date of our invoice is higher as compared to the rate when the payment for the invoice is received, we will record a realised foreign exchange loss. Conversely, if the foreign exchange rate as at the date of our invoice is lower as compared to the rate when the payment for the invoice is received, we will record a realised foreign exchange gain.

- (ii) Unrealised foreign exchange gain/(loss) represents the difference in the foreign exchange rate as at the date of our invoice as compared to the foreign exchange spot rates as at respective FYE/FPE.

**(b) Foreign currency forward contracts**

In addition, we enter into foreign currency forward contracts with banking institutions to sell the USD received from our customers at agreed exchange rates for fixed periods of time to reduce the exposure of our receivables. The USD denominated forward contracts entered into are as follows:

	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>		<b>FPE 2019</b>	
	<b>USD'000</b>	<b>RM'000</b>	<b>USD'000</b>	<b>RM'000</b>	<b>USD'000</b>	<b>RM'000</b>	<b>USD'000</b>	<b>RM'000</b>	<b>USD'000</b>	<b>RM'000</b>
USD denominated forward contracts	1,694	6,958	1,750	7,289	800	3,151	850	3,533	2,139	8,755

In the past 4 FYEs 2015 to 2018 and FPE 2019, our gain and losses arising from the fluctuations in foreign exchange from the forward contracts that we entered into, as follows:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Net fair value gain/(loss) on derivative financial instrument	(126)	(258)	678	(88)	(111)

We will record a net fair value gain if the agreed exchange rate is higher than the rates as at respective FYEs/FPE. Conversely, we will record a net fair value loss if the agreed exchange rate is lower than the rates as at respective FYEs/FPE.

Resulting from the usage of foreign currency forward contracts, the net effect to the impact of foreign exchange rate fluctuations is as follows:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Net foreign exchange gain/(loss)	20	559	(912)	(145)	54
Net fair value gain/(loss) on derivative financial instrument	(126)	(258)	678	(88)	(111)
<b>Foreign exchange gain/(loss)</b>	<b>(106)</b>	<b>301</b>	<b>(234)</b>	<b>(233)</b>	<b>(57)</b>

**11. FINANCIAL INFORMATION (Cont'd)**

Based on the above, we were able to reduce the net foreign exchange loss recorded in FYE 2017 of RM0.91 million as we had recorded a net fair value gain of RM0.68 million via usage of foreign currency forward contracts. While for FYE 2018, we recorded net foreign exchange loss of RM0.15 million and net fair value loss of RM0.09 million via usage of foreign currency forward contracts. The overall impact of foreign exchange loss for the FYE 2017 was RM0.23 million.

However, for FYE 2016, our net foreign exchange gain of RM0.56 million was offset by the net fair value loss of RM0.26 million via usage of foreign currency forward contracts.

For FYE 2015 and FPE 2019, the impact of foreign exchange gain/loss was minimal at RM0.11 million for FYE 2015 and RM0.06 million for FPE 2019.

Kindly refer to Section 8.1.1 for the details on risk relating to fluctuations in foreign exchange rates.

**11.10.2 Impact of interest rates**

Interest coverage ratio measures the number of times a company can make its interest payments with its profit before interest and tax. The interest coverage ratio for the financial years/period under review is as follows:

	<b>Audited</b>				
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>
Interest coverage ratio (times) <sup>(1)</sup>	41.7	83.6	122.7	27.4	29.8

Note:

<sup>(1)</sup> Computed based on profit before interest and tax over finance costs for the FYEs 2015 to 2018 and FPE 2019.

Our interest coverage ratio of between 27.4 times to 122.7 times for the FYEs 2015 to 2018 and FPE 2019 indicates that our Group has been able to generate sufficient profits before interest and tax to meet our interest serving obligations. Our interest coverage ratio decreased from 122.7 times in FYE 2017 to 27.4 times in FYE 2018 due to the increase in interest cost arising from the term loan of RM4.0 million drawn for the purchase of Land 3 and lower profit before interest and tax resulting from the revaluation loss of RM1.5 million.

Our Group's financial results for the financial years/period under review were not materially affected by fluctuations in interest rates. However, major increase in interest rates would raise the cost of borrowings and our finance costs for our purchases of raw materials, which may have an adverse effect on the performance of our Group.

**11.10.3 Impact of commodity prices**

Our Group is exposed to fluctuation in prices of raw materials, particularly particle boards and MDF. Presently, although there are various sources of local and foreign supply of these direct materials, and furniture parts and components, their prices may fluctuate and such fluctuation may affect our financial performance.

Nonetheless, it is our practice to find multiple sources of supply to obtain competitive prices. Some of our purchases of raw materials are made upon receipt of confirmed orders from our customers to minimise the impact of any adverse price fluctuations in our main raw materials.

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## **11. FINANCIAL INFORMATION (Cont'd)**

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Our suppliers regularly keep us abreast of the supply condition and price trend of our main raw materials to ensure that we are aware and are prepared for increase in prices of raw materials.

### **11.11 ORDER BOOK**

Due to the nature of our business, we do not maintain an order book. We generate our revenue as and when we deliver our products based on purchase orders received.

### **11.12 DIRECTORS' DECLARATION ON OUR GROUP'S FINANCIAL PERFORMANCE**

Our Board is of the opinion that:

- (a) Our Group's revenue will remain sustainable with an upward growth trend, in line with the growth outlook of the furniture industry as set out in the IMR Report;
- (b) Our liquidity will improve subsequent to the Public Issue given the additional funds to be raised for us to carry out our future plans as stated in Section 6.19;
- (c) Our revenue and profitability is expected to improve following the completion of the construction of our new Factory C and setting up of manufacturing line in Factory C as stated in Section 6.19.1; and
- (d) Our financial resources will strengthen, taking into account the amount to be raised from the IPO as well as internally generated funds. We may consider debt funding for our business expansion should the need arises.

There are no known circumstances which would result in a significant decline in our revenue and GP margins or know of any factors that are likely to have a material impact on our liquidity, revenue or profitability.

### **11.13 TREND INFORMATION**

Based on our track record for the past years under review, including our segmental analysis of revenue and profitability, the following trends may continue to affect our business:

- (a) Revenue contribution from bedroom furniture has been on an uptrend from 42.0% in FYE 2015 to 69.4% in FPE 2019. We expect the bedroom furniture segment to continue contributing significantly to our revenue in the future;
- (b) For the past FYEs 2015 to 2018 and FPE 2019, all of our revenue is derived from export sales. We expect this trend to continue in the future;
- (c) For the past FYEs 2015 to 2018 and FPE 2019, sales to the India, Japan, UAE and Saudi Arabia have contributed between 73.1% to 89.2% of our revenue. We expect sales to these countries to continue contributing significantly to our revenue in the future; and
- (d) For the past FYEs 2015 to 2018 and FPE 2019, the main component of our cost of sales is direct materials, which constituted more than 70% of total cost of sales. We expect this trend to continue.



**11. FINANCIAL INFORMATION (Cont'd)**

Save as disclosed in Section 11.2, there are no other factors which are likely to have a material effect on our financial condition and results of operations or cause our Group's historical financial statements to be not necessarily indicative of our future financial performance.

We had in May 2019 appointed a subcontractor to undertake the manufacturing of our furniture products for sales orders that we are unable to manufacture at our manufacturing factories. We anticipate that this manufacturing arrangement will allow us to increase the volumes of furniture products that we can supply to our customers by 49,158 units per annum. Kindly refer to Section 6.16(b) for details of the subcontractor agreement.

Our Board is optimistic about the future prospects of our Group given our Group's competitive strengths set out in Section 6.8 and our Group's business strategies and prospects as set out in Section 6.19.

**11.14 DIVIDENDS**

Our Company does not have any formal dividend policy. As we are a holding company, our Company's income and therefore our ability to pay dividends is dependent upon the dividends we receive from our subsidiary, present or future. Save for compliance with the solvency requirement under the Act, which is applicable to all Malaysian companies, and consent from our financiers as set out in the respective facility agreements, there are no legal, financial, or economic restrictions on the ability of our existing subsidiary to transfer funds in the form of cash dividends, loans or advances to us. Generally, consent from the financier is required if any payment or declaration of such dividend exceeds or will exceed the PAT or a specific PAT threshold as prescribed in the respective facility agreement. Moving forward, the payment of dividends or other distributions by our subsidiary will depend on their distributable profits, operating results, financial condition, capital expenditure plans, business expansion plans and other factors that their respective boards of Directors deem relevant.

The declaration of interim dividends and the recommendation of final dividends are subject to the discretion of our Board and any final dividends for the year are subject to shareholders' approval. Actual dividends proposed and declared may vary depending on the financial performance and cash flows of our Group, and may be waived if the payment of the dividends would adversely affect the cash flows and operations of our Group.

In respect of FYEs 2015 to 2018 and FPE 2019, dividends declared by our subsidiary were as follows:

	<u>FYE 2015</u>	<u>FYE 2016</u>	<u>FYE 2017</u>	<u>FYE 2018</u>	<u>FPE 2019</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Dividends declared	5,500	1,800	4,500	-	1,000

**11. FINANCIAL INFORMATION (Cont'd)****11.15 CAPITALISATION AND INDEBTEDNESS**

The table below summarises our capitalisation and indebtedness as at 31 August 2019 and after adjusting for the effects of the Acquisition of Spring Art and Public Issue including the utilisation of proceeds from the Public Issue.

	<b>Spring Art Holdings</b>	<b>I</b>	<b>II</b>
	<b>As at 31 August 2019 (1)</b>	<b>After I and Public Issue</b>	<b>After II and utilisation of proceeds</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Capitalisation</b>			
Shareholders' equity	40,528	64,949	61,749
<b>Total capitalisation</b>	<b>40,528</b>	<b>64,949</b>	<b>61,749</b>
<b>Indebtedness<sup>(2)</sup></b>			
<b>Current</b>			
Bankers' acceptance	-	-	-
Term loans	608	608	608
<b>Non-current</b>			
Term loans	5,785	5,785	5,785
<b>Total indebtedness</b>	<b>6,393</b>	<b>6,393</b>	<b>6,393</b>
<b>Total capitalisation and indebtedness</b>	<b>46,921</b>	<b>71,342</b>	<b>68,142</b>
<b>Gearing ratio<sup>(3)</sup>(times)</b>	0.16	0.10	0.10

Notes:

- (1) The Acquisition of Spring Art Industries was completed on 31 July 2019.
- (2) All of our indebtedness are secured.
- (3) Calculated based on the total indebtedness divided by the total capitalisation.

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**12. ACCOUNTANTS' REPORT**

**SPRING ART HOLDINGS BERHAD**  
**(Company No.: 1278159 - A)**  
(Incorporated in Malaysia)

**ACCOUNTANTS' REPORT**  
**FOR THE FINANCIAL YEARS ENDED**  
**31 DECEMBER 2015, 2016, 2017, 2018 AND**  
**FINANCIAL PERIOD ENDED 30 APRIL 2019**

**GRANT THORNTON MALAYSIA**  
**CHARTERED ACCOUNTANTS**

**Member of Grant Thornton International Ltd.**

## 12. ACCOUNTANTS' REPORT (Cont'd)



Date: 17 September 2019

The Board of Directors  
**Spring Art Holdings Berhad**  
Lot Plo 49  
Jalan Rami 4  
Kawasan Perindustrian Bukit Pasir  
84300 Bukit Pasir, Muar  
Johor Darul Takzim

**Grant Thornton Mala**  
(AF:0737)

Level 11, Sheraton Imperia  
Jalan Sultan Ismail  
50250 Kuala Lumpur  
Malaysia

T +603 2692 4022

F +603 2691 5229

Dear Sirs,

### **Reporting Accountants' Opinion On The Financial Information Contained In The Accountants' Report Of Spring Art Holdings Berhad ("the Company" or "Spring Art")**

#### *Opinion*

We have audited the accompanying combined financial statements ("Financial Information") of Spring Art Holdings Berhad and of its subsidiary (collectively known as "the Group" or "Spring Art Group") which comprises the combined statements of financial position of the Group as at 31 December 2015, 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, and the combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the financial years ended 31 December 2015, 31 December 2016, 31 December 2017, 31 December 2018 and 4 months financial period ended 30 April 2019, and a summary of significant accounting policies and other explanatory notes, as set out on pages 4 to 63.

In our opinion, the accompanying Financial Information give a true and fair view of the combined financial position of the Group as at 31 December 2015, 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019 and of their combined financial performance and combined cash flows for the financial years/period then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

#### *Basis for Opinion*

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Reporting Accountants' Responsibilities for the Audit of the Financial Information* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence and Other Ethical Responsibilities*

We are independent of the Group in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

**12. ACCOUNTANTS' REPORT (Cont'd)**

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*Responsibilities of the Directors for the Financial Information*

The Directors of the Group are responsible for the preparation of the Financial Information of the Group that give a true and fair view in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of Financial Information of the Group that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Information of the Group, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

*Reporting Accountants' Responsibilities for the Audit of the Financial Information*

Our objectives are to obtain reasonable assurance about whether the Financial Information of the Group as a whole are free from material misstatement, whether due to fraud or error, and to issue a reporting accountants' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Information.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:-

- Identify and assess the risks of material misstatement of the Financial Information of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our reporting accountants' report to the related disclosures in the Financial Information of the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern.

## 12. ACCOUNTANTS' REPORT (Cont'd)



### *Reporting Accountants' Responsibilities for the Audit of the Financial Information (cont'd)*

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also (cont'd):

- Evaluate the overall presentation, structure and content of the Financial Information of the Group, including the disclosures, and whether the Financial Information of the Group represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the Financial Information of the entities or business activities within the Group to express and opinion on the Financial Information of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicated with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### *Other matters*

This report has been prepared solely to comply with the Prospectus Guidelines – Equity issued by the Securities Commission Malaysia and for inclusion in the prospectus of Spring Art in connection with the listing of and quotation for the entire enlarged issued share capital of Spring Art on the ACE Market of Bursa Malaysia Securities Berhad and should not be relied upon for any other purposes. We do not assume responsibility to any other person for the content of this report.

The comparative information of 4 months financial period ended 30 April 2019 for the combined statements of financial position, combined statements of profit or loss and other comprehensive income, combined statements of changes in equity, combined statements of cash flows of the Group and their related explanatory notes for the 4 months financial period ended 30 April 2018 have not been audited.

GRANT THORNTON MALAYSIA  
(NO. AF: 0737)  
CHARTERED ACCOUNTANTS

Kuala Lumpur

OOI POH LIM  
(NO: 3087/10/19(J))  
CHARTERED ACCOUNTANT  
PARTNER

**12. ACCOUNTANTS' REPORT (Cont'd)****SPRING ART HOLDINGS BERHAD**  
(Incorporated in Malaysia)**COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2015, 31 DECEMBER 2016, 31 DECEMBER 2017, 31 DECEMBER 2018 AND FINANCIAL PERIOD ENDED 30 APRIL 2019**

	Note	Audited	Unaudited	Audited			
		30.4.2019 RM	30.4.2018 RM	31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
<b>ASSETS</b>							
<b>Non-current asset</b>							
Property, plant and equipment	4	<u>31,360,878</u>	<u>22,863,762</u>	<u>31,057,733</u>	<u>16,689,354</u>	<u>14,880,791</u>	<u>14,601,379</u>
<b>Total non-current asset</b>		<u>31,360,878</u>	<u>22,863,762</u>	<u>31,057,733</u>	<u>16,689,354</u>	<u>14,880,791</u>	<u>14,601,379</u>
<b>Current assets</b>							
Inventories	5	8,747,283	5,169,890	6,777,463	5,949,903	4,568,568	4,816,181
Trade receivables	6	3,907,086	4,871,996	5,854,323	4,063,982	5,289,695	4,477,064
Other receivables	7	4,302,889	2,305,304	2,773,437	2,138,683	889,910	472,875
Derivative financial instruments	8	-	99,238	17,290	105,904	-	-
Fixed deposits with licensed banks	9	3,285,219	-	1,400,604	2,302,712	1,100,000	450,000
Cash and bank balances	10	<u>3,114,288</u>	<u>1,724,741</u>	<u>2,271,462</u>	<u>3,545,856</u>	<u>1,179,833</u>	<u>506,359</u>
<b>Total current assets</b>		<u>23,356,765</u>	<u>14,171,169</u>	<u>19,094,579</u>	<u>18,107,040</u>	<u>13,028,006</u>	<u>10,722,479</u>
<b>Total assets</b>		<u>54,717,643</u>	<u>37,034,931</u>	<u>50,152,312</u>	<u>34,796,394</u>	<u>27,908,797</u>	<u>25,323,858</u>
<b>EQUITY AND LIABILITIES</b>							
<b>EQUITY</b>							
Equity attributable to owners of the Group:-							
Share capital	11	500,020	500,020	500,020	500,000	500,000	500,000
Revaluation reserve	12	7,375,173	-	7,430,575	-	-	-
Retained earnings		<u>30,754,735</u>	<u>23,546,374</u>	<u>28,122,748</u>	<u>26,310,682</u>	<u>18,450,777</u>	<u>16,776,315</u>
<b>Total equity</b>		<u>38,629,928</u>	<u>24,046,394</u>	<u>36,053,343</u>	<u>26,810,682</u>	<u>18,950,777</u>	<u>17,276,315</u>
<b>LIABILITIES</b>							
<b>Non-current liabilities</b>							
Borrowings	13	5,990,013	6,579,978	6,185,799	2,936,625	3,186,650	3,418,479
Deferred tax liabilities	14	<u>2,740,319</u>	<u>439,000</u>	<u>2,599,615</u>	<u>439,000</u>	<u>321,000</u>	<u>367,000</u>
<b>Total non-current liabilities</b>		<u>8,730,332</u>	<u>7,018,978</u>	<u>8,785,414</u>	<u>3,375,625</u>	<u>3,507,650</u>	<u>3,785,479</u>
<b>Current liabilities</b>							
Trade payables	15	4,568,738	2,309,435	2,912,050	1,929,443	2,251,112	1,925,627
Other payables	16	1,526,870	1,272,138	1,358,348	750,266	731,143	693,470
Derivative financial instruments	8	94,196	-	-	-	571,960	314,402
Lease liabilities	17	-	-	-	-	-	60,454
Borrowings	13	887,924	1,706,165	591,584	1,208,556	901,382	886,836
Tax payable		<u>279,655</u>	<u>681,821</u>	<u>451,573</u>	<u>721,822</u>	<u>994,773</u>	<u>381,275</u>
<b>Total current liabilities</b>		<u>7,357,383</u>	<u>5,969,559</u>	<u>5,313,555</u>	<u>4,610,087</u>	<u>5,450,370</u>	<u>4,262,064</u>
<b>Total liabilities</b>		<u>16,087,715</u>	<u>12,988,537</u>	<u>14,098,969</u>	<u>7,985,712</u>	<u>8,958,020</u>	<u>8,047,543</u>
<b>Total equity and liabilities</b>		<u>54,717,643</u>	<u>37,034,931</u>	<u>50,152,312</u>	<u>34,796,394</u>	<u>27,908,797</u>	<u>25,323,858</u>

The accompanying notes form an integral part of the combined financial statements.

**12. ACCOUNTANTS' REPORT (Cont'd)****SPRING ART HOLDINGS BERHAD**  
(Incorporated in Malaysia)**COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2015, 31 DECEMBER 2016, 31 DECEMBER 2017, 31 DECEMBER 2018 AND FINANCIAL PERIOD ENDED 30 APRIL 2019**

	Note	Audited	Unaudited	← Audited →			
		1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Revenue	18	18,296,970	15,626,316	50,381,862	48,276,443	41,287,223	36,424,464
Cost of sales		(13,292,146)	(11,558,901)	(36,000,350)	(34,152,463)	(28,365,916)	(25,111,726)
Gross profit		5,004,824	4,067,415	14,381,512	14,123,980	12,921,307	11,312,738
Other income		98,617	63,247	842,036	768,301	613,691	88,924
Selling and distribution expenses		(692,311)	(549,646)	(1,568,937)	(1,599,414)	(1,551,718)	(1,115,914)
Administrative expenses		(1,064,068)	(988,549)	(3,152,685)	(2,155,937)	(2,016,065)	(1,823,120)
Other expenses		(126,943)	(143,013)	(1,753,148)	(911,913)	(257,558)	(160,356)
Finance costs		(106,748)	(73,762)	(315,817)	(82,874)	(115,755)	(198,535)
<b>Profit before tax</b>	19	3,113,371	2,375,692	8,432,961	10,142,143	9,593,902	8,103,737
Tax expense	20	(536,786)	(640,000)	(2,203,997)	(2,282,238)	(2,119,440)	(910,006)
<b>Net profit for the financial period/year</b>		2,576,585	1,735,692	6,228,964	7,859,905	7,474,462	7,193,731
<b>Other comprehensive income for the financial period/year, net of tax</b>							
<b>Item that will not be subsequently reclassified to profit or loss</b>							
Revaluation of land and buildings		-	-	7,513,677	-	-	-
<b>Total comprehensive income for the financial period/year wholly attributable to the owners of the Group</b>		<u>2,576,585</u>	<u>1,735,692</u>	<u>13,742,641</u>	<u>7,859,905</u>	<u>7,474,462</u>	<u>7,193,731</u>
Earnings per share							
- Basic (sen)	21	<u>515.11</u>	<u>347.13</u>	<u>1,245.45</u>	<u>1,571.98</u>	<u>1,494.89</u>	<u>1,438.75</u>
- Diluted (sen)	21	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>

\* There are no dilutive potential equity instruments that would give a diluted effect to the basic earnings per share

The accompanying notes form an integral part of the combined financial statements.



**12. ACCOUNTANTS' REPORT (Cont'd)****SPRING ART HOLDINGS BERHAD**  
(Incorporated in Malaysia)**COMBINED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2015, 31 DECEMBER 2016, 31 DECEMBER 2017, 31 DECEMBER 2018 AND FINANCIAL PERIOD ENDED 30 APRIL 2019**

	<u>Note</u>	<u>Share capital</u> RM	<u>Revaluation reserve</u> RM	<u>Retained earnings</u> RM	<u>Total</u> RM
Balance as at 1 January 2015		500,000	-	11,082,584	11,582,584
<b>Transactions with owners:-</b>					
Dividends	22	-	-	(1,500,000)	(1,500,000)
Total comprehensive income for the financial year		-	-	<u>7,193,731</u>	<u>7,193,731</u>
Balance as at 31 December 2015		500,000	-	16,776,315	17,276,315
<b>Transactions with owners:-</b>					
Dividends	22	-	-	(5,800,000)	(5,800,000)
Total comprehensive income for the financial year		-	-	<u>7,474,462</u>	<u>7,474,462</u>
Balance as at 31 December 2016		500,000	-	18,450,777	18,950,777
Total comprehensive income for the financial year		-	-	<u>7,859,905</u>	<u>7,859,905</u>
Balance as at 31 December 2017		500,000	-	26,310,682	26,810,682
Total comprehensive income for the financial year		-	7,513,677	6,228,964	13,742,641
Realisation of revaluation reserve upon depreciation of revalued assets		-	(83,102)	83,102	-
<b>Transactions with owners:-</b>					
Issuance of shares	11	20	-	-	20
Dividends	22	-	-	(4,500,000)	(4,500,000)
Balance as at 31 December 2018		500,020	7,430,575	28,122,748	36,053,343
Realisation of revaluation reserve upon depreciation of revalued assets		-	(55,402)	55,402	-
Total comprehensive income for the financial period		-	-	<u>2,576,585</u>	<u>2,576,585</u>
Balance as at 30 April 2019		<u>500,020</u>	<u>7,375,173</u>	<u>30,754,735</u>	<u>38,629,928</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****SPRING ART HOLDINGS BERHAD**  
(Incorporated in Malaysia)**COMBINED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2015, 31 DECEMBER 2016, 31 DECEMBER 2017, 31 DECEMBER 2018 AND FINANCIAL PERIOD ENDED 30 APRIL 2019 (CONT'D)**

	<u>Note</u>	<u>Share capital</u> RM	<u>Revaluation reserve</u> RM	<u>Retained earnings</u> RM	<u>Total</u> RM
<b>Unaudited</b>					
Balance as at 1 January 2018		500,000	-	26,310,682	26,810,682
<b>Transactions with owners:-</b>					
Issuance of shares	11	20	-	-	20
Dividends	22	-	-	(4,500,000)	(4,500,000)
Total comprehensive income for the financial period		-	-	<u>1,735,692</u>	<u>1,735,692</u>
Balance as at 30 April 2018		<u>500,020</u>	-	<u>23,546,374</u>	<u>24,046,394</u>

The accompanying notes form an integral part of the combined financial statements.

**12. ACCOUNTANTS' REPORT (Cont'd)****SPRING ART HOLDINGS BERHAD**  
(Incorporated in Malaysia)**COMBINED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEARS ENDED  
31 DECEMBER 2015, 31 DECEMBER 2016, 31 DECEMBER 2017, 31 DECEMBER 2018  
AND FINANCIAL PERIOD ENDED 30 APRIL 2019**

	Note	Audited	Unaudited	Audited			
		1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
<b>OPERATING ACTIVITIES</b>							
Profit before tax		3,113,371	2,375,692	8,432,961	10,142,143	9,593,902	8,103,737
<b>Adjustments for:-</b>							
Unrealised (gain)/loss on foreign exchange		(70,176)	(19,442)	50,593	93,104	(119,751)	(53,855)
Depreciation of property, plant and equipment		514,695	521,290	1,903,637	1,850,377	1,602,002	1,277,326
Gain on disposal of property, plant and equipment	A	-	-	(765,827)	-	-	(13,000)
Impairment loss on revaluation of property, plant and equipment		-	-	1,519,796	-	-	-
Interest expenses		106,748	73,762	315,817	82,874	115,755	198,535
Interest income		(28,441)	(43,805)	(76,209)	(40,991)	(15,805)	(1,931)
Fair value loss/(gain) on derivatives financial instruments		111,486	6,666	88,614	(677,864)	257,558	126,154
Operating profit before working capital changes		3,747,683	2,914,163	11,469,382	11,449,643	11,433,661	9,636,966
<b>Changes in working capital:-</b>							
Inventories		(1,969,820)	780,013	(827,560)	(1,381,335)	247,613	(1,387,199)
Receivables		442,203	(910,838)	(2,482,905)	(45,071)	(1,192,725)	(1,564,781)
Payables		1,823,132	900,455	1,597,323	(301,030)	355,138	(450,687)
Net drawdown/ (Repayment) of bankers' acceptances	C	290,000	1,142,633	-	(440,000)	40,000	(1,300,000)
Cash generated from operations		4,333,198	4,826,426	9,756,240	9,282,207	10,883,687	4,934,299
Interest paid		(106,748)	(73,762)	(315,817)	(82,874)	(115,755)	(198,535)
Tax refunded		-	-	-	-	-	145,293
Tax paid		(568,000)	(680,001)	(2,441,191)	(2,437,189)	(1,551,942)	(494,779)
Net cash from operating activities		3,658,450	4,072,663	6,999,232	6,762,144	9,215,990	4,386,278
<b>INVESTING ACTIVITIES</b>							
Interest received		28,441	43,805	76,209	40,991	15,805	1,931
Proceeds from disposal of property, plant and equipment	A	-	-	10,500	-	-	13,000
Purchase of property, plant and equipment	B	(817,840)	(6,695,698)	(7,395,248)	(3,658,940)	(1,881,414)	(1,525,012)
Net cash used in investing activities		(789,399)	(6,651,893)	(7,308,539)	(3,617,949)	(1,865,609)	(1,510,081)

**12. ACCOUNTANTS' REPORT (Cont'd)****SPRING ART HOLDINGS BERHAD**  
(Incorporated in Malaysia)**COMBINED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2015, 31 DECEMBER 2016, 31 DECEMBER 2017, 31 DECEMBER 2018 AND FINANCIAL PERIOD ENDED 30 APRIL 2019 (CONT'D)**

	Note	Audited	Unaudited	← Audited →			
		1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
<b>FINANCING ACTIVITIES</b>							
Repayments of term loans	C	(189,446)	(94,308)	(460,435)	(233,690)	(265,230)	(119,136)
Drawdown of term loans	C	-	4,000,000	4,000,000	-	-	-
Dividend paid		-	(4,500,000)	(4,500,000)	-	(5,800,000)	(1,500,000)
Repayments of finance lease liabilities	C	-	-	-	-	(60,454)	(1,097,213)
Proceeds from issuance of share capital		-	20	20	-	-	-
Net cash used in financing activities		<u>(189,446)</u>	<u>(594,288)</u>	<u>(960,415)</u>	<u>(233,690)</u>	<u>(6,125,684)</u>	<u>(2,716,349)</u>
<b>CASH AND CASH EQUIVALENTS</b>							
Net changes		2,679,605	(3,173,518)	(1,269,722)	2,910,505	1,224,697	159,848
Effect of foreign currency translation differences		47,836	(42,946)	583	(72,609)	90,830	(7,406)
At beginning of financial period/year		<u>3,672,066</u>	<u>4,941,205</u>	<u>4,941,205</u>	<u>2,103,309</u>	<u>787,782</u>	<u>635,340</u>
At end of financial period/year	D	<u>6,399,507</u>	<u>1,724,741</u>	<u>3,672,066</u>	<u>4,941,205</u>	<u>2,103,309</u>	<u>787,782</u>

**NOTES TO THE COMBINED STATEMENTS OF CASH FLOWS****A. PROCEEDS FROM DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT**

	Audited	Unaudited	← Audited →			
	1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Total net carrying amount of property, plant and equipment disposed	-	-	1,344,673	-	-	-
Gain on disposal of property, plant and equipment	-	-	765,827	-	-	13,000
Purchase through swapping of land (Note B)	-	-	(2,100,000)	-	-	-
Total consideration received	<u>-</u>	<u>-</u>	<u>10,500</u>	<u>-</u>	<u>-</u>	<u>13,000</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****SPRING ART HOLDINGS BERHAD**

(Incorporated in Malaysia)

**COMBINED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2015, 31 DECEMBER 2016, 31 DECEMBER 2017, 31 DECEMBER 2018 AND FINANCIAL PERIOD ENDED 30 APRIL 2019 (CONT'D)****NOTES TO THE COMBINED STATEMENTS OF CASH FLOWS (CONT'D):-****B. PURCHASE OF PROPERTY, PLANT AND EQUIPMENT**

	Audited 1.1.2019 to 30.4.2019 RM	Unaudited 1.1.2018 to 30.4.2018 RM	← Audited → 1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Total additions	817,840	8,795,698	9,495,248	3,658,940	1,881,414	1,525,012
Purchase through swapping of land (Note A)*	-	(2,100,000)	(2,100,000)	-	-	-
Total consideration paid	<u>817,840</u>	<u>6,695,698</u>	<u>7,395,248</u>	<u>3,658,940</u>	<u>1,881,414</u>	<u>1,525,012</u>

\* Freehold land and hostel of the Group were disposed in exchange for leasehold land as disclosed in Note 4 to the combined financial statements.

**C. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES**

	1.1.2019 RM	Drawdown RM	Repayments RM	30.4.2019 RM
<b>Audited</b>				
Banker's acceptance	-	290,000	-	290,000
Term loans	6,777,383	-	(189,446)	6,587,937
	<u>6,777,383</u>	<u>290,000</u>	<u>(189,446)</u>	<u>6,877,937</u>
	1.1.2018 RM	Drawdown RM	Repayments RM	31.12.2018 RM
Term loans	3,237,818	4,000,000	(460,435)	6,777,383
	1.1.2017 RM	Drawdown RM	Repayments RM	31.12.2017 RM
Banker's acceptance	440,000	-	(440,000)	-
Term loans	3,471,508	-	(233,690)	3,237,818
	<u>3,911,508</u>	<u>-</u>	<u>(673,690)</u>	<u>3,237,818</u>
	1.1.2016 RM	Drawdown RM	Repayments RM	31.12.2016 RM
Banker's acceptance	400,000	40,000	-	440,000
Term loans	3,736,738	-	(265,230)	3,471,508
Finance lease liabilities	60,454	-	(60,454)	-
	<u>4,197,192</u>	<u>40,000</u>	<u>(325,684)</u>	<u>3,911,508</u>
	1.1.2015 RM	Drawdown RM	Repayments RM	31.12.2015 RM
Banker's acceptance	1,700,000	-	(1,300,000)	400,000
Term loans	3,855,874	-	(119,136)	3,736,738
Finance lease liabilities	1,157,667	-	(1,097,213)	60,454
	<u>6,713,541</u>	<u>-</u>	<u>(2,516,349)</u>	<u>4,197,192</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****SPRING ART HOLDINGS BERHAD**

(Incorporated in Malaysia)

**COMBINED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2015, 31 DECEMBER 2016, 31 DECEMBER 2017, 31 DECEMBER 2018 AND FINANCIAL PERIOD ENDED 30 APRIL 2019 (CONT'D)****NOTES TO THE COMBINED STATEMENTS OF CASH FLOWS (CONT'D):-****C. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (CONT'D)**

	<u>1.1.2018</u> RM	<u>Drawdown</u> RM	<u>Repayments</u> RM	<u>30.4.2018</u> RM
<b>Unaudited</b>				
Banker's acceptance	-	1,142,633	-	1,142,633
Term loan	3,237,818	4,000,000	(94,308)	7,143,510
	<u>3,237,818</u>	<u>5,142,633</u>	<u>(94,308)</u>	<u>8,286,143</u>

**D. CASH AND CASH EQUIVALENTS**

	<u>Audited</u> <u>30.4.2019</u> RM	<u>Unaudited</u> <u>30.4.2018</u> RM	<u>←</u> <u>31.12.2018</u> RM	<u>31.12.2017</u> RM	<u>Audited</u> <u>31.12.2016</u> RM	<u>→</u> <u>31.12.2015</u> RM
Fixed deposits with licensed banks (Note 9)	3,285,219	-	1,400,604	2,302,712	1,100,000	450,000
Cash and bank balances (Note 10)	3,114,288	1,724,741	2,271,462	3,545,856	1,179,833	506,359
Bank overdrafts (Note 13)	-	-	-	(907,363)	(176,524)	(168,577)
	<u>6,399,507</u>	<u>1,724,741</u>	<u>3,672,066</u>	<u>4,941,205</u>	<u>2,103,309</u>	<u>787,782</u>

The accompanying notes form an integral part of the combined financial statements.

**12. ACCOUNTANTS' REPORT (Cont'd)****SPRING ART HOLDINGS BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE COMBINED FINANCIAL STATEMENTS****1. GENERAL INFORMATION****1.1 Introduction**

This report has been prepared solely to comply with the Prospectus Guidelines – Equity issued by the Securities Commission Malaysia and for inclusion in the prospectus of Spring Art Holdings Berhad (“the Company” or “Spring Art”) in connection with the listing of and quotation for the entire enlarged issued share capital of Spring Art on the ACE Market of Bursa Malaysia Securities Berhad (“Bursa Securities”) (hereinafter defined as “the Listing”) and should not be relied upon for any other purposes.

**1.2 Background**

The Company was incorporated on 25 April 2018 as a public limited liability company and domiciled in Malaysia. The registered office is located at No. 7 (1st Floor), Jalan Pesta 1/1, Taman Tun Dr. Ismail 1, Jalan Bakri, 84000 Muar, Johor Darul Takzim. The principal place of business of the Company is located at Lot Plot 49, Jalan Rami 4, Kawasan Perindustrian Bukit Pasir, 84300 Bukit Pasir, Muar, Johor Darul Takzim.

**1.3 Principal activities**

Spring Art’s principal activities are investment holding and provision of management services.

The details of the subsidiary of Spring Art as of the date of this report is as follows:-

<b>Name of company</b>	<b>Effective ownership</b>	<b>Principal activities</b>	<b>Date of incorporation</b>	<b>Country of incorporation</b>
<b><u>Subsidiary</u></b>				
Spring Art Industries Sdn. Bhd.	100%	Manufacturing of ready-to-assemble furniture products	28 December 1996	Malaysia

**1.4 The acquisition**

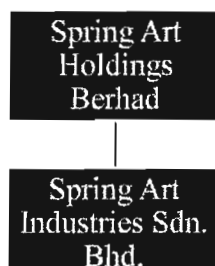
The Spring Art Group has been formed pursuant to the completion of the acquisition of Spring Art Industries Sdn. Bhd. by Spring Art prior to the listing and quotation on the ACE Market of Bursa Malaysia Securities Berhad.

Spring Art acquired the entire issued share capital of Spring Art Industries Sdn. Bhd. comprising 500,000 ordinary shares (“Acquisition”).

The aggregate purchase consideration for the above Acquisition was RM31,799,980 satisfied by the issuance of 317,999,800 new shares at its indicative value of approximately RM0.10 per share.

**12. ACCOUNTANTS' REPORT (Cont'd)****1. GENERAL INFORMATION (CONT'D)****1.4 The acquisitions (cont'd)**

Following the completion of the Acquisition on 31 July 2019, the Group adopted the current structure as follows:-

**1.5 Auditors**

The combined financial statements of Spring Art Group reflect the financial information of Spring Art Holdings Berhad and Spring Art Industries Sdn. Bhd..

The relevant financial years of the audited financial statements used for the purpose of the combined financial statements ("Relevant Financial Years") and the auditors are as follows:-

<b>Companies</b>	<b>Relevant Financial Years/Periods</b>	<b>Auditors</b>
Spring Art Holdings Berhad	FPE 31 December 2018 FPE 30 April 2019	Grant Thornton Malaysia Grant Thornton Malaysia
Spring Art Industries Sdn. Bhd.	FYE 31 December 2015 FYE 31 December 2016 FYE 31 December 2017 FYE 31 December 2018 FPE 30 April 2019	Grant Thornton Malaysia Grant Thornton Malaysia Grant Thornton Malaysia Grant Thornton Malaysia Grant Thornton Malaysia

The audited financial statements of Spring Art Holdings Berhad and Spring Art Industries Sdn. Bhd. for the Relevant Financial Years/Periods reported above were not subject to any qualification or modification, except for the financial statements for FPE 30 April 2018 which is unaudited.

**2. BASIS OF PREPARATION****2.1 Statement of compliance**

The combined financial statements have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards ("IFRSs") based on the Guidance Note on 'Combined Financial Statements' issued by the Malaysian Institute of Accountants in relation to the Listing.

The combined financial statements consist of the financial statements of combining entities as disclosed in Note 1.5 to this report, which were under common control throughout the reporting years/periods by virtue of common controlling shareholders.

The combined financial statements have been prepared using financial information obtained from the records of the combining entities during the reporting years/periods.



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## **12. ACCOUNTANTS' REPORT (Cont'd)**

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### **2. BASIS OF PREPARATION (CONT'D)**

#### **2.1 Statement of compliance (cont'd)**

The financial information as presented in the combined financial statements do not correspond to the consolidated financial statements of the Group, as the combined financial statements reflect business combinations under common control for the purpose of the Listing. Consequently, the financial information from the combined financial statements do not purport to predict the financial positions, results of operations and cash flows of the combining entities during the reporting years/periods.

#### **2.2 Basis of measurement**

The combined financial statements of the Group are prepared under the historical cost convention, unless otherwise indicated in the summary of significant accounting policies.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial market takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure for value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to their fair value measurement as a whole:-

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to their fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to their fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to their fair value measurement as a whole) at the end of each reporting years/periods.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**2. BASIS OF PREPARATION (CONT'D)****2.2 Basis of measurement (cont'd)**

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of fair value hierarchy as explained above.

**2.3 Functional and presentation currency**

The combined financial statements are presented in Ringgit Malaysia ("RM"), which is the Group's functional currency and all values are rounded to the nearest RM except when otherwise stated.

**2.4 Adoption of amendments/improvements to MFRSs**

The Group applied MFRS 16 'Leases' for the first time in the 2019 financial statements with the date of initial application of 1 January 2019. The standard is applied retrospectively.

Initial application of amendments/improvements to MFRSs did not have material impact to the financial statements.

**2.5 Standards issued but not yet effective**

At the date of authorisation of these combined financial statements, certain new standards, amendments and interpretations to existing standards have been published by Malaysia Accounting Standards Board ("MASB") but are not yet effective and have not been early adopted by the Group.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, amendment and interpretations not adopted in current financial period have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

**2.6 Significant accounting estimates and judgements**

Estimates, assumptions concerning the future and judgements are made in the preparation of the combined financial statements. They affect the application of the Group's accounting policies and reported amounts of assets, liabilities, income and expenses, and disclosures made. Estimates and underlying assumptions are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

**2.6.1 Key sources of estimation uncertainties**

When preparing the combined financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**2. BASIS OF PREPARATION (CONT'D)****2.6 Significant accounting estimates and judgements (cont'd)****2.6.1 Key sources of estimation uncertainties (cont'd)****Useful lives of depreciable assets**

The management estimates the useful lives of the property, plant and equipment to be 5 to 50 years and reviews the useful lives of depreciable assets at each reporting date. The management assesses that the useful lives represent the expected utility of the assets to the Group. Actual results, however, may vary due to changes in the expected level of usage and developments, resulting in adjustment to the Group's assets.

The management expects that the expected useful lives of the property, plant and equipment would not have material difference from the management's estimation hence it would not result in material variance in the Group's profit for the financial years/period.

The carrying amount of the Group's property, plant and equipment at the end of the reporting date is disclosed in Note 4 to the combined financial statements.

**Inventories**

Inventories are measured at the lower of cost and net realisable value. In estimating net realisable values, management takes into account the most reliable evidence available at the times the estimates are made. The realisation of these inventories may be affected by market-driven changes that may occur in the future.

The management reviews inventories to identify damaged, obsolete and slow-moving inventories which require judgement and changes in such estimates could result in revision to the valuation of inventories.

The carrying amount of the Group's inventories at the end of the reporting date is disclosed in Note 5 to the combined financial statements.

**Measurement of expected credit losses**

Credit losses are the difference between all contractual cash flows the Group is due and the cash flows that it actually expects to receive. An expected credit loss is the probability-weighted estimate of credit losses which requires the Group's judgement. The expected credit losses are discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for grouping of various customer segments that have similar loss patterns such as geography, customer/debtor type and rating, and coverage by letters of credit and other forms of credit insurance.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**2. BASIS OF PREPARATION (CONT'D)****2.6 Significant accounting estimates and judgements (cont'd)****2.6.1 Key sources of estimation uncertainties (cont'd)****Measurement of expected credit losses (cont'd)**

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed rates, forecast economic conditions and ECLs are significant estimate. The amount of ECLs are sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default rate in the future.

The carrying amount of the Group's receivables at the end of the reporting date is disclosed in Notes 6 and 7 to the combined financial statements.

**Income taxes**

Significant judgements is involved in determining the Group's provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

**Fair value of financial instruments**

The fair value of financial instruments are based on active market quotes. Where active market quotes are not available, management uses valuation techniques in measuring the fair value of financial instruments. Details of the assumptions used are given in the notes regarding financial assets and liabilities. In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting date.

**Impairment of non-financial assets**

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**2. BASIS OF PREPARATION (CONT'D)****2.6 Significant accounting estimates and judgements (cont'd)****2.6.1 Key sources of estimation uncertainties (cont'd)****Impairment of non-financial assets (cont'd)**

In the process of measuring expected future cash flows management makes assumptions about future operating results. The actual results may vary, and may cause significant adjustments to the Group's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

**Revaluation of property, plant and equipment**

The Group measures its land and buildings at revalued amount with changes in fair value being recognised in other comprehensive income. The Group engaged independent valuation specialists to determine fair values as at 30 June 2018. The carrying amount of the land and buildings at the end of the reporting date, and the relevant revaluation bases, are disclosed in Note 4 to the combined financial statements.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The Group applies significant accounting policies, as summarised below, consistently throughout all financial periods presented in the combined financial statements.

**3.1 Property, plant and equipment**

All property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bring the asset to working condition for its intended use, cost of replacing component parts of the assets, and the present value of the expected cost for the decommissioning of the assets after their use. All other repair and maintenance costs are recognised in profit or loss as incurred.

Subsequent to initial recognition, property, plant and equipment with the exception of land and buildings, are measured at cost less accumulated depreciation and accumulated impairment losses.

On 30 June 2018, the Group elected to change the method of accounting for land and buildings as the Group believes that the revaluation model provides more relevant information to the users of its combined financial statements.

**12. ACCOUNTANTS' REPORT (Cont'd)****3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.1 Property, plant and equipment (cont'd)**

Land and buildings are shown at market value provided by independent professional valuers on an open market basis, less subsequent accumulated depreciation and impairment losses. Land and buildings are revalued when indicators of material changes in value exists or at interval of not more than 5 years. Any revaluation increase is credited to other comprehensive income and shown as revaluation reserve in shareholders' equity. Decreases that offset previous increase of the same asset are charged in other comprehensive income and debited against revaluation reserve directly in equity; all other decreases are charged to the profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the profit or loss and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings. Upon disposal of revalued assets, the attributable revaluation surplus remaining in revaluation reserve is transferred to unappropriated profits.

Depreciation is recognised on the straight-line method in order to write off the cost of each asset over its estimated useful lives. Freehold land is not depreciated but is subject to impairment test if there is indication of impairment. Other property, plant and equipment are depreciated based on the estimated useful lives of the assets as follows:-

Leasehold land	2%
Buildings	2%
Hostel	2%
Computer and office equipment	10% - 20%
Factory machinery and equipment	10%
Electrical installation, furniture and fittings	10% - 20%
Renovation	10%
Motor vehicles	20%
Signboard	10%

The residual values, useful lives and depreciation method are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable, or at least annually to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

Building in progress consists of buildings under construction for intended use as production facilities. The amount is stated at cost and includes capitalisation of interest incurred on borrowings, if any related to property, plant and equipment under construction until the property, plant and equipment are ready for their intended use. Assets under construction are not depreciated until it is completed and ready for their intended use.

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss in the financial year in which the asset is derecognised.

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**12. ACCOUNTANTS' REPORT (Cont'd)**


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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.2 Leases**

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:-

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Group has the right to direct the use of the asset if either:-
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments), less any lease incentives.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.2 Leases (cont'd)**As a lessee (cont'd)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee or if the Company changes their assessment of whether it will exercise a purchase, extension or termination option.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "administration expenses" in the combined statement of profit or loss and other comprehensive income.

As a practical expedient, MFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

**3.3 Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired.

For the purpose of impairment testing, recoverable amount (i.e. the higher of the fair value less cost to sell and value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating units ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in profit or loss.

**3.4 Financial instruments****3.4.1 Financial assets**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.



## 12. ACCOUNTANTS' REPORT (Cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.4 Financial instruments (cont'd)

##### 3.4.1 Financial assets (cont'd)

##### 3.4.1.1 Initial recognition and categorisation

At initial recognition, financial assets are either classified and measured at amortised cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

In order for a financial asset to be classified and measured at amortised cost or FVTOCI, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

At the reporting date, the Group has not designated any financial assets at FVTOCI. The Group carries financial assets at amortised cost and FVTPL on their statements of financial position.

##### Financial assets at amortised cost

Financial assets measures at amortised cost if both of the conditions are met:-

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flow; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

##### FVPTL

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference of the market to market value.

##### 3.4.1.2 Subsequent measurement

Financial assets at amortised cost are subsequently measured using effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade receivables, most of the other receivables, fixed deposits with licensed banks and cash and bank balances.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.4 Financial instruments (cont'd)****3.4.1 Financial assets (cont'd)****3.4.1.3 Impairment of financial assets**

The Group assesses on a forward-looking basis the expected credit loss ("ECLs") for all debt instrument not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The maximum period considered when estimating ECLs is the maximum contractual period (including extension options) over which the Group is exposed to credit risk.

ECLs are measured on either of the following bases:-

- 12-month ECLs: these are losses that are expected to result from possible default events within 12 months after the reporting date; and
- Lifetime ECLs: these are losses that are expected to result from all possible defaults event over the unexpected life of terms, irrespective of timing of the default to which ECL model applies.

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward looking factors specific to the debtors and economic environment.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

ECLs are re-measured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECLs amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVTOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have any assets or sources of income that could generate sufficient cash flows to repay the amount subject to the write-off.

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## **12. ACCOUNTANTS' REPORT (Cont'd)**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **3.4 Financial instruments (cont'd)**

##### **3.4.2 Financial liabilities**

###### **3.4.2.1 Initial recognition and measurement**

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

At the reporting date, the Group has not designated any financial liabilities at fair value through profit or loss. The Group carries only other financial liabilities measured at amortised cost on their statements of financial position.

###### **3.4.2.2 Subsequent measurement**

The subsequent measurement of financial liabilities depends on their classification, as described below:-

###### Other financial liabilities measured at amortised cost

Other financial liabilities including borrowings and trade and most of the other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

###### **3.4.3 Derecognition**

A financial asset or part of it is derecognised when and only when the contractual rights to the cash flows from the financial asset have expired or control of the asset is not retained or substantially all of the risk and rewards of ownership of the financial asset are transferred to another party. If the Group neither transfers nor retain substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of transferred assets, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

The Group derecognises a financial liability when their contractual obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

###### **3.4.4 Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the combined statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.4 Financial instruments (cont'd)****3.4.5 Derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured at their fair values. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates the derivative as follows:-

**Derivative financial instruments**

The Group holds derivative financial instruments to hedge its foreign currency exposures.

Forward foreign exchange contracts used are accounted for on an equivalent basis as the underlying assets, liabilities or net positions. Any profit or loss arising is recognised on the same basis as those arising from the related assets, liabilities or net position.

Exchange gains or losses on contracts are recognised when settled at which time they are included in the measurement of the transaction hedged.

The fair value of foreign currency forward contract is determined using the forward exchange market rates at the reporting date.

**3.5 Foreign currency transactions and balances**

Transactions in foreign currencies are initially recorded at the functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

**3.6 Inventories**

Inventories comprise of raw materials, packaging materials, work-in-progress and finished goods which are stated at the lower of cost and net realisable value.

Inventories are determined on first-in-first-out method. Cost of raw materials and packaging materials includes invoices value of goods purchased and expenditure incurred in acquiring the inventories. Cost of finished goods and work-in-progress comprises raw materials, direct labour and an appropriate proportion of production overhead which include expenditure incurred in bringing them to their existing location and condition.

Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Write-down to net realisable value and inventory losses are recognised as an expense when it occurred and any reversal is recognised in profit or loss in the financial year in which it occurs.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.7 Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, bank balances, fixed deposits with licensed banks and bank overdrafts which are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown in current liabilities in the combined statements of financial position.

For the purpose of the financial position, cash and cash equivalents restricted to be used to settle a liability of 12 months or more after the end of the reporting year are classified as non-current assets.

**3.8 Equity, reserves and dividend payments**

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Ordinary shares are equity instruments.

Retained earnings include all current financial period and prior financial year retained profits.

Revaluation reserve within equity comprises gains resulting from revaluation of land and buildings in property, plant and equipment.

Interim dividends are simultaneously proposed and declared, because the articles of association of the Group grants the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

Final dividends proposed by the Directors are not accounted for in shareholder's equity as an appropriation of retained profits, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

All transactions with owners of the Group are recorded separately within equity.

**3.9 Provisions**

Provisions are recognised when there is a present legal or constructive obligation that can be estimated reliably, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provision is discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.10 Contingencies**

Where it is not probable that an inflow or an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the asset or the obligation is not recognised in the combined statements of financial position and is disclosed as a contingent asset or contingent liability, unless the probability of inflow or outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent assets or contingent liabilities unless the probability of inflow or outflow of economic benefits is remote.

**3.11 Borrowing costs**

Borrowing costs are recognised as an expense in profit or loss in the year in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurred in connection with the borrowing of funds.

**3.12 Employee benefits****3.12.1 Short term employee benefits**

Wages, salaries, bonuses and social security contributions are recognised as expenses in the financial year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave is recognised when services are rendered by the employees that increase their entitlement to future compensated absences and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

A provision is made for the estimated liability for leave as a result of services rendered by employees up to the reporting date.

**3.12.2 Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into independent entities of funds and will have no legal or constructive obligation to pay further contribution if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current period and preceding financial years.

Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, the Group makes such contributions to the Employees Provident Fund ("EPF").

**3.13 Revenue recognition**

The Group recognises revenue from contracts with customers for goods or services based on the five-step model as set out in this standards:-

- i. Identify contracts with a customer. A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.

**12. ACCOUNTANTS' REPORT (Cont'd)****3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.13 Revenue recognition (cont'd)**

The Group recognises revenue from contracts with customers for goods or services based on the five-step model as set out in this standards (cont'd):-

- ii. Identify performance obligations in the contract. A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer either a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
- iii. Determine the transaction price. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
- iv. Allocate the transaction price to the performance obligations in the contract. For a contract that has more than one performance obligation, the Group allocates transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expect to be entitled in exchange for satisfying each performance obligation.
- v. Recognise revenue when (or as) the Group satisfies a performance obligation. An asset is transferred when (or as) the customer obtains control of the asset.

The Group satisfies a performance obligation and recognise revenue over time if the Group's performance:-

- i. Do not create an asset with an alternative use to the Group and has an enforceable right to payment for performance completed to-date; or
- ii. Create or enhance an asset that the customer controls as the asset is created or enhanced; or
- iii. Provide benefits that the customer simultaneously receives and consumes as the Group perform.

For performance obligations where any one of the above conditions not met, revenue is recognised at a point in time at which the performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised goods or service, it creates a contract based on asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised, this give rise to a contract liability.

Revenue is measured at fair value of consideration received or receivable. The followings describe the performance obligation in contracts with customers:-

**Sale of goods**

The Group manufactures and sells a range of ready-to-assemble furniture product to oversee market. Revenue from sales of goods is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the customs, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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**12. ACCOUNTANTS' REPORT (Cont'd)**


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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.13 Revenue recognition (cont'd)**

Revenue is measured at fair value of consideration received or receivable. The followings describe the performance obligation in contracts with customers (cont'd):-

**Sale of goods (cont'd)**

Revenue from these sales is recognised based on the price specified in the contract and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as the sales are made with a credit term of 7 to 90 days, which is consistent with market practice. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. The Group's obligation to transfer goods or services to a customer for which the Group has received consideration in advance from customer is presented as contract liability as disclosed in Note 16 to the Financial Statements.

**3.14 Interest income**

Interest income is recognised in the profit or loss on time proportion basis taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

**3.15 Tax expense****3.15.1 Current tax**

Current tax expense is the expected amount of income taxes payable in respect of the taxable profit for the financial period and is measured using the tax rates that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised in financial position as liability (or asset) to the extent that it is unpaid (or refundable). Current tax is recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

**3.15.2 Deferred tax**

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the combined statements of financial position and their tax bases. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting date.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.



## **12. ACCOUNTANTS' REPORT (Cont'd)**

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **3.15 Tax expense (cont'd)**

##### **3.15.3 Indirect tax**

Goods and Services Tax ("GST") is a consumption tax based on value-added concept. GST is imposed on goods and services at every production and distribution stage in the supply chain including importation of goods and services, at the applicable tax rate of 6%. Input GST that the Group paid on purchases of business inputs can be deducted from output GST.

Revenues, expenses, assets and liabilities are recognised net of the amount of GST except:-

- Where the GST incurred in a purchase of assets or services is not recoverable from the authority, in which case the GST is recognised as part of the cost of acquisition of the assets or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the customs is included as part of receivables or payables in the combined statements of financial position.

In prior financial year, GST reset at standard rated of 0% with effective on 1 June 2018 and sales and services tax ("SST") was enacted with effective on 1 September 2018 to replace GST.

#### **3.16 Related parties**

A related party is a person or entity that is related to the entity that is preparing its financial statements ("the reporting entity"). A related party transaction is a transfer of resources, services or obligations between the reporting entity and its related party, regardless of whether a price is charged.

- (a) A person or a close member of that person's family is related to the reporting entity if that person:-
- (i) Has control or joint control over the reporting entity;
  - (ii) Has significant influence over the reporting entity; or
  - (iii) Is a member of the key management personnel of the reporting entity.
- (b) An entity is related to the reporting entity if any of the following conditions applies:-
- (i) The entity and the reporting entity are members of the same group.
  - (ii) One entity is an associate or joint venture of the other entity.
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) An entity is a joint venture of a third entity and the other entity is an associate of the same third entity.
  - (v) The entity is a post-employment benefit plan for the benefits of employees of either the reporting entity or an entity related to the reporting entity.
  - (vi) The entity is controlled or jointly-controlled by a person identified in (a) above.
  - (vii) A person identified in (a)(i) above has significant influence over the entity or is a member of the key management personnel of the entity.
  - (viii) The entity, or any member of a group of which it is a party that provides key management personnel services to the reporting entity or to the parents of the reporting entity.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.17 Segmental results****Operating segment**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

**3.18 Earnings per share****(a) Basic**

Basic earnings per share for the financial year is calculated by dividing the net profit for the financial year attributable to common controlling shareholders by the weighted average number of ordinary shares in issue.

**(b) Diluted**

Diluted earnings per share is calculated by dividing the net profit for the financial period/year attributable to common controlling shareholders by the weighted average number of ordinary shares in issue, adjusted for the dilutive effects of all potential ordinary shares to be issued. Diluted earnings per share is not applicable as the Group does not have potential dilutive equity instruments that would give a diluted effect to the basic earnings per share.

**12. ACCOUNTANTS' REPORT (Cont'd)****4. PROPERTY, PLANT AND EQUIPMENT**

Audited Cost or valuation	At cost/valuation				At cost							Total RM	
	Freehold land RM	Leasehold land RM	Freehold factory buildings RM	Leasehold factory buildings RM	Hostel RM	Computer and office equipment RM	Factory machinery and equipment RM	Electrical, installation, Furniture and fittings RM	Renovation RM	Motor vehicles RM	Signboard RM		Building in progress RM
At 1.1.2015	2,910,932	-	5,000,287	3,817,112	-	217,281	10,084,984	53,558	102,668	1,007,691	900	-	23,195,413
Additions	-	-	3,900	-	321,832	27,138	1,142,882	29,260	-	-	-	-	1,525,012
Disposals	-	-	-	-	-	-	(180,000)	-	-	-	-	-	(180,000)
At 31.12.2015	2,910,932	-	5,004,187	3,817,112	321,832	244,419	11,047,866	82,818	102,668	1,007,691	900	-	24,540,425
Additions	-	-	42,453	-	53,797	33,306	1,425,208	16,328	-	310,322	-	-	1,881,414
At 31.12.2016	2,910,932	-	5,046,640	3,817,112	375,629	277,725	12,473,074	99,146	102,668	1,318,013	900	-	26,421,839
Additions	2,086,283	-	-	-	143,943	14,818	1,379,438	34,458	-	-	-	-	3,658,940
At 31.12.2017	4,997,215	-	5,046,640	3,817,112	519,572	292,543	13,852,512	133,604	102,668	1,318,013	900	-	30,080,779
Additions	6,451,632	2,173,061	28,892	1,000	-	92,455	412,078	19,620	147,937	82,994	69,738	15,841	9,495,248
Disposals	(841,904)	-	-	-	(519,572)	-	(62,936)	-	-	-	-	-	(1,424,412)
Impairment loss on revaluation	(1,519,796)	-	-	-	-	-	-	-	-	-	-	-	(1,519,796)
Revaluation gain	1,330,972	137,439	3,977,083	4,195,743	-	-	-	-	-	-	-	-	9,641,237
At 31.12.2018	10,418,119	2,310,500	9,052,615	8,013,855	-	384,998	14,201,654	153,224	250,605	1,401,007	70,638	15,841	46,273,056
Additions	-	-	-	-	-	44,638	415,053	-	30,000	-	-	328,149	817,840
Written off	-	-	-	-	-	-	(163,597)	-	-	-	-	-	(163,597)
At 30.4.2019	10,418,119	2,310,500	9,052,615	8,013,855	-	429,636	14,453,110	153,224	280,605	1,401,007	70,638	343,990	46,927,299

**12. ACCOUNTANTS' REPORT (Cont'd)****4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	At cost/valuation				At cost							Total RM	
	Freehold land RM	Leasehold land RM	Freehold factory buildings RM	Leasehold factory buildings RM	Hostel RM	Computer and office equipment RM	Factory machinery and equipment RM	Electrical, installation, Furniture and fittings RM	Renovation RM	Motor vehicles RM	Signboard RM		Building in progress RM
<b>Audited</b>													
<b>Accumulated depreciation</b>													
At 1.1.2015	-	-	100,006	741,106	-	174,209	7,112,625	48,473	102,668	561,733	900	-	8,841,720
Charge for the financial year	-	-	100,084	76,342	6,437	16,271	951,740	8,870	-	117,582	-	-	1,277,326
Disposals	-	-	-	-	-	-	(180,000)	-	-	-	-	-	(180,000)
At 31.12.2015	-	-	200,090	817,448	6,437	190,480	7,884,365	57,343	102,668	679,315	900	-	9,939,046
Charge for the financial year	-	-	100,933	76,342	-	20,575	1,215,117	10,683	-	178,352	-	-	1,602,002
Reclassification	-	-	-	305,549	-	-	(306,399)	-	-	850	-	-	-
At 31.12.2016	-	-	301,023	1,199,339	6,437	211,055	8,793,083	68,026	102,668	858,517	900	-	11,541,048
Charge for the financial year	-	-	100,933	76,342	10,391	21,834	1,456,529	16,239	-	168,109	-	-	1,850,377
At 31.12.2017	-	-	401,956	1,275,681	16,828	232,889	10,249,612	84,265	102,668	1,026,626	900	-	13,391,425
Charge for the financial year	-	38,677	141,185	118,313	908	24,661	1,357,532	16,219	19,552	181,941	4,649	-	1,903,637
Disposals	-	-	-	-	(17,736)	-	(62,003)	-	-	-	-	-	(79,739)
At 31.12.2018	-	38,677	543,141	1,393,994	-	257,550	11,545,141	100,484	122,220	1,208,567	5,549	-	15,215,323
Charge for the financial period	-	18,785	60,351	53,426	-	12,108	322,953	6,664	11,862	26,221	2,325	-	514,695
Written off accumulated depreciation	-	-	-	-	-	-	(163,597)	-	-	-	-	-	(163,597)
At 30.4.2019	-	57,462	603,492	1,447,420	-	269,658	11,704,497	107,148	134,082	1,234,788	7,874	-	15,566,421

**12. ACCOUNTANTS' REPORT (Cont'd)****4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	At valuation				At cost								
	Freehold land RM	Leasehold land RM	Freehold factory buildings RM	Leasehold factory buildings RM	Hostel RM	Computer and office equipment RM	Factory machinery and equipment RM	Electrical, installation, Furniture and fittings RM	Renovation RM	Motor vehicles RM	Signboard RM	Building in progress RM	Total RM
<b>Net carrying amount</b>													
At 30.4.2019	10,418,119	2,253,038	8,449,123	6,566,435	-	159,978	2,748,613	46,076	146,523	166,219	62,764	343,990	31,360,878
At 31.12.2018	10,418,119	2,271,823	8,509,474	6,619,861	-	127,448	2,656,513	52,740	128,385	192,440	65,089	15,841	31,057,733
At 31.12.2017	4,997,215	-	4,644,684	2,541,431	502,744	59,654	3,602,900	49,339	-	291,387	-	-	16,689,354
At 31.12.2016	2,910,932	-	4,745,617	2,617,773	369,192	66,670	3,679,991	31,120	-	459,496	-	-	14,880,791
At 31.12.2015	2,910,932	-	4,804,097	2,999,664	315,395	53,939	3,163,501	25,475	-	328,376	-	-	14,601,379
<b>Unaudited</b>													
<b>Cost</b>													
At 1.1.2018	4,997,215	-	5,046,640	3,817,112	519,572	292,543	13,852,512	133,604	102,668	1,318,013	900	-	30,080,779
Additions	6,428,513	-	28,892	1,000	-	35,536	17,000	18,400	83,363	82,994	-	-	6,695,698
At 30.4.2018	11,425,728	-	5,075,532	3,818,112	519,572	328,079	13,869,512	152,004	186,031	1,401,007	900	-	36,776,477
<b>Accumulated depreciation</b>													
At 1.1.2018	-	-	401,956	1,275,681	16,828	232,889	10,249,612	84,265	102,668	1,026,626	900	-	13,391,425
Charge for the financial period	-	-	37,241	25,447	908	4,902	390,408	2,951	630	58,803	-	-	521,290
At 30.4.2018	-	-	439,197	1,301,128	17,736	237,791	10,640,020	87,216	103,298	1,085,429	900	-	13,912,715
<b>Net carrying amount</b>													
At 30.4.2018	11,425,728	-	4,636,335	2,516,984	501,836	90,288	3,229,492	64,788	82,733	315,578	-	-	22,863,762

**12. ACCOUNTANTS' REPORT (Cont'd)****4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

- (a) Net carrying amount of asset financed under finance lease arrangements.

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited →			
			31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
Motor vehicles	-	-	-	-	-	318,000

- (b) Net carrying amount of assets pledged to licensed banks as security for banking facilities granted.

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited →			
			31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
Freehold land	8,418,120	8,771,781	8,418,119	2,910,932	2,910,932	2,910,932
Freehold factory buildings	8,449,123	4,639,835	8,509,474	4,644,684	4,745,617	4,804,097
Leasehold factory buildings	6,566,435	2,516,983	6,619,861	2,541,431	2,617,773	2,999,664
	<u>23,433,678</u>	<u>15,928,599</u>	<u>23,547,454</u>	<u>10,097,047</u>	<u>10,274,322</u>	<u>10,714,693</u>

**Revaluation of land and buildings**

The Group applies revaluation model in measuring its land and buildings. The land and buildings of the Group were revalued on 31 May 2018 by Jones Lang Wootton, an independent professional valuer. The revaluation surplus net of applicable deferred tax was credited to other comprehensive income and is shown in "Revaluation Reserve" under the equity.

Impairment losses on the land and buildings are recognised at the date of the revaluation, resulting from the valuation amount lower than the carrying amount of the freehold land. The impairment losses are being recognised in profit or loss in financial year ended 31 December 2018.

Fair value measurement of the land and buildings were categorised under Level 2. There were no transfers between Level 1 and Level 2 during the financial year.

**Level 2 Fair Value**

Level 2 fair value of land and buildings have been generally derived using the sales comparison approach. Sales price of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is per square foot of comparable properties.

**12. ACCOUNTANTS' REPORT (Cont'd)****4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)****Revaluation of land and buildings (cont'd)**

If land and buildings were measured using the cost model, the carrying amounts would be as follows:-

	← At cost →				
	Freehold land RM	Leasehold land RM	Freehold factory buildings RM	Leasehold factory buildings RM	Total RM
<b>Cost</b>					
At 1.1.2018	4,997,215	-	5,046,640	3,817,112	13,860,967
Additions	6,451,632	2,173,061	28,892	1,000	8,654,585
Disposals	(841,904)	-	-	-	(841,904)
At 31.12.2018/30.4.2019	<u>10,606,943</u>	<u>2,173,061</u>	<u>5,075,532</u>	<u>3,818,112</u>	<u>21,673,648</u>
<b>Accumulated depreciation</b>					
At 1.1.2018	-	-	401,956	1,275,681	1,677,637
Charge for the financial year	-	37,001	101,414	76,346	214,761
At 31.12.2018	-	37,001	503,370	1,352,027	1,892,398
Charge for the financial year	-	17,869	33,837	25,454	77,160
At 30.4.2019	-	54,870	537,207	1,377,481	1,969,558
<b>Net carrying amount</b>					
At 30.4.2019	<u>10,606,943</u>	<u>2,118,191</u>	<u>4,538,325</u>	<u>2,440,631</u>	<u>19,704,090</u>
At 31.12.2018	<u>10,606,943</u>	<u>2,136,060</u>	<u>4,572,162</u>	<u>2,466,085</u>	<u>19,781,250</u>
At 31.12.2017	<u>4,997,215</u>	<u>-</u>	<u>4,644,684</u>	<u>2,541,431</u>	<u>12,183,330</u>

**5. INVENTORIES**

	Audited	Unaudited	← Audited →			
	30.4.2019 RM	30.4.2018 RM	31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
Raw materials	5,765,722	3,753,016	4,800,890	4,286,035	4,060,220	4,303,785
Work-in-progress	917,970	1,322,267	411,996	132,759	298,521	28,879
Finished goods	1,666,442	81,204	1,239,908	1,509,299	115,570	464,514
Packaging materials	62,028	13,403	-	21,810	94,257	19,003
Goods in transit	335,121	-	324,669	-	-	-
	<u>8,747,283</u>	<u>5,169,890</u>	<u>6,777,463</u>	<u>5,949,903</u>	<u>4,568,568</u>	<u>4,816,181</u>
Recognised in profit or loss	<u>9,594,074</u>	<u>8,714,641</u>	<u>26,780,909</u>	<u>25,169,508</u>	<u>21,415,643</u>	<u>19,005,552</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****6. TRADE RECEIVABLES**

(a) Trade receivables are non-interest bearing and the normal trade credit terms granted to customers are ranging from 7 to 90 (30.4.2018, 31.12.2018, 31.12.2017, 31.12.2016 and 31.12.2015: 7 to 90) days. They are recognised at their original invoice amount which represent their fair values on initial recognition.

(b) The foreign currency risk exposure of trade receivables are as follows:-

	Audited	Unaudited	Audited			
	30.4.2019	30.4.2018	31.12.2018	31.12.2017	31.12.2016	31.12.2015
	RM	RM	RM	RM	RM	RM
United States Dollar ("USD")	3,789,581	4,751,703	5,625,985	3,788,743	5,072,609	4,343,934
Singapore Dollar ("SGD")	117,505	120,293	228,338	275,239	217,086	133,130

(c) The expected credit loss (ECL) were determined as follows:-

	Current	Day past due				Total
		<30 days	30-60 days	61-90 days	>91 days	
<b>Audited</b>						
<u>30 April 2019</u>						
Expected credit loss rate	-	-	-	-	-	-
Gross carrying amount	3,866,042	41,044	-	-	-	3,907,086
Expected credit loss	-	-	-	-	-	-
<u>31 December 2018</u>						
Expected credit loss rate	-	-	-	-	-	-
Gross carrying amount	4,966,474	871,932	15,917	-	-	5,854,323
Expected credit loss	-	-	-	-	-	-
<u>31 December 2017</u>						
Expected credit loss rate	-	-	-	-	-	-
Gross carrying amount	2,823,734	1,019,365	1,640	164,834	54,409	4,063,982
Expected credit loss	-	-	-	-	-	-
<u>31 December 2016</u>						
Expected credit loss rate	-	-	-	-	-	-
Gross carrying amount	3,544,628	1,503,662	124,672	30,887	85,846	5,289,695
Expected credit loss	-	-	-	-	-	-
<u>1 January 2016</u>						
Expected credit loss rate	-	-	-	-	-	-
Gross carrying amount	3,533,674	714,223	138,216	25,506	65,445	4,477,064
Expected credit loss	-	-	-	-	-	-
<b>Unaudited</b>						
<u>30 April 2018</u>						
Expected credit loss rate	-	-	-	-	-	-
Gross carrying amount	4,612,713	198,450	-	-	60,833	4,871,996
Expected credit loss	-	-	-	-	-	-

(d) Information on financial risk of trade receivables is disclosed in Note 27 to the combined financial statements.



**12. ACCOUNTANTS' REPORT (Cont'd)****7. OTHER RECEIVABLES**

	Audited	Unaudited	Audited			
	<u>30.4.2019</u>	<u>30.4.2018</u>	<u>31.12.2018</u>	<u>31.12.2017</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM	RM	RM	RM	RM	RM
Non-trade receivables	97,458	462,790	97,934	61,743	39,541	26,595
Utilities deposits	179,357	162,356	179,357	138,256	77,496	65,496
Deposits for acquisition of land	-	-	-	609,840	-	-
Deposit for acquisition of access road	274,240	274,240	274,240	274,240	-	-
Deposits for purchases of machineries	1,620,188	-	-	-	-	-
Prepayments for listing expenses	1,146,214	328,300	787,850	230,000	-	-
Prepayments – others*	607,494	534,921	795,564	279,255	379,581	153,937
GST receivable	377,938	542,697	638,492	545,349	393,292	226,847
	<u>4,302,889</u>	<u>2,305,304</u>	<u>2,773,437</u>	<u>2,138,683</u>	<u>889,910</u>	<u>472,875</u>

\* Mainly consists of levy for foreign workers and prepaid insurance.

**8. DERIVATIVE FINANCIAL INSTRUMENTS**

	Contract/ Notional Amount	Assets	Liabilities	Net
	RM	RM	RM	RM
<b>Non-hedging derivative</b>				
Forward currency contracts				
30.4.2019	8,754,874	-	(94,196)	(94,196)
30.4.2018 (unaudited)	7,545,110	99,238	-	99,238
31.12.2018	3,533,628	17,290	-	17,290
31.12.2017	3,355,460	105,904	-	105,904
31.12.2016	7,289,494	-	(571,960)	(571,960)
31.12.2015	6,957,970	-	(314,402)	(314,402)

Forward currency contracts are used to manage some of the foreign currency exposure arising from the Group's transactions denominated in currencies other than the functional currency of the Group. All forward currency contracts have maturities of less than one year after the end of the reporting date.

These contracts are not designated as cash flow or fair value hedges and are entered into for periods consistent with currency transaction exposure and fair value changes exposure. Such derivatives do not qualify for hedge accounting.

**9. FIXED DEPOSITS WITH LICENSED BANKS**

	Audited	Unaudited	Audited			
	<u>30.4.2019</u>	<u>30.4.2018</u>	<u>31.12.2018</u>	<u>31.12.2017</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM	RM	RM	RM	RM	RM
Fixed deposits with licensed banks	<u>3,285,219</u>	-	<u>1,400,604</u>	<u>2,302,712</u>	<u>1,100,000</u>	<u>450,000</u>

The average effective interest rate per annum for fixed deposits with licensed banks are 2.90% to 3.50% (30.4.2018: 3.15% to 3.80%, 31.12.2018: 3.15% to 3.80%, 31.12.2017: 3.10% to 3.40%, 31.12.2016: 3.15% to 3.90% and 31.12.2015: 3.40%).

**12. ACCOUNTANTS' REPORT (Cont'd)****10. CASH AND BANK BALANCES**

The foreign currency risk exposure of cash and bank balances is as follows:-

	Audited	Unaudited	← Audited →			
	<u>30.4.2019</u>	<u>30.4.2018</u>	<u>31.12.2018</u>	<u>31.12.2017</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM	RM	RM	RM	RM	RM
United States Dollar ("USD")	1,136,911	1,661,067	1,278,176	2,195,904	964,428	492,704
Singapore Dollar ("SGD")	29,205	43,404	41,113	35,416	-	8,814

**11. SHARE CAPITAL**

	Spring Art Holdings <u>Berhad</u> Unit	Spring Art Industries <u>Sdn. Bhd.</u> Unit	Total Unit
<b>Unit:-</b>			
<b>Issued and fully paid up:-</b>			
<b>Number of ordinary shares:-</b>			
At 31.12.2015/31.12.2016/31.12.2017	-	500,000	500,000
Issued during the financial year	200	-	200
At 31.12.2018/30.4.2019/30.4.2018	200	500,000	500,200
<b>Amount:-</b>			
<b>Issued and fully paid-up:-</b>			
At 31.12.2015/31.12.2016/31.12.2017	-	500,000	500,000
Issued during the financial year	20	-	20
At 31.12.2018/30.4.2019/30.4.2018	20	500,000	500,020

The holders of ordinary shares are entitled to receive dividends as and when declared by the Group. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Group's residual assets.

**12. REVALUATION RESERVE**

Revaluation reserve consists of surplus from revaluation of the land and buildings of the Group on 30 June 2018 net of deferred tax.

**12. ACCOUNTANTS' REPORT (Cont'd)****13. BORROWINGS**

	Audited	Unaudited	Audited			
	30.4.2019	30.4.2018	31.12.2018	31.12.2017	31.12.2016	31.12.2015
	RM	RM	RM	RM	RM	RM
<b>Current</b>						
<b>Secured:-</b>						
Bankers' acceptances	290,000	1,142,633	-	-	440,000	400,000
Bank overdrafts	-	-	-	907,363	176,524	168,577
Term loan (I)	256,625	238,006	254,321	301,193	284,858	273,513
Term loan (II)	-	-	-	-	-	44,746
Term loan (III)	341,299	325,526	337,263	-	-	-
	<u>887,924</u>	<u>1,706,165</u>	<u>591,584</u>	<u>1,208,556</u>	<u>901,382</u>	<u>886,836</u>
<b>Non-current</b>						
<b>Secured:-</b>						
Term loan (I)	2,665,639	2,921,970	2,748,709	2,936,625	3,186,650	3,418,479
Term loan (III)	3,324,374	3,658,008	3,437,090	-	-	-
	<u>5,990,013</u>	<u>6,579,978</u>	<u>6,185,799</u>	<u>2,936,625</u>	<u>3,186,650</u>	<u>3,418,479</u>
	<u>6,877,937</u>	<u>8,286,143</u>	<u>6,777,383</u>	<u>4,145,181</u>	<u>4,088,032</u>	<u>4,305,315</u>

(a) The term loans are secured by:-

- (i) legal charge over the freehold land and freehold factory building of the Group with carrying amount of RM16,867,243 (30.4.2018: 13,411,216, 31.12.2018: 16,927,593, 31.12.2017: RM6,711,962, 31.12.2016: RM6,812,895 and 31.12.2015: RM7,715,029) as disclosed in Note 4 to the combined financial statements; and
- (ii) jointly and severally guaranteed by the Directors of the Group.

The term loans are repayable as follows:-

	<u>No of installments</u>	<u>Monthly repayment</u>	<u>Commencement date</u>
Term loan (I)	180	RM32,000	October 2013
Term loan (II)	36	RM14,903	April 2013/fully settled in March 2016
Term loan (III)	120	RM41,167	April 2018

The term loans bear interest at an effective rate of 4.35% to 4.54% (30.4.2018: 4.60% to 4.79%, 31.12.2018: 4.60% to 4.79%, 31.12.2017: 4.40%, 31.12.2016: 4.65% and 31.12.2015: 4.65% to 6.35%) per annum.

(b) The bank overdrafts are secured by:-

- (i) legal charge over the properties of the Group with carrying amount of RM18,415,558 (30.4.2018: RM9,225,846, 31.12.2018: RM18,529,335, 31.12.2017: RM9,253,393, 31.12.2016: RM9,430,668 and 31.12.2015: RM9,871,039) as disclosed in Note 4 to the combined financial statements;
- (ii) legal charge over the property of a related party; and
- (iii) jointly and severally guaranteed by the Directors of the Group.

The bank overdrafts bear interest at effective rates Nil% (31.4.2018: Nil%, 31.12.2018: Nil%, 31.12.2017: 7.85% to 8.05%, 31.12.2016 and 31.12.2015: 7.85% to 8.85%) per annum and repayable on demand.

**12. ACCOUNTANTS' REPORT (Cont'd)****13. BORROWINGS (CONT'D)**

(c) The bankers' acceptances are secured by:-

- (i) legal charge over the properties of the Group with carrying amounts of RM18,415,558 (30.4.2018: RM9,225,846, 31.12.2018: RM18,529,335, 31.12.2017: RM9,253,393, 31.12.2016: RM9,430,668 and 31.12.2015: RM9,871,039) as disclosed in Note 4 to the combined financial statements; and
- (ii) jointly and severally guaranteed by the Directors of the Group.

The bankers' acceptances bear interest at effective rates ranging from 4.80% (30.4.2018: 3.63% to 4.82%, 31.12.2018: Nil%, 31.12.2017: Nil%, 31.12.2016: 3.30% to 4.58% and 31.12.2015: 3.30% to 4.75%) per annum and is repayable upon the maturity date within 120 days.

**14. DEFERRED TAX LIABILITIES**

	Audited	Unaudited	← Audited →			
	30.4.2019	30.4.2018	31.12.2018	31.12.2017	31.12.2016	31.12.2015
	RM	RM	RM	RM	RM	RM
Brought forward	2,599,615	439,000	439,000	321,000	367,000	317,613
(Over)/Under provision in prior year	(86,000)	-	17,000	-	-	-
Recognised within equity through other comprehensive income	-	-	2,127,560	-	-	-
Crystallisation of deferred tax liabilities arising from revaluation reserve (Note 20)	(13,296)	-	(19,945)	-	-	-
Recognised in profit or loss (Note 20)	240,000	-	36,000	118,000	(46,000)	49,387
Carried forward	2,740,319	439,000	2,599,615	439,000	321,000	367,000

The components of deferred tax liabilities are made up of temporary differences arising from:-

	Audited	Unaudited	← Audited →			
	30.4.2019	30.4.2018	31.12.2018	31.12.2017	31.12.2016	31.12.2015
	RM	RM	RM	RM	RM	RM
Carrying amount of qualifying property, plant and equipment in excess of their tax base	754,000	436,000	602,000	436,000	453,000	427,000
Revaluation reserve on land and buildings	2,094,319	-	2,107,615	-	-	-
Others	(108,000)	3,000	(110,000)	3,000	(132,000)	(60,000)
	2,740,319	439,000	2,599,615	439,000	321,000	367,000

**12. ACCOUNTANTS' REPORT (Cont'd)****15. TRADE PAYABLES**

(a) Trade payables are unsecured, non-interest bearing and the normal credit term granted by the suppliers ranging from 30 to 90 (30.4.2018, 31.12.2018, 31.12.2017, 31.12.2016 and 31.12.2015: 30 to 90) days.

(b) The foreign currency risk exposure of trade payables are as follows:-

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited →			
			31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
United States Dollar ("USD")	400,934	455,140	246,925	-	-	-

**16. OTHER PAYABLES**

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited →			
			31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
Accruals*	633,933	516,491	623,776	444,455	400,886	342,264
Non-trade payables	466,944	406,439	311,131	204,639	46,457	351,206
Contract liabilities^	425,993	349,208	423,441	101,172	283,800	-
	<u>1,526,870</u>	<u>1,272,138</u>	<u>1,358,348</u>	<u>750,266</u>	<u>731,143</u>	<u>693,470</u>

\*Consisting mainly of accrued salaries and staff allowances.

^Contract liabilities represent advance payments from customer for future sales obligation.

Included in non-trade payables is an amount of RMNil (30.4.2018: RMNil, 31.12.2018: RM11,114, 31.12.2017: RMNil, 31.12.2016: RM14,000 and 31.12.2015: RM7,000) due to a company in which the Directors have interest. These amounts are unsecured, non-interest bearing and repayable on demand.

The foreign currency risk exposure of other payables is as follows:-

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited →			
			31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
United States Dollar ("USD")	49,121	-	115,632	101,172	283,800	142,425

**17. FINANCE LEASE LIABILITIES**

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited →			
			31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
Minimum lease payments						
- Within 1 year	-	-	-	-	-	61,472
Less: Interest-in-suspense	-	-	-	-	-	(1,018)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,454</u>
Present value of finance lease liabilities						
- Within 1 year	-	-	-	-	-	60,454

The effective interest of finance lease liabilities is charged at the rates ranging from Nil% (30.4.2018: Nil%, 31.12.2018: Nil%, 31.12.2017 and 31.12.2016: Nil% and 31.12.2015: 5.10%) per annum.

**12. ACCOUNTANTS' REPORT (Cont'd)****18. REVENUE**

Revenue represents invoiced value of furniture manufactured, net of discounts and returns.

The Group's revenue disaggregated by primary geographical markets are as disclosed in Note 25 to the combined financial statements.

The Group's revenue disaggregated by pattern of revenue recognition is as follows:-

	Audited	Unaudited	Audited			
	1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Sales of goods at a point in time on delivery	18,296,970	15,626,316	50,381,862	48,276,443	41,287,223	36,424,464

**19. PROFIT BEFORE TAX**

Profit before tax has been determined after charging/(crediting), amongst other items, the following:-

	Audited	Unaudited	Audited			
	1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Depreciation	514,695	521,290	1,903,637	1,850,377	1,602,002	1,277,326
Rental expenses	7,870	-	7,089	168,000	168,000	84,000
Loss/(Gain) on foreign exchange:-						
- unrealised	(70,176)	(19,442)	50,593	93,104	(119,751)	(53,855)
- realised	15,457	136,347	94,145	818,809	(439,195)	34,202
Interest expenses:-						
- bankers' acceptances	3,432	9,828	29,794	-	11,441	28,336
- term loan	103,182	63,902	283,029	82,163	91,512	112,463
- bank overdrafts	134	32	2,994	711	11,784	15,434
- finance lease liabilities	-	-	-	-	1,018	42,302
Interest income	(28,441)	(43,805)	(76,209)	(40,991)	(15,805)	(1,931)
Fair value loss/(gain) on derivative financial instruments	111,486	6,666	88,614	(677,864)	257,558	126,154
Impairment loss on revaluation of property, plant and equipment measured	-	-	1,519,796	-	-	-
Gain on disposal of property, plant and equipment	-	-	(765,827)	-	-	(13,000)

**12. ACCOUNTANTS' REPORT (Cont'd)****20. TAX EXPENSE**

	Audited 1.1.2019 to 30.4.2019 RM	Unaudited 1.1.2018 to 30.4.2018 RM	← Audited → 1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	Audited 1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Current financial period/year provision	396,082	640,000	2,211,752	2,162,000	2,164,952	880,839
(Over)/Under provision in prior year	-	-	(40,810)	2,238	488	(20,220)
(Over)/Under provision of deferred tax in prior year	(86,000)	-	17,000	-	-	-
Deferred tax liabilities	240,000	-	36,000	118,000	(46,000)	49,387
Crystallisation of deferred tax upon depreciation of revalued assets	(13,296)	-	(19,945)	-	-	-
	<u>536,786</u>	<u>640,000</u>	<u>2,203,997</u>	<u>2,282,238</u>	<u>2,119,440</u>	<u>910,006</u>

Malaysian income tax is calculated at the statutory tax rate of 24% (30.4.2018: 24%, 31.12.2018: 24%, 31.12.2017 and 31.12.2016: 24% and 31.12.2015: 25%) of the estimated assessable profit for the financial year.

A reconciliation of income tax expense applicable to profit before tax at statutory tax rate to income tax expense at the effective tax rate of the Group is as follows:-

	Audited 1.1.2019 to 30.4.2019 RM	Unaudited 1.1.2018 to 30.4.2018 RM	← Audited → 1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	Audited 1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Profit before tax	3,113,371	2,375,692	8,432,961	10,142,143	9,593,902	8,103,737
Tax at Malaysia statutory tax rate of 24% (30.4.2018:24%, 31.12.2018:24%, 31.12.2017:24%, 31.12.2016:24% and 31.12.2015:25%)	747,209	570,166	2,023,911	2,434,114	2,302,536	2,025,934
<u>Tax effects in respect of:</u>						
Expenses not deductible for tax	49,517	281,336	513,434	60,266	35,935	21,661
Income not subject to tax	(28,985)	(156,237)	(183,798)	-	-	(3,249)
Utilisation of reinvestment allowance	-	-	-	(184,380)	(194,519)	(1,089,120)
(Over)/Under provision of deferred tax in prior year	(86,000)	-	17,000	-	-	-
(Over)/Under provision of tax expense in prior year	-	-	(40,810)	2,238	488	(20,220)
Tax savings for the first tranche of chargeable income	(35,000)	(30,000)	(30,000)	(30,000)	(25,000)	(25,000)
Utilisation of increased exports claim	(96,659)	(25,265)	(75,795)	-	-	-
Crystallisation of deferred tax upon depreciation of revalued assets	(13,296)	-	(19,945)	-	-	-
Effective tax expense	<u>536,786</u>	<u>640,000</u>	<u>2,203,997</u>	<u>2,282,238</u>	<u>2,119,440</u>	<u>910,006</u>

However, the above amounts are subject to the approval of the Inland Revenue Board of Malaysia.

**12. ACCOUNTANTS' REPORT (Cont'd)****21. EARNINGS PER SHARE**Basic earnings per share

Basic earnings per share is calculated by dividing net profit for the financial year attributable to ordinary equity holders of the Group over the weighted average number of ordinary shares in issue during the financial year as follows:

	Audited 1.1.2019 to 30.4.2019 RM	Unaudited 1.1.2018 to 30.4.2018 RM	← Audited →			
			1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Net profit for the year attributable to ordinary equity holders of the Group	2,576,585	1,735,692	6,228,964	7,859,905	7,474,462	7,193,731
Weighted average number of ordinary shares in issue	500,200	500,010	500,138	500,000	500,000	500,000
Basic earnings per share (sen)	515.11	374.13	1,245.45	1,571.98	1,494.89	1,438.75

Diluted earnings per share

Diluted earnings per share is not applicable as the Group does not have potential dilutive equity instruments that would give a diluted effect to the basic earnings per share.

**22. DIVIDENDS**

	Audited 1.1.2019 to 30.4.2019 RM	Unaudited 1.1.2018 to 30.4.2018 RM	← Audited →			
			1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
<u>In respect of the financial year ended 31 December 2015:-</u>						
First interim single tier dividend of RM1.00 per share declared on 2 July 2015	-	-	-	-	-	500,000
Second interim single tier dividend of RM2.00 per share declared on 16 November 2015	-	-	-	-	-	1,000,000
Third interim single tier dividend of RM4.00 per share declared on 11 February 2016	-	-	-	-	2,000,000	-
Fourth interim single tier dividend of RM4.00 per share declared on 5 April 2016	-	-	-	-	2,000,000	-
<u>In respect of the financial year ended 31 December 2016:-</u>						
First interim single tier dividend of RM3.60 per share declared on 1 July 2016	-	-	-	-	1,800,000	-
<u>In respect of the financial year ended 31 December 2017:-</u>						
Special single tier dividend of RM9.00 per share declared on 25 April 2018	-	4,500,000	4,500,000	-	-	-
	-	4,500,000	4,500,000	-	5,800,000	1,500,000



**12. ACCOUNTANTS' REPORT (Cont'd)****23. EMPLOYEES BENEFIT EXPENSES**

	Audited	Unaudited	Audited			
	1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Salaries, bonus, overtime and allowances	2,467,456	1,900,197	5,970,373	5,155,453	4,276,978	3,749,175
Defined contribution plan	130,969	118,382	331,698	241,716	231,012	202,388
Social contribution plan	8,843	5,876	18,364	13,830	10,802	11,311
Other benefits	79,332	33,825	217,440	121,372	152,514	131,032
	<u>2,686,600</u>	<u>2,058,280</u>	<u>6,537,875</u>	<u>5,532,371</u>	<u>4,671,306</u>	<u>4,093,906</u>

Employee benefit and expenses includes Directors' remuneration as follows:-

	Audited	Unaudited	Audited			
	1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
<b>Directors' remuneration</b>						
Salaries, bonus, overtime and allowances	300,000	300,000	900,000	660,000	660,000	600,000
Defined contribution plan	60,000	60,000	180,000	132,000	132,000	120,000
Social contribution plan	616	616	1,847	1,658	1,658	1,240
	<u>360,616</u>	<u>360,616</u>	<u>1,081,847</u>	<u>793,658</u>	<u>793,658</u>	<u>721,240</u>

**24. RELATED PARTY DISCLOSURES****(a) Related party transactions**

Significant related party transactions during the financial period/year are as follows:-

	Audited	Unaudited	Audited			
	1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Dividends paid to Directors	-	(4,500,000)	(4,500,000)	-	(5,800,000)	(1,500,000)
Rental paid to a company in which the Directors have interests	-	-	-	(168,000)	(168,000)	(84,000)
Purchase of land from a company in which Directors have interest	-	-	(2,100,000)	-	-	-
Sales of land to a company in which Directors have interest	-	-	2,100,000	-	-	-
Interest charged to a company in which Directors have interest	-	-	7,595	-	-	-
	<u>-</u>	<u>-</u>	<u>7,595</u>	<u>-</u>	<u>-</u>	<u>-</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****24. RELATED PARTY DISCLOSURES (CONT'D)**

- (b) Key management personnel is defined as the person having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly.

The Group has no other members of key management personnel other than the Board of Directors. Remuneration of key management personnel is disclosed as Directors' remuneration in Note 23 to the combined financial statements.

- (c) Outstanding balances arising from related party transactions are as disclosed in Note 16 to the combined financial statements.

**25. SEGMENTAL REPORTING - GROUP**

For management purposes, majority of the operations of the Group is involved in the manufacturing of office and household furniture. There were no separate business units for the purpose of making decisions about resource allocation and performance assessment by the Managing Director.

**Geographical segments**

The Group operates only in Malaysia hence there is no disclosure of geographical segments on the non-current assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers.

The following table provides an analysis of the Group's revenue by geographical segment:

	Audited	Unaudited	Audited			
	1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
<b>Revenue from external customers</b>						
Middle East	11,645,515	7,056,033	25,656,623	23,256,451	17,746,880	12,227,469
Asia Pacific	6,166,565	7,270,492	21,155,605	20,985,377	19,194,578	17,845,290
North America and Latin America	391,847	739,700	3,007,998	2,815,751	1,658,471	2,835,805
Africa	93,043	249,603	88,845	908,849	2,036,177	2,937,883
Europe	-	310,488	472,791	310,015	651,117	578,017
	<u>18,296,970</u>	<u>15,626,316</u>	<u>50,381,862</u>	<u>48,276,443</u>	<u>41,287,223</u>	<u>36,424,464</u>

**Major customers**

The followings are the major customers with revenue equal or more than 10% of the Group's revenue:-

Segment	Audited	Unaudited	Revenue			
	1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
RNA Resources Group Ltd	11,645,514	5,890,236	21,235,810	19,940,962	15,285,047	6,055,952
Praxis Homp Retail Limited (formerly known as Future Retail Ltd.)	2,089,446	2,513,504	3,997,250	8,468,591	3,828,199	1,382,116
Nitori Co., Ltd	981,613	1,374,529	3,034,500	4,311,575	5,680,610	6,998,562

**12. ACCOUNTANTS' REPORT (Cont'd)****26. COMMITMENTS****26.1 Operating lease commitments**

The future lease payable under non-cancellable operating leases pertaining to the Group in respect of rental of premises are as follows:-

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited → 31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
Not later than one year	-	-	-	168,000	168,000	84,000
Later than one year but not later than five years	-	-	-	-	168,000	-
	-	-	-	168,000	336,000	84,000

**26.2 Capital commitment**

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited → 31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
<u>Authorised and contracted for:-</u>						
Purchase of access road	260,000	260,000	260,000	260,000	-	-
Purchases of freehold land	-	-	-	5,488,560	-	-
Purchases of machineries	994,049	-	1,538,630	-	-	-
Purchases of computer system	-	-	15,000	-	-	-

**27. FINANCIAL INSTRUMENTS****Categories of financial instruments**

The table below provides an analysis of financial instruments categorised as follows:-

- Financial assets measured at amortised cost ("FAAC");
- Fair value through profit or loss ("FVTPL"); and
- Other liabilities measured at amortised cost ("OFL").

	Carrying amount RM	FAAC RM	FVTPL RM	OFL RM
<b>Audited</b>				
<b>30.4.2019</b>				
<b>Financial assets</b>				
Trade receivables	3,907,086	3,907,086	-	-
Other receivables	2,171,243	2,171,243	-	-
Fixed deposits with licensed banks	3,285,219	3,285,219	-	-
Cash and bank balances	3,114,288	3,114,288	-	-
	<u>12,477,836</u>	<u>12,477,836</u>	<u>-</u>	<u>-</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Categories of financial instruments (cont'd)**

The table below provides an analysis of financial instruments categorised as follows (cont'd):-

- (a) Financial assets measured at amortised cost ("FAAC");  
 (b) Fair value through profit or loss ("FVTPL"); and  
 (c) Other liabilities measured at amortised cost ("OFL").

	Carrying amount RM	FAAC RM	FVTPL RM	OFL RM
<b>Audited (cont'd)</b>				
<u>30.4.2019 (cont'd)</u>				
<b>Financial liabilities</b>				
Trade payables	4,568,738	-	-	4,568,738
Other payables	1,100,877	-	-	1,100,877
Derivative financial instruments	94,196	-	94,196	-
Borrowings	6,877,937	-	-	6,877,937
	<u>12,641,748</u>	<u>-</u>	<u>94,196</u>	<u>12,547,552</u>
<u>31.12.2018</u>				
<b>Financial assets</b>				
Trade receivables	5,854,323	5,854,323	-	-
Other receivables	551,531	551,531	-	-
Derivative financial instruments	17,290	-	17,290	-
Fixed deposits with licensed banks	1,400,604	1,400,604	-	-
Cash and bank balances	2,271,462	2,271,462	-	-
	<u>10,095,210</u>	<u>10,077,920</u>	<u>17,290</u>	<u>-</u>
<b>Financial liabilities</b>				
Trade payables	2,912,050	-	-	2,912,050
Other payables	934,907	-	-	934,907
Borrowings	6,777,383	-	-	6,777,383
	<u>10,624,340</u>	<u>-</u>	<u>-</u>	<u>10,624,340</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Categories of financial instruments (cont'd)**

The table below provides an analysis of financial instruments categorised as follows (cont'd):-

- (a) Financial assets measured at amortised cost ("FAAC");  
 (b) Fair value through profit or loss ("FVTPL"); and  
 (c) Other liabilities measured at amortised cost ("OFL").

	Carrying amount RM	FAAC RM	FVTPL RM	OFL RM
<b>Audited (cont'd)</b>				
<u>31.12.2017</u>				
<b>Financial assets</b>				
Trade receivables	4,063,982	4,063,982	-	-
Other receivables	1,084,079	1,084,079	-	-
Derivative financial instruments	105,904	-	105,904	-
Fixed deposits with licensed banks	2,302,712	2,302,712	-	-
Cash and bank balances	3,545,856	3,545,856	-	-
	<u>11,102,533</u>	<u>10,996,629</u>	<u>105,904</u>	<u>-</u>
<b>Financial liabilities</b>				
Trade payables	1,929,443	-	-	1,929,443
Other payables	649,094	-	-	649,094
Borrowings	4,145,181	-	-	4,145,181
	<u>6,723,718</u>	<u>-</u>	<u>-</u>	<u>6,723,718</u>
<u>31.12.2016</u>				
<b>Financial assets</b>				
Trade receivables	5,289,695	5,289,695	-	-
Other receivables	117,037	117,037	-	-
Fixed deposits with licensed banks	1,100,000	1,100,000	-	-
Cash and bank balances	1,179,833	1,179,833	-	-
	<u>7,686,565</u>	<u>7,686,565</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities</b>				
Trade payables	2,251,112	-	-	2,251,112
Other payables	447,343	-	-	447,343
Derivative financial instruments	571,960	-	571,960	-
Borrowings	4,088,032	-	-	4,088,032
	<u>7,358,447</u>	<u>-</u>	<u>571,960</u>	<u>6,786,487</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Categories of financial instruments (cont'd)**

The table below provides an analysis of financial instruments categorised as follows (cont'd):-

- (a) Financial assets measured at amortised cost ("FAAC");  
 (b) Fair value through profit or loss ("FVTPL"); and  
 (c) Other liabilities measured at amortised cost ("OFL").

	Carrying amount RM	FAAC RM	FVTPL RM	OFL RM
<b>Audited (cont'd)</b>				
<u>31.12.2015</u>				
<b>Financial assets</b>				
Trade receivables	4,477,064	4,477,064	-	-
Other receivables	92,091	92,091	-	-
Fixed deposits with licensed banks	450,000	450,000	-	-
Cash and bank balances	506,359	506,359	-	-
	<u>5,525,514</u>	<u>5,525,514</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities</b>				
Trade payables	1,925,627	-	-	1,925,627
Other payables	693,470	-	-	693,470
Derivative financial instruments	314,402	-	314,402	-
Finance lease liabilities	60,454	-	-	60,454
Borrowings	4,305,315	-	-	4,305,315
	<u>7,299,268</u>	<u>-</u>	<u>314,402</u>	<u>6,984,866</u>
<b>Unaudited</b>				
<u>30.4.2018</u>				
<b>Financial assets</b>				
Trade receivables	4,871,996	4,871,996	-	-
Other receivables	899,386	899,386	-	-
Derivative financial instrument	99,238	-	99,238	-
Fixed deposits with licensed banks	-	-	-	-
Cash and bank balances	1,724,741	1,724,741	-	-
	<u>7,595,361</u>	<u>7,496,123</u>	<u>99,238</u>	<u>-</u>
<b>Financial liabilities</b>				
Trade payables	2,309,435	-	-	2,309,435
Other payables	922,930	-	-	922,930
Borrowings	8,286,143	-	-	8,286,143
	<u>11,518,508</u>	<u>-</u>	<u>-</u>	<u>11,518,508</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Financial risk management objectives and policies****Financial risks**

The Group is exposed to financial risks arising from its operations and the use of financial instruments. Financial risk management policy is established to ensure that adequate resources are available for the development of the Group's business whilst managing its risks. The Group operates within clearly defined policies and procedures that are approved by the Board of Directors to ensure the effectiveness of the risk management process.

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows:-

**(a) Credit risk**

Credit risk refers to the risk that a counter party will default in its contractual obligations resulting in financial loss to the Group. The Group adopts the policy of dealing with customers of appropriate standing to mitigate credit risk and customers who wish to trade on credit terms are subject to credit evaluation. Receivables are monitored on an ongoing basis to mitigate risk of bad debts. For other financial assets, the Group adopts the policy of dealing with reputable institutions.

Exposure to Credit Risk

The Group's maximum exposure to credit risk is represented by the carrying amount of financial assets recognised at the reporting date, as summarised below:-

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← 31.12.2018 RM	Audited → 31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
<b>Classes of financial assets:-</b>						
Trade receivables	3,907,086	4,871,996	5,854,323	4,063,982	5,289,695	4,477,064
Other receivables	2,171,243	899,386	551,531	1,084,079	117,037	92,091
Derivative financial instruments	-	99,238	17,290	105,904	-	-
Fixed deposits with a licensed bank	3,285,219	-	1,400,604	2,302,712	1,100,000	450,000
Cash and bank balances	<u>3,114,288</u>	<u>1,724,741</u>	<u>2,271,462</u>	<u>3,545,856</u>	<u>1,179,833</u>	<u>506,359</u>
Carrying amount	<u>12,477,836</u>	<u>7,595,361</u>	<u>10,095,210</u>	<u>11,102,533</u>	<u>7,686,565</u>	<u>5,525,514</u>

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used.

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Financial risk management objectives and policies (cont'd)****Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows (cont'd):-

**(a) Credit risk (cont'd)**Exposure to Credit Risk (cont'd)

The Group's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality. None of the Group's financial assets are secured by collateral or other credit enhancements and none of the carrying amount of financial assets whose terms have been renegotiated that would otherwise be past due or impaired.

**Receivables**Concentration of credit risk

Concentration of credit risk exists when changes in economic, industry and geographical factors similarly affect the group of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's portfolio of financial instrument is broadly diversified along geographical lines and transactions are entered into with diverse creditworthy counterparties, thereby mitigate any significant concentration of credit risk.

In respect of trade receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or a group of counterparties having similar characteristics except for 67% (30.4.2018: 65%, 31.12.2018: 49%, 31.12.2017: 61%, 31.12.2016: 73% and 31.12.2015: 74%) of total Group's trade receivables was due from 1 (30.4.2018: 2, 31.12.2018: 2, 31.12.2017: 2, 2016: 3 and 31.12.2015: 5) major customers.

In respect of other receivables, the Group is not subjected to any significant credit risk exposure to any single counterparty or a group of counterparties having similar characteristics.

The net carrying amount of receivables is considered a reasonable approximate of its fair value. The maximum exposure to credit risk is the carrying value of each class of receivables as disclosed in Notes 6 and 7 to the Financial Statements.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group does not offer credit terms without the approval of the head of credit control.

With a credit policy in place to ensure the credit risk is monitored on an ongoing basis, the management has taken reasonable steps to ensure that receivables are stated at their realisable values. A significant portion of the receivables are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than credit terms granted are deemed to have higher credit risk, and are monitored individually.



**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Financial risk management objectives and policies (cont'd)****Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows (cont'd):-

**(a) Credit risk (cont'd)****Cash and bank balances and fixed deposits with licensed banks**

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable licensed financial institutions with high quality external credit ratings.

**Financial guarantees**

The maximum exposure to credit risks amounts to RM630,000 (30.4.2018: RM1,130,000 31.12.2018: RM1,130,000, 31.12.2017: RM1,630,000, 31.12.2016: RM1,630,000 and 31.12.2015: RM130,000) representing the outstanding banking facilities of the Group as at end of reporting date.

The Group provides unsecured corporate guarantees to a supplier in respect of electricity supplies. The Group monitors on an ongoing basis the repayment made to the supplier.

**(b) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due, due to shortage of funds.

In managing its exposures to liquidity risk arises principally from its various payables, lease liabilities and borrowings, the Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

The Group aims at maintaining a balance of sufficient cash and deposits and flexibility in funding by keeping diverse sources of committed and uncommitted credit facilities from various banks.

The summary of the maturity profile based on the contractual undiscounted repayment obligations are as below:-

	Less than <u>1 year</u> RM	2-5 <u>years</u> RM	More than <u>5 years</u> RM	<u>Total</u> RM
<b>Audited</b>				
<b><u>30.4.2019</u></b>				
Trade payables	4,568,738	-	-	4,568,738
Other payables	1,100,877	-	-	1,100,877
Derivative financial instruments	94,196	-	-	94,196
Borrowings	<u>1,168,004</u>	<u>3,512,016</u>	<u>3,636,311</u>	<u>8,316,331</u>
Total undiscounted financial liabilities	<u>6,931,815</u>	<u>3,512,016</u>	<u>3,636,311</u>	<u>14,080,142</u>
Financial guarantee	<u>630,000</u>	<u>-</u>	<u>-</u>	<u>630,000</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Financial risk management objectives and policies (cont'd)****Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows (cont'd):-

**(b) Liquidity risk (cont'd)**

The summary of the maturity profile based on the contractual undiscounted repayment obligations are as below (cont'd):-

	Less than 1 year RM	2-5 years RM	More than 5 years RM	Total RM
<b>Audited (cont'd)</b>				
<u>31.12.2018</u>				
Trade payables	2,912,050	-	-	2,912,050
Other payables	934,907	-	-	934,907
Borrowings	<u>878,004</u>	<u>3,512,016</u>	<u>3,886,837</u>	<u>8,276,857</u>
Total undiscounted financial liabilities	<u>4,724,961</u>	<u>3,512,016</u>	<u>3,886,837</u>	<u>12,123,814</u>
Financial guarantee	<u>1,130,000</u>	<u>-</u>	<u>-</u>	<u>1,130,000</u>
<u>31.12.2017</u>				
Trade payables	1,929,443	-	-	1,929,443
Other payables	649,094	-	-	649,094
Borrowings	<u>1,221,808</u>	<u>1,257,779</u>	<u>1,886,669</u>	<u>4,366,256</u>
Total undiscounted financial liabilities	<u>3,800,345</u>	<u>1,257,779</u>	<u>1,886,669</u>	<u>6,944,793</u>
Financial guarantee	<u>1,630,000</u>	<u>-</u>	<u>-</u>	<u>1,630,000</u>
<u>31.12.2016</u>				
Trade payables	2,251,112	-	-	2,251,112
Other payables	447,343	-	-	447,343
Derivative financial instruments	571,960	-	-	571,960
Borrowings	<u>932,378</u>	<u>1,257,779</u>	<u>2,201,114</u>	<u>4,391,271</u>
Total undiscounted financial liabilities	<u>4,202,793</u>	<u>1,257,779</u>	<u>2,201,114</u>	<u>7,661,686</u>
Financial guarantee	<u>1,630,000</u>	<u>-</u>	<u>-</u>	<u>1,630,000</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Financial risk management objectives and policies (cont'd)****Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows (cont'd):-

**(b) Liquidity risk (cont'd)**

The summary of the maturity profile based on the contractual undiscounted repayment obligations are as below (cont'd):-

	Less than <u>1 year</u> RM	2-5 <u>years</u> RM	More than <u>5 years</u> RM	<u>Total</u> RM
<b>Audited (cont'd)</b>				
<b><u>31.12.2015</u></b>				
Trade payables	1,925,627	-	-	1,925,627
Other payables	693,470	-	-	693,470
Derivative financial instruments	314,402	-	-	314,402
Finance lease liabilities	61,472	-	-	61,472
Borrowings	925,309	1,259,188	2,515,558	4,700,055
Total undiscounted financial liabilities	<u>3,920,280</u>	<u>1,259,188</u>	<u>2,515,558</u>	<u>7,695,026</u>
Financial guarantee	<u>130,000</u>	-	-	<u>130,000</u>
<b>Unaudited</b>				
<b><u>30.4.2018</u></b>				
Trade payables	2,309,435	-	-	2,309,435
Other payables	922,930	-	-	922,930
Borrowings	2,020,637	3,512,016	4,514,315	10,046,968
Total undiscounted financial liabilities	<u>5,253,002</u>	<u>3,512,016</u>	<u>4,514,315</u>	<u>13,279,333</u>
Financial guarantee	<u>1,130,000</u>	-	-	<u>1,130,000</u>

The above amounts reflect the contractual undiscounted cash flows, which may differ from the carrying values of financial liabilities as at the reporting date.

**(c) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

The Group's fixed rate instruments are exposed to a risk of change in their fair value due to changes in interest rates. The Group's variable rate instruments are exposed to a risk of change in cash flows due to changes in interest rates.

The Group's interest rate management objective is to manage the interest expenses consistent with maintaining an acceptable level of exposure to interest rate fluctuation. In order to achieve this objective, the Group targets a mix of fixed and floating debt based on assessment of its existing exposure and desired interest rate profile.

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Financial risk management objectives and policies (cont'd)****Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows (cont'd):-

**(c) Interest rate risk (cont'd)**

The interest rate profile of the Group's significant interest-bearing financial instruments, based on carrying amounts as at the reporting date are as follows:-

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited → 31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
<b>Fixed rate instruments</b>						
<b>Financial asset</b>						
Fixed deposits with licensed banks	3,285,219	-	1,400,604	2,302,712	1,100,000	450,000
<b>Financial liabilities</b>						
Finance lease liabilities	-	-	-	-	-	(60,454)
Bankers' acceptances	(290,000)	(1,142,633)	-	-	(440,000)	(400,000)
<b>Net financial asset/ (liabilities)</b>	<u>2,995,219</u>	<u>(1,142,633)</u>	<u>1,400,604</u>	<u>2,302,712</u>	<u>660,000</u>	<u>(10,454)</u>
<b>Floating rate instruments</b>						
<b>Financial liabilities</b>						
Bank overdrafts	-	-	-	(907,363)	(176,524)	(168,577)
Term loans	(6,587,937)	(7,143,510)	(6,777,383)	(3,237,818)	(3,471,508)	(3,736,738)
<b>Net financial liabilities</b>	<u>(6,587,937)</u>	<u>(7,143,510)</u>	<u>(6,777,383)</u>	<u>(4,145,181)</u>	<u>(3,648,032)</u>	<u>(3,905,315)</u>

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

The following table illustrates the sensitivity of profit to a reasonably possible change in interest rates of +/- 25 (30.4.2018, 31.12.2018, 31.12.2017, 31.12.2016 and 31.12.2015: +/- 25) basis points ("bp"). These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited → 31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
Effect on profit for the financial period/year	(16,470)	(17,859)	(16,943)	(10,363)	(9,120)	(9,763)

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Financial risk management objectives and policies (cont'd)****Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows (cont'd):-

**(d) Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to foreign currency risk on trade receivables, other payables and cash and bank balances that are denominated in a currency other than the functional currency of the Group. The currencies giving rise to this risk are primarily USD and SGD.

The Group uses forward currency contracts to hedge its foreign currency risk and these forward currency contracts have maturity of less than one year from the reporting date. Where necessary the forward currency contracts are rolled over at maturity.

Carrying amounts of the Group's exposure to foreign currency risk are as follows:-

	<u>USD</u> RM	<u>SGD</u> RM
<b>Audited</b>		
<u>30.4.2019</u>		
Trade receivables	3,789,581	117,505
Derivative financial instruments	(94,196)	-
Cash and bank balances	1,136,911	29,205
Trade payables	(400,934)	-
Other payables	(49,121)	-
Net exposure	<u>4,382,241</u>	<u>146,710</u>
<u>31.12.2018</u>		
Trade receivables	5,625,985	228,338
Derivative financial instruments	17,290	-
Cash and bank balances	1,278,176	41,113
Trade payables	(246,925)	-
Other payables	(115,632)	-
Net exposure	<u>6,558,894</u>	<u>269,451</u>
<u>31.12.2017</u>		
Trade receivables	3,788,743	275,239
Derivative financial instruments	105,904	-
Cash and bank balances	2,195,904	35,416
Other payables	(101,172)	-
Net exposure	<u>5,989,379</u>	<u>310,655</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Financial risk management objectives and policies (cont'd)****Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows (cont'd):-

**(d) Foreign currency risk (cont'd)**

Carrying amounts of the Group's exposure to foreign currency risk are as follows (cont'd):-

	<u>USD</u> RM	<u>SGD</u> RM
<b>Audited (cont'd)</b>		
<u>31.12.2016</u>		
Trade receivables	5,072,609	217,086
Cash and bank balances	964,428	-
Derivative financial instruments	(571,960)	-
Other payables	(283,800)	-
	<u>5,181,277</u>	<u>217,086</u>
Net exposure		
<u>31.12.2015</u>		
Trade receivables	4,343,934	133,130
Cash and bank balances	492,704	8,814
Derivative financial instruments	(314,402)	-
Other payables	(142,425)	-
	<u>4,379,811</u>	<u>141,944</u>
Net exposure		
<b>Unaudited</b>		
<u>30.4.2018</u>		
Trade receivables	4,751,703	120,293
Derivative financial instruments	99,238	-
Cash and bank balances	1,661,067	43,404
Trade payables	(455,140)	-
	<u>6,056,868</u>	<u>163,697</u>
Net exposure		

**Foreign currency sensitivity analysis**

The following table illustrates the sensitivity of the Group's profit to a reasonable possible changes in RM/USD exchange rate and the RM/SGD exchange rate in which 'all other things being equal'.

It assumes a +/- 1% (30.4.2018: 1%, 31.12.2018: 1%, 31.12.2017: 1%, 31.12.2016 and 31.12.2015: 3%) change of the RM/USD exchange rate and a +/- 1% (2017: 1%, 2016 and 2015: 2%) change of the RM/SGD exchange rate for the period ended is deemed possible. The percentage has been determined based on average market volatility in exchange rates in previous 12 months. The sensitivity analysis is based on the Group's foreign currency profile.

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Financial risk management objectives and policies (cont'd)****Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows (cont'd):-

**(d) Foreign currency risk (cont'd)****Foreign currency sensitivity analysis (cont'd)**

If the RM had strengthened against the USD and SGD, then the impact would be as follows:-

	Audited	Unaudited	Audited			
	30.4.2019	30.4.2018	31.12.2018	31.12.2017	31.12.2016	31.12.2015
	RM	RM	RM	RM	RM	RM
Effect on profit for the financial year						
- USD	(43,822)	(58,769)	(65,589)	(59,894)	(155,438)	(131,394)
- SGD	<u>(1,467)</u>	<u>(1,637)</u>	<u>(2,695)</u>	<u>(3,107)</u>	<u>(4,342)</u>	<u>(2,839)</u>

If RM had weakened against the USD and SGD then the impact to profit for the financial period would be the opposite effect.

Exposures to foreign exchange rate vary during the period depending on the amount outstanding. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

**Fair value of financial instruments**

The carrying amounts of financial assets and liabilities of the Group at the reporting date approximate their fair values due to their short term nature and insignificant impact of discounting or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, group into Level 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include input for asset or liability that are not based on observable market data (unobservable inputs).

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Fair value of financial instruments (cont'd)**

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their values and carrying amounts shown in the statement of financial position.

	Level 2 RM	Carrying amount RM
<b>30.4.2019</b>		
<b>Financial liability</b>		
Derivative financial instruments	<u>94,196</u>	<u>94,196</u>
<b>30.4.2018</b>		
<b>Financial asset</b>		
Derivative financial instruments	<u>99,283</u>	<u>99,283</u>
<b>31.12.2018</b>		
<b>Financial asset</b>		
Derivative financial instruments	<u>17,290</u>	<u>17,290</u>
<b>31.12.2017</b>		
<b>Financial asset</b>		
Derivative financial instruments	<u>105,904</u>	<u>105,904</u>
<b>31.12.2016</b>		
<b>Financial liability</b>		
Derivative financial instruments	<u>571,960</u>	<u>571,960</u>
<b>31.12.2015</b>		
<b>Financial liability</b>		
Derivative financial instruments	<u>314,402</u>	<u>314,402</u>

There has been no transfer between Level 1 and Level 2 fair value during the financial period (financial years ended 31.12.2017, 31.12.2016 and 31.12.2015: no transfer in either direction).

The fair value of the forward currency contract is estimated by reference to the difference between the contractual forward price and the current forward price provided by financial institutions.



**12. ACCOUNTANTS' REPORT (Cont'd)****28. FAIR VALUE MEASUREMENT****Non-financial assets**

The following table summaries the valuation method used by the Directors in determining the fair value of non-financial instruments on a recurring basis at year end.

<b>Non-financial assets</b>	<b>Carrying amount as at 30.4.2019 RM</b>	<b>Fair value as at 31.12.2018 RM</b>	<b>Fair value hierarchy</b>	<b>Valuation techniques and key inputs</b>
The freehold land, leasehold land and buildings and freehold factory buildings	Land and buildings 27,686,715	Land and buildings 27,819,277	Level 2	<u>Land and buildings</u> Comparison approach reflecting the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence.

**29. CAPITAL MANAGEMENT**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. There were no changes in the Group's approach to capital management during the financial periods/years.

**30. EVENTS DURING AND AFTER REPORTING PERIOD****Initial Public Offering ("IPO")**

In conjunction with the IPO of the Company which entails public issue of 97,687,000 new ordinary shares ("Shares") in the Company of which 20,784,400 new Shares available for application by the Malaysian Public, 4,156,800 new Shares available for application by the eligible Directors and employees of the Group as well as persons who have contributed to the success of the Group and 72,745,800 new shares by way of private placement to Bumiputera investors approved by the Ministry of International Trade and Industry and selected investors.

Besides that, the Company also offers for sale of 27,019,000 existing shares by way of private placement to selected investors.

All the shares were issued or offered at RM0.25 per share, payable in full upon application.

On 26 December 2018, the Company had submitted the initial listing application to Bursa Malaysia Securities Berhad ("Bursa Securities") in relation to the admission of Company to the Official List and the listing of and quotation for the entire enlarged share capital of the Company on the ACE Market of Bursa Securities. Bursa Securities had, vide its letter dated 18 April 2019, approved the admission to the Official List and listing of and quotation for the entire enlarged issued share capital of the Company on ACE Market of Bursa Securities.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**30. EVENTS DURING AND AFTER REPORTING PERIOD (CONT'D)**

Acquisition of Spring Art Industries Sdn Bhd ("SAISB") ("Acquisition of SAISB")

On 16 November 2018, the Company entered into a conditional share sale agreement with the shareholders of SAISB to acquire the entire equity interest in SAISB comprising 500,000 ordinary shares for a total purchase consideration of RM31,799,980. The total purchase consideration of RM31,799,980 for the Acquisition of SAISB was arrived after taking into consideration the audited net assets of SAISB as at 30 June 2018 of RM31,800,372.

The purchase consideration for the Acquisition of SAISB was satisfied by the issuance of 317,999,800 new shares in the Company to the shareholders of SAISB at an issue price of RM0.10 each. The Acquisition of SAISB was completed on 31 July 2019 and resulted in SAISB becoming a wholly-owned subsidiary of the Company.

Declaration of dividend

On 23 May 2019, the Directors declared a special single tier dividend of RM2 per share in SAISB in respect of the financial year ending 31 December 2019 amounting to RM1,000,000.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**SPRING ART HOLDINGS BERHAD**  
(Incorporated in Malaysia)

**STATEMENT BY DIRECTORS**

We, the undersigned, being the Directors of the Group, do hereby state that, in our opinion, the accompanying combined financial statements set out on pages 4 to 63 are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the combined financial position as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018, 30 April 2018, 30 April 2019 and of its combined financial performance and cash flows for the financial years ended 31 December 2015, 31 December 2016, 31 December 2017, 31 December 2018 and financial period ended 30 April 2018 and 30 April 2019.

  
.....  
LIM KOK ENG

  
.....  
KWAN CHIAN POH

Kuala Lumpur  
17 September 2019

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION**

**SPRING ART HOLDINGS BERHAD**  
**(Company No.: 1278159-A)**  
(Incorporated in Malaysia)

**PRO FORMA COMBINED**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS AT 30 APRIL 2019**

**GRANT THORNTON MALAYSIA**

**CHARTERED ACCOUNTANTS**

**Member Firm of Grant Thornton International Ltd.**

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**



**REPORTING ACCOUNTANTS' ASSURANCE REPORT ON COMPILATION OF PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION INCLUDED IN A PROSPECTUS**

Date: 17 September 2019

The Board of Directors  
**Spring Art Holdings Berhad**  
Lot Plo 49  
Jalan Rami 4  
Kawasan Perindustrian Bukit Pasir  
84300 Bukit Pasir, Muar  
Johor Darul Takzim

**Grant Thornton Malaysia**  
(AF:0737)

Level 11, Sheraton Imperial Court  
Jalan Sultan Ismail  
50250 Kuala Lumpur  
Malaysia

T +603 2692 4022  
F +603 2691 5229

Dear Sirs,

**REPORT ON THE COMPILATION OF PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION INCLUDED IN A PROSPECTUS**

We have completed our assurance engagement to report on the compilation of Pro Forma Combined Statements of Financial Position of Spring Art Holdings Berhad ("Spring Art" or "the Company") and its subsidiary ("Spring Art Group" or "the Group") as at 30 April 2019.

The Pro Forma Combined Statements of Financial Position has been compiled by the Directors based on the applicable criteria as specified in the Prospectus Guidelines issued by the Securities Commission ("Prospectus Guidelines") and described in the notes as set out in Basis of Preparation of Pro Forma Combined Statements of Financial Position ("Applicable Criteria").

The Pro Forma Combined Statements of Financial Position have been compiled by the Directors for illustrative purposes only and for inclusion into the prospectus of Spring Art Group in connection with the listing of and quotation for the entire enlarged issued share capital of Spring Art Group on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Proposed Listing").

As part of this process, information about the Group's combined financial position has been extracted by the Directors from the Group's audited combined statements of financial position as at 30 April 2019, on which was reported by us to the members of Spring Art on 17 September 2019 without any modification.

**Directors' Responsibility for the Pro Forma Combined Statements of Financial Position**

The Directors are responsible for compiling the Pro Forma Combined Statements of Financial Position on the basis of the Applicable Criteria.

### 13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (*Cont'd*)



An instinct for growth™

#### Our Independence and Quality Control

We are independent in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants (“By-Laws”) and the International Ethics Standards Board of Accountants’ Code of Ethics for Professional Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Our firm applies *International Standard on Quality Control (“ISQC”) 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### Our Responsibility

Our responsibility is to express an opinion as required by the Securities Commission, about whether the Pro Forma Combined Statements of Financial Position has been properly compiled, in all material respects, by the Directors on the basis of the Applicable Criteria.

We conducted our engagement in accordance with *International Standard on Assurance Engagements (“ISAE”) 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the Pro Forma Combined Statements of Financial Position on the basis of the Applicable Criteria.

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Combined Statements of Financial Position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Combined Statements of Financial Position.

The purpose of the Pro Forma Combined Statements of Financial Position included in the Prospectus is solely to illustrate the impact of a significant event or transaction or unadjusted financial information on the entity as if the events had occurred or the transactions had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Combined Statements of Financial Position have been compiled, in all material respects, on the basis of the Applicable Criteria involves performing procedures to assess whether the Applicable Criteria used by the Directors in the compilation of the Pro Forma Combined Statements of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether:-

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Combined Statements of Financial Position reflects the proper application of those adjustments to the unadjusted financial information.

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**



**Our Responsibility (cont'd)**

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the event or transaction in respect of which the Pro Forma Combined Statements of Financial Position has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Combined Statements of Financial Position.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Pro Forma Combined Statements of Financial Position have been compiled, in all material respects, on the basis of the Applicable Criteria.

**Other matters**

This letter has been prepared at your request for inclusion in the Prospectus of Spring Art in connection with the Proposed Listing. It is not intended to be used for any other purposes. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary to the aforesaid purpose.

Yours faithfully,

GRANT THORNTON MALAYSIA  
(NO. AF: 0737)  
CHARTERED ACCOUNTANTS

Kuala Lumpur

OUI POH LIM  
(NO: 3087/10/19(J))  
CHARTERED ACCOUNTANT

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)****SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARY  
PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019**

The Pro Forma Combined Statements of Financial Position of Spring Art Holdings Berhad ("Spring Art" or "the Company") and its subsidiary ("Spring Art Group" or "the Group") as at 30 April 2019 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 2 to the Pro Forma Combined Statements of Financial Position on the assumption that these transactions were completed on 30 April 2019, and should be read in conjunction with the notes accompanying to the Pro Forma Combined Statements of Financial Position.

	At 30.4.2019	RM	Adjustments for Acquisition and Subsequent Event	RM	Pro forma I After Acquisition and Subsequent Event	RM	Adjustments for Proposed Public Issue ("IPO")	RM	Pro forma II After Proposed Public Issue ("IPO")	RM	Adjustments for Proposed Utilisation of Proceeds from IPO	RM	Pro forma III After Proposed Utilisation of Proceeds from IPO	RM
<b>ASSETS</b>														
<b>Non-current asset</b>														
Property, plant and equipment	3.01	-	31,360,878	31,360,878	31,360,878	-	-	31,360,878	31,360,878	24,503,000	24,503,000	55,863,878	55,863,878	
<b>Total non-current asset</b>		-	31,360,878	31,360,878	31,360,878	-	-	31,360,878	31,360,878	24,503,000	24,503,000	55,863,878	55,863,878	
<b>Current assets</b>														
Inventories	3.02	-	8,747,283	8,747,283	8,747,283	-	-	8,747,283	8,747,283	-	-	8,747,283	8,747,283	
Trade receivables	3.03	-	3,907,086	3,907,086	3,907,086	-	-	3,907,086	3,907,086	-	-	3,907,086	3,907,086	
Other receivables	3.04	128,364	4,174,525	4,302,889	4,302,889	-	-	4,302,889	4,302,889	(1,146,214)	(1,146,214)	3,156,675	3,156,675	
Fixed deposits with licensed banks	3.05	-	3,285,219	3,285,219	3,285,219	-	-	3,285,219	3,285,219	-	-	3,285,219	3,285,219	
Cash and cash equivalents	3.06	31,613	2,082,675	2,114,288	2,114,288	24,421,750	24,421,750	26,536,038	26,536,038	(20,756,786)	(20,756,786)	5,779,252	5,779,252	
<b>Total current assets</b>		159,977	22,196,788	22,356,765	22,356,765	24,421,750	24,421,750	46,778,515	46,778,515	(21,903,000)	(21,903,000)	24,875,515	24,875,515	
<b>Total assets</b>		159,977	53,557,666	53,713,630	53,713,630	24,421,750	24,421,750	78,139,393	78,139,393	2,600,000	2,600,000	80,739,393	80,739,393	
<b>EQUITY AND LIABILITIES</b>														
<b>EQUITY</b>														
Share capital	3.07	20	31,799,980	31,800,000	31,800,000	24,421,750	24,421,750	56,221,750	56,221,750	(800,000)	(800,000)	55,421,750	55,421,750	
Revaluation reserve	3.08	-	7,375,173	7,375,173	7,375,173	-	-	7,375,173	7,375,173	-	-	7,375,173	7,375,173	
Merger deficit	3.09	-	(31,299,980)	(31,299,980)	(31,299,980)	-	-	(31,299,980)	(31,299,980)	-	-	(31,299,980)	(31,299,980)	
(Accumulated losses)/Retained earnings	3.10	(60,263)	29,814,998	29,754,735	29,754,735	-	-	29,754,735	29,754,735	(2,400,000)	(2,400,000)	27,354,735	27,354,735	
<b>Total equity</b>		(60,243)	37,690,171	37,629,928	37,629,928	24,421,750	24,421,750	62,051,678	62,051,678	(3,200,000)	(3,200,000)	58,851,678	58,851,678	

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17 SEP 2019

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**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)****SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARY  
PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019**

The Pro Forma Combined Statements of Financial Position of Spring Art Holdings Berhad ("Spring Art" or "the Company") and its subsidiary ("Spring Art Group" or "the Group") as at 30 April 2019 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 2 to the Pro Forma Combined Statements of Financial Position on the assumption that these transactions were completed on 30 April 2019, and should be read in conjunction with the notes accompanying to the Pro Forma Combined Statements of Financial Position (cont'd).

	At 30.4.2019		Pro forma I		Pro forma II		Pro forma III	
	RM	RM	RM	RM	RM	RM	RM	RM
<b>EQUITY AND LIABILITIES (CONT'D)</b>								
<b>LIABILITIES</b>								
<b>Non-current liabilities</b>								
Borrowings	3.11	-	5,990,013	-	5,990,013	-	5,800,000	11,790,013
Deferred tax liabilities	3.12	-	2,740,319	-	2,740,319	-	-	2,740,319
<b>Total non-current liabilities</b>		-	8,730,332	-	8,730,332	-	5,800,000	14,530,332
<b>Current liabilities</b>								
Trade payables	3.13	-	4,568,738	-	4,568,738	-	-	4,568,738
Other payables	3.14	220,220	1,306,650	-	1,526,870	-	-	1,526,870
Derivative financial instruments	3.15	-	94,196	-	94,196	-	-	94,196
Borrowings	3.11	-	887,924	-	887,924	-	-	887,924
Tax payable	3.16	-	279,655	-	279,655	-	-	279,655
<b>Total current liabilities</b>		220,220	7,137,163	-	7,357,383	-	-	7,357,383
<b>Total liabilities</b>		220,220	15,867,495	-	16,087,715	-	5,800,000	21,887,715
<b>Total equity and liabilities</b>		159,977	53,557,666	24,421,750	78,139,393	2,600,000	2,600,000	80,739,393
Issued ordinary share capital (Unit)	3.07	200	317,999,800	97,687,000	415,687,000	-	-	415,687,000
Net (liabilities)/assets per share (RM)		(301.22)	0.12	0.15	0.15	0.14	0.14	0.14
Borrowings (RM)		-	6,877,937	6,877,937	6,877,937	-	-	12,677,937
Gearing (Times)		-	0.18	0.11	0.11	0.22	0.22	0.22

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### 13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)

#### SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARIES

#### PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019

##### 1. BASIS OF PREPARATION

The Pro Forma Combined Statements of Financial Position of Spring Art has been prepared for illustrative purposes and on the assumptions that all the transactions mentioned as per Note 2 to the Pro Forma Combined Statements of Financial Position had taken place on 30 April 2019.

The Pro Forma Combined Statements of Financial Position have been prepared based on accounting policies and basis which are consistent with those disclosed in the audited Combined Financial Statements of Spring Art for the financial year ended 30 April 2019 and in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Prospectus Guidelines, except for the adoption of the following new accounting policy:-

##### **Merger method of accounting**

The pro forma combined statements of financial position are combined using the merger method as these companies are under the common control by the same party both before and after the acquisition of the Group. When the merger method is used, the difference between the cost of investment recorded by Spring Art and the share capital of the subsidiary are accounted for as merger deficit in the pro forma combined statements of financial position.

The Group is regarded as a continuing entity resulting from the reorganisation exercise because the management of all the entities within the Group, which participated in the reorganisation exercise was under common control before and immediately after the reorganisation exercise. The Group has applied the merger method of accounting on a retrospective basis and restated its comparative as if the consolidation had taken place before the state of the earliest period presented in the financial statements.

##### 2. LISTING SCHEME

##### (i) Pro Forma I: Acquisition of Spring Art Industries Sdn. Bhd. ("SAISB") and Subsequent Event

##### Acquisition of SAISB

Acquisition entails acquiring the entire equity interest of SAISB., for a total purchase consideration of RM31,799,980 to be satisfied via the issuance of 317,999,800 new shares at an issue price of RM0.10 per share. The acquisition was completed on 31 July 2019.

##### Subsequent Event – Dividend paid

On 23 May 2019, the Directors declared a special single tier dividend of RM2 per share in SAISB in respect of the financial year ending 31 December 2019 amounting to RM1,000,000.

##### (ii) Pro Forma II: Proposed Public Issue ("IPO")

The IPO involves a public issue of 97,687,000 new ordinary shares in Spring Art at an offer price of RM0.25 per share.

In conjunction with the IPO, the Company would seek the listing and quotation of its entire enlarged issued share capital comprising 415,687,000 ordinary shares in Spring Art on the ACE Market of Bursa Malaysia Securities Berhad.

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

**SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARIES**

**PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019**

**2. LISTING SCHEME (CONT'D)**

**(iii) Pro Forma III: Proposed Utilisation of Proceeds from IPO**

Gross proceeds from the IPO of RM24,421,750 are expected to be utilised as follows:

<b>Details of utilisation</b>	<b>Estimated timeframe for utilisation</b>	<b>RM</b>	<b>%</b>
Machinery for new factory#	24 months <sup>(1)</sup>	17,550,000	71.90%
General working capital	24 months <sup>(2)</sup>	3,671,750	15.00%
Estimated listing expenses*	1 month <sup>(2)</sup>	3,200,000	13.10%
<b>Total estimated proceeds</b>		<b>24,421,750</b>	<b>100%</b>

<sup>(1)</sup> From the date of conversion of the land use of Lot 343 from agriculture to industrial.

<sup>(2)</sup> From the date of listing of the Shares.

\*If actual listing expenses are higher than budgeted, the deficit will be funded out of portion allocated for working capital. Conversely, if the actual listing expenses are lower than budgeted the excess will be utilised for working capital purposes.

The listing expenses are estimated at RM3,200,000 and will be set off against the share capital and profit or loss accordingly. The apportionment is disclosed in Notes 3.06 and 3.10.

#The Group intends to utilise the proceeds from IPO of RM17,550,000 to purchase machines for the new factory. The construction cost of new factory is RM6,953,000 of which RM5,800,000 will be financed via bank borrowings based on indicative letter of offer from a licensed bank and balance of RM1,153,000 to be financed via internally generated funds. Therefore, the total capital expenditure for the new factory which includes construction cost and machinery cost amounts to RM24,503,000.

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

**SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARIES**

**PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019**

**3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION**

**3.01 PROPERTY, PLANT AND EQUIPMENT**

The movements of the property, plant and equipment are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>31,360,878</u>
As per Pro Forma I to II	31,360,878
Pursuant to Utilisation of Proceeds from IPO - Capital expenditure	<u>24,503,000</u>
As per Pro Forma III	<u>55,863,878</u>

**3.02 INVENTORIES**

The movements of the inventories are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>8,747,283</u>
As per Pro Forma I to III	<u>8,747,283</u>

**3.03 TRADE RECEIVABLES**

The movements of the trade receivables are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>3,907,086</u>
As per Pro Forma I to III	<u>3,907,086</u>

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**
**SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARIES**
**PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019**
**3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**
**3.04 OTHER RECEIVABLES**

The movements of the other receivables are as follows:

	RM
At 30 April 2019	128,364
Pursuant to Acquisition	<u>4,174,525</u>
As per Pro Forma I to II	4,302,889
Pursuant to Utilisation of Proceeds from IPO - Listing expenses*	<u>(1,146,214)</u>
As per Pro Forma III	<u>3,156,675</u>

\*The estimated listing expenses prepaid as at 30 April 2019 totaling RM1,146,214 comprise professional fees and miscellaneous expenses for the proposed initial public offering.

**3.05 FIXED DEPOSITS WITH LICENSED BANKS**

The movements of the fixed deposits with licensed banks are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>3,285,219</u>
As per Pro Forma I to III	<u>3,285,219</u>

**3.06 CASH AND BANK BALANCES**

The movements of cash and bank balances are as follows:

	RM
At 30 April 2019	31,613
Pursuant to Acquisition and Subsequent Event - Acquisition of SAISB - Dividend paid	<u>3,082,675</u> <u>(1,000,000)</u>
As per Pro Forma I Pursuant to Proposed Public Issue ("IPO")	<u>2,114,288</u> <u>24,421,750</u>
As per Pro Forma II Pursuant to Utilisation of Proceeds from IPO* Estimated listing expenses prepaid as at 30 April 2019 Construction cost of new factory finance via internally generated funds	26,536,038 <u>(20,750,000)</u> 1,146,214 <u>(1,153,000)</u>
As per Pro Forma III	<u>5,779,252</u>

9

251

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17 SEP 2019  
Grant Thornton Malaysia

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

**SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARIES**

**PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019**

**3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

**3.06 CASH AND BANK BALANCES (CONT'D)**

\*Breakdown of IPO proceeds to be utilised are as follows:

	RM
Machinery for new factory	17,550,000
Estimated listing expenses	<u>3,200,000</u>
	<u>20,750,000</u>

**3.07 SHARE CAPITAL**

The movements of the issued share capital are as follows:

	<u>No. of Shares</u>	RM
At 30 April 2019	200	20
Pursuant to Acquisition	<u>317,999,800</u>	<u>31,799,980</u>
As per Pro Forma I	318,000,000	31,800,000
Pursuant to Proposed Public Issue ("IPO")	<u>97,687,000</u>	<u>24,421,750</u>
As per Pro Forma II	415,687,000	56,221,750
Pursuant to Utilisation of Proceeds from IPO*	<u>-</u>	<u>(800,000)</u>
As per Pro Forma III	<u>415,687,000</u>	<u>55,421,750</u>

\*The estimated listing expenses totaling RM3,200,000 comprise brokerage, underwriting and placement fees, professional fees and miscellaneous expenses. The allocation of listing expenses to share capital of RM800,000 comprise of incremental costs that are directly attributable to issuing of new shares and apportionment of cost that relates to share issuance and listing on the proportion of new shares issued to the total number of enlarged share capital after IPO.

**3.08 REVALUATION RESERVES**

The movements of revaluation reserves are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>7,375,173</u>
As per Pro Forma I to III	<u>7,375,173</u>

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

**SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARIES**

**PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019**

**3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

**3.09 MERGER DEFICIT**

The movements of the merger deficit are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>(31,299,980)</u>
As per Pro Forma I to III	<u>(31,299,980)</u>

**3.10 (ACCUMULATED LOSSES)/RETAINED EARNINGS**

The movements of the (accumulated losses)/retained earnings are as follows:

	RM
At 30 April 2019	(60,263)
Pursuant to Acquisition and Subsequent Event	
- Acquisition of SAISB	30,814,998
- Dividend paid	<u>(1,000,000)</u>
As per Pro Forma I and II	29,754,735
Pursuant to Utilisation of Proceeds from IPO	
- Estimated listing expenses*	<u>(2,400,000)</u>
As per Pro Forma I to III	<u>27,354,735</u>

\*The estimated listing expenses totaling RM3,200,000 comprise brokerage, underwriting and placement fees, professional fees and miscellaneous expenses. The allocation of RM2,400,000 of listing expenses to retained earnings comprise of cost that relate to the stock market listing which are neither incremental nor directly attributable to issuing of new shares.

**3.11 BORROWINGS**

The movements of the borrowings are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	
- Non-current liabilities	5,990,013
- Current liabilities	<u>887,924</u>
As per Pro Forma I to II	6,877,937
Pursuant to Utilisation of Proceeds from IPO	
- Drawdown of term-loan for the construction of new factory	<u>5,800,000</u>
As per Pro Forma III	<u>12,677,937</u>

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

**SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARIES**

**PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019**

**3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

**3.12 DEFERRED TAX LIABILITIES**

The movements of the deferred tax liabilities are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>2,740,319</u>
As per Pro Forma I to III	<u>2,740,319</u>

**3.13 TRADE PAYABLES**

The movements of the trade payables are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>4,568,738</u>
As per Pro Forma I to III	<u>4,568,738</u>

**3.14 OTHER PAYABLES**

The movements of the other payables are as follows:

	RM
At 30 April 2019	220,220
Pursuant to Acquisition	<u>1,306,650</u>
As per Pro Forma I to III	<u>1,526,870</u>

**3.15 DERIVATIVE FINANCIAL INSTRUMENTS**

The movements of the derivative financial instruments are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>94,196</u>
As per Pro Forma I to III	<u>94,196</u>



**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

**SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARIES**

**PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019**

**3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

**3.16 TAX PAYABLE**

The movements of the tax payable are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>279,655</u>
As per Pro Forma I to III	<u>279,655</u>

## **14. STATUTORY AND OTHER INFORMATION**

### **14.1 SHARE CAPITAL**

- (a) As at the date of this Prospectus, we only have 1 class of shares, namely, ordinary shares, all of which rank equally with one another. There are no special rights attached to our Shares.
- (b) Save for 4,156,800 Shares under the Pink Form Allocations as disclosed in Sections 4.4.1(b),
  - (i) no Director, employee or business associate of our Group has been or is entitled to be given or has exercised any option to subscribe for any share of our Company or our subsidiary; and
  - (ii) there is no scheme involving the employees of our Group in the shares of our Company or our subsidiary.
- (c) Save for the new Shares issued and to be issued pursuant to the Acquisition of Spring Art, the Public Issue as disclosed in Sections 6.2 and 4.4.1 respectively and the 200 Shares subscribed by Abdul Hadi Bin Nordin and Majelis Bin Majid, no shares of our Company or our subsidiary have been issued or are proposed to be issued as fully or partly paid-up, in cash or otherwise, within the past 2 years immediately preceding the date of this Prospectus.
- (d) Other than our Public Issue as disclosed in Section 4.4.1, there is no intention on the part of our Directors to further issue any Shares.
- (e) As at the date of this Prospectus, we do not have any outstanding convertible debt securities.

### **14.2 CONSTITUTION**

The following provisions are extracted from our Company's Constitution. Terms defined in our Constitution shall have the same meanings when used here unless they are otherwise defined here or the context otherwise requires. The following provisions extracted from our Company's Constitution are based on the current Listing Requirements and the Act.

#### **(1) Remuneration, voting and borrowing power of Directors**

The provisions in our Constitution dealing with remuneration, voting and borrowing power of Directors are as follows:

##### **Clause 100 - Directors' remuneration**

The Directors shall be paid by way of fees for their services. Such fixed sum (if any) as shall from time to time be determined by the Company in general meeting and such fees shall be divided among the Directors in such proportions and manner as the Directors may determine (or failing agreement, equally), PROVIDED ALWAYS that:-

- (a) fee payable to Directors who hold non-executive office in the Company shall be paid by a fixed sum and not by a commission on or percentage of profits or turnover.

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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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- (b) salaries payable to Directors who hold executive office in the Company may not include a commission on or percentage of turnover.
- (c) fees and any benefits payable to Directors shall be subject to annual shareholder approval at a general meeting.
- (d) any fee paid to an alternate Director shall be such as shall be agreed between himself and the Director nominating him and shall be paid out of the remuneration of the latter.

**Clause 101 - Reimbursement of expenses**

- (1) The Directors shall be paid all their travelling and other expenses properly and necessarily expended by them in and about the business of the Company including their travelling and other expenses incurred in attending meetings of the Directors or any committee of the Directors of the Company.
- (2) If any Director being willing shall be called upon to perform extra services or to make any special exertions in going or residing away from his usual place of business or residence for any of the purposes of the Company or in giving special attention to the business of the Company as a member of a committee of Directors, the Company may remunerate the Director so doing either by a fixed sum or otherwise (other than by a sum to include a commission on or percentage of turnover) as may be determined by the Board of Directors provided that in the case of Non-Executive Directors of the Company, the said remuneration shall not include a commission on or percentage of profits or turnover. In the case of an Executive Director, such fee may be either in addition to or in substitution for his share in the fee from time to time provided for the Directors.

**Clause 113 - Director may act in his professional capacity**

Any Director may act by himself or his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director, provided that nothing herein contained shall authorise a Director or his firm to act as auditor of the Company and provided further that such shall be at normal commercial terms.

**Clause 126 – Alternate Director**

- (1)(d) Each Director shall have power from time to time to nominate any person (not being a Director) to act as his alternate Director and at his discretion remove such alternate Director, but the appointment of such alternate Director shall not take effect until approved by a majority of the other Directors PROVIDED ALWAYS that any fee paid by the Company to an alternate Director shall be deducted from that Director's remuneration.

**Clause 128 – Remuneration of Director holding executive office**

The remuneration of a Director holding an executive office pursuant to our Constitution shall be fixed by the Directors and may be by way of salary or commission or participation in profits or otherwise or by any or all of these modes but shall not include a commission on or percentage of turnover.

**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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**Clause 130 – Power of Directors to appoint committees**

The Directors may establish any committees, local boards or agencies comprising 2 or more persons, for managing any other affairs of the Company either in Malaysia or elsewhere, and may lay down, vary or annul such rules and regulations as they may think fit for the conduct of the business thereof, and may appoint any person or persons to be the member or members of any such committee or local board or agency and may fix their remuneration and may delegate to any such committee or local board or agency any of the powers, authorities and discretion vested in the Directors, with power to sub-delegate, and may authorise the member or members of any such committee or local board or agency or any of them, to fill any vacancies therein, and to act notwithstanding vacancies, and any such appointment or delegation may be made upon such terms and subject to such conditions as the Director may think fit, and the Directors may remove any person so appointed, and may annul or vary any such delegation, but no persons dealing in good faith and without notice of any such annulment or variation shall be affected thereby. The regulations for the proceedings of Directors shall so far as not altered by any regulations made by the Directors apply also to the meetings and proceedings of any committee.

**Clause 106 – Power to maintain pension fund**

The Directors may establish or arrange any contributory or non-contributory pension or superannuation scheme for the benefit of, or pay a gratuity, pension or emolument to any person who is or has been employed by or in the service of the Company or any subsidiary of the Company, or to any person who is or has been a Director or other officer of and holds or has held salaried employment in the Company or any such subsidiary, and the widow, family or dependants of any such person. The Directors may also subscribe to any association or fund which they consider to be for the benefit of the Company or any such subsidiary or any such person as aforesaid and make payments for or towards any hospital or scholastic expenses and any Director holding such salaried employment shall be entitled to retain any benefit received by him hereunder subject only, where the Act requires, to proper disclosure to the Members and the approval of the Company in general meeting.

**Clause 105 – Directors' borrowing powers**

- (1) The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge the Company's or the subsidiaries' undertaking, property and uncalled capital or any part thereof and to issue debentures and other securities, whether outright or as security for any debt, liability or obligation of the Company or its subsidiaries as may be thought fit.
- (2) The Directors shall not borrow any money or mortgage or charge any of the Company's or the subsidiaries' undertaking, property or any uncalled capital, or to issue debentures and other securities whether outright or as security for any debt, liability or obligation of an unrelated third party.
- (3) The Directors may borrow or raise any such money as aforesaid upon or by the issue or sale of any bonds, debentures, debenture stock, or securities, and upon such terms as to time of repayment, rate of interest, price of issue or sale; payment of premium or bonus upon redemption or repayment or upon any other terms as they may think proper.

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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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- (4) Any debenture or other security may be issued at a discount, with any special privilege as to allotment of shares, attending and voting at general meetings of the Company, appointment of Directors or otherwise.

**Clause 121 – Disclosure of interest**

Every Director shall comply with the provisions of Sections 219 and 221 of the Act in connection with the disclosure of his shareholding and interests in the Company and his interest in any contract or proposed contract with the Company and in connection with the disclosure, every Director shall state the fact and the nature, character and extent of any office or possession of any property whereby whether directly or indirectly, duties or interests might be created in conflict with his duty or interest as a Director of the Company.

**Clause 122 – Restriction on voting**

A Director may contract with and be interested in any contract or proposed contract with the Company and shall not be liable to account for any profit made by him by reason of any such contract; PROVIDED ALWAYS THAT the nature of the interest of the Director in any such contract be declared at a meeting of the Directors as required by Section 221 of the Act. A Director shall not vote in respect of any contract or proposed contract or arrangement in which he has directly or indirectly an interest (and if he shall do so his vote shall not be counted), nor shall he be counted for the purpose of any resolution regarding the same, in the quorum present at the meeting.

**Clause 123 – Relaxation of restriction of voting**

A Director notwithstanding his interest may, provided that none of the other Directors present disagree, be counted in the quorum present at any meeting whereat he or any other Director is appointed to hold any office or place of profit under the Company or whereat the Directors resolve to exercise any of the rights of the Company (whether by the exercise of voting rights or otherwise) to appoint or concur in the appointment of a Director to hold any office or place of profit under any other company, or whereat any decision is taken upon any contract or arrangement in which he is in any way interested PROVIDED ALWAYS that he has complied with Section 221 and all other relevant provisions of the Act and of this Construction.

**Clause 124**

A Director may vote in respect of: -

- (a) any arrangement for giving the Director himself or any other Directors any security or indemnity or any other Directors any security or indemnity in respect of money lent by him to or obligations undertaken by him for the benefit of the Company;
- (b) any arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company for which the Director himself or any other Director has assumed responsibility in whole or in part, under a guarantee or indemnity or by the deposit of a security.

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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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**Clause 125 – Directors may become Directors of other corporation**

A Director of the Company may be or become a Director or other officer of or otherwise interested in any corporation promoted by the Company or in which the Company may be interested as shareholder or otherwise or any corporation which is directly or indirectly interested in the Company as shareholder or otherwise and no such Director shall be accountable to the Company for an remuneration or other benefit received by him as a Director or officer of, or from his interest in, such corporation unless the Company otherwise directs at the time of his appointment. The Directors may exercise the voting power conferred by the shares or other interest in any such other corporation held or owned by the Company, or exercisable by them as Directors of such other corporation, in such manner and in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of the Directors or other officers of such corporation), and any Director may vote in favour of the exercise of such voting rights in manner aforesaid, notwithstanding that he may be or is about to be appointed a Director or other officer of such corporation and as such is or may become interested in the exercise of such voting rights in manner aforesaid.

**(2) Changes to Share Capital**

The provisions in our Constitution dealing with changes to share capital and variation of class rights are as follows:

**Clause 6 - Power to issue shares with special rights**

Without prejudice to any special rights previously conferred on the holders of any existing shares but subject to Section 75(2) of the Act and to our Constitution, the Directors shall only upon prior approval by way of resolution by the Members, exercise any power to:

- (a) allot shares in the Company;
- (b) grant rights to subscribe for shares in the Company;
- (c) convert any security into shares in the Company; or
- (d) allot shares under an agreement or option or offer.

Any such shares may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital, or otherwise as the Directors may determine.

**Clause 7 - Allotment of Shares to directors, etc**

The Company shall not issue shares or other convertible securities to the Directors or major shareholder or chief executive of the Company and/or its holding company or the person(s) connected to them unless the Members in the general meeting have approved the specific allotment to be made to such persons.

**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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**Clause 8 - Offer of unissued original shares and new shares**

Subject to any direction to the contrary that may be given by the Company in a general meeting, all new shares or other convertible securities shall, before issue, be offered to such persons as at the date of the offer are entitled to receive notices from the Company of general meetings in proportion, as nearly as the circumstances admit, to the amount of the existing shares or securities to which they are entitled. Such offer shall be made by notice specifying the number of shares or securities offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and after the expiration of that time, or on the receipt of any intimation from the person to whom the offer is made that he declines to accept the shares or securities offered, the Directors may dispose of those shares or securities in such manner as they think most beneficial to the Company. The Directors may likewise also dispose of any new shares or securities which (by reason of the ratio which the new shares or securities bear to shares or securities held by persons entitled to an offer of new shares or securities) cannot, in the opinion of the Directors, be conveniently offered in the manner provided under our Constitution.

**Clause 9 - General mandate for issue of securities**

Notwithstanding the existence of a resolution pursuant to Section 76 of the Act, but subject always to the Listing Requirements, the Company may obtain members' approval for further issues of shares where the aggregate issues during the preceding 12 months do not exceed 10% of the issued capital (excluding the treasury shares) of the Company and where, in accordance with the provisions of Section 75 of the Act, there is still in effect a resolution approving the issue of shares by the Company.

**Clause 12 – Repayment of preference capital**

Notwithstanding Clause 13, the repayment of preference share capital other than redeemable preference shares, or any alteration of preference shareholder's rights may only be made pursuant to a special resolution of the preference shareholders concerned PROVIDED ALWAYS that where the necessary majority for such a special resolution is not obtained at the meeting, consent in writing representing not less than 75% of the total voting rights of the preference shareholders concerned obtained within 2 months of the meeting, shall be as valid and effectual as a special resolution carried at the meeting.

**Clause 13 - Modification of class rights**

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied with the consent in writing of the holders representing not less than 75% of the total voting rights of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class pursuant to the provisions of Section 292 of the Act. To every such separate general meeting, the provisions of our Constitution relating to general meetings shall mutatis mutandis apply, except the necessary quorum shall be 2 persons.

**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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**Clause 14 - Ranking of class rights**

The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or in all respects *pari passu* therewith.

**Clause 15 - Commission on subscription of shares**

The Company may exercise the powers of paying commission conferred by the Act, provided that the rate per cent or the amount of the commission paid or agreed to be paid shall be disclosed in the manner required by the Act, and the rate of the commission shall not exceed the rate of 10% of the price at which the shares in respect whereof the same is paid are issued or an amount equal to 10% of that price (as the case may be). Such commission may be satisfied by the payment of cash or the allotment of fully or partly paid shares or partly in one way and partly in the other. The Company may also on any issue of shares pay such brokerage as may be lawful.

**Clause 16 - Trusts not to be recognised**

Except as required by law, no person shall be recognised by the Company as holding any share upon any trust, and the Company shall not be bound by or be compelled in any way to recognise (even with notice thereof) any equitable, contingent, future or partial interest in any share or any unit of share or (except only as by our Constitution or by law otherwise provided) any other right in respect of any shares, except an absolute right to the entirety thereof in the registered holder.

**Clause 17 - Issue of Securities**

A company must ensure that all new issues of securities for which listing is sought are made by way of crediting the securities accounts of the allottees with such securities save and except where it is specifically exempted from compliance with section 38 of the Central Depositories Act, in which event it shall so similarly be exempted from compliance with this Requirement. For this purpose, the Company must notify the Depository of the names of the allottees and all such particulars required by the Depository, to enable the Depository to make the appropriate entries in the securities accounts of such allottees.

**Clause 18 - Allotment of Securities and dispatch notices**

Subject to the provisions of the Act, the Central Depositories Act and the Rules, the Company shall allot and/or issue securities, despatch notices of allotment to the successful allottees and make an application for the quotation of such securities:

- (a) Within 8 Market Days of the final application closing date for a rights issue or such other period as may be prescribed by the Exchange;
- (b) Within 8 Market Days of the Books Closing Date for a bonus issue or such other period as may be prescribed by the Exchange;



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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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- (c) Within 8 Market Days of the date of receipt of a notice of the exercise of an employee share option together with the requisite payment or such other period as may be prescribed by the Exchange; and
- (d) Within 8 Market Days of the receipt of a subscription form together with the requisite payment in respect of warrant or convertible securities or such other period as may be prescribed by the Exchange.

**Clause 58 - Power to alter capital**

- (a) The shareholders can pass special resolutions to alter the Company's share capital in accordance with Section 84 of the Act.
- (b) If any shares are consolidated or divided, the Directors may deal with any fractions of shares which result or any other problem that arises. If the Directors decide to sell any shares which represent fractions, they must sell for the best price they can reasonably obtain and distribute the net proceeds of sale among shareholders in proportion to their fractional entitlements or shall be disregarded and will be dealt with by the Directors in such a manner as they deem fit at their absolute discretion and in the best interest of the Company. The Directors can sell to a person (including the Company, if the Act and Listing Requirements allow) and can authorise a person to transfer those shares to the buyer or in accordance with the buyer's instructions. The buyer does not need to take any action to check how any money paid is used. The buyer's ownership will not be affected if the sale was irregular or invalid in any way.

**Clause 59 - Share Buy-Back**

Subject to and in accordance with the provisions of the Act and such other relevant law, regulation or guideline for the time being in force, the Company is allowed and shall have power, to the fullest extent permitted, to purchase any of its own shares and other securities and thereafter, the Directors may resolve and shall have the fullest power to deal with such purchased shares or other securities in accordance with the provisions of the Act and such other relevant law, regulation or guideline.

**Clause 60 - Power to reduce capital**

The shareholders can pass a special resolution to reduce in any way the Company's share capital in accordance with Subdivision 4 of Division 1 of Part III of Act, whether with the confirmation of the Court or a solvency statement.

**(3) Transfer of securities****Clause 30 – Transfers**

The transfer of any listed securities or class of listed securities of the Company which have been deposited with the Depository shall be by way of book entry by the Depository in accordance with the Rules. Notwithstanding Sections 105, 106 or 110 of the Act, but subject to subsection 148(2) of the Act and any exemption that may be made from compliance with subsection 148(1) of the Act, the Company shall be precluded from registering and effecting any transfer of such securities.

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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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**Clause 31 - Transferor's Right**

Subject to the provisions of the Act, the Central Depositories Act and the Rules, the transfer of all other shares of the Company not so deposited with the Depository (not being Deposited Securities) shall be in the manner provided in the Act (including the applicable provisions of Third Schedule to the Act) to the extent that the same is not inconsistent with our Constitution.

The instrument of transfer of any share shall be executed by or on behalf of the transferor and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered into the Register as the case may be in respect thereof.

**Clause 34 - Restriction on transfer**

There should be no restriction on the transfer of fully paid Shares except where required by law or the relevant regulations or where the Company has a lien and no Share shall in any circumstances be transferred to any infant, bankrupt or person of unsound mind.

**Clause 35 - Refusal to register transfer**

The Depository may refuse to register any transfer of deposited security that does not comply with the Central Depositories Act and the Rules.

**Clause 36 - Renunciation**

Subject to the provisions of this Constitution, the Directors may recognise a renunciation of any share by the allottee thereof in favour of some other person.

**Clause 37 – Reasonable Diligence**

Subject to the provisions of the Act, the Central Depositories Act and the Rules, where by the exercise of reasonable diligence the Company is unable to discover the whereabouts of a Member for a period of not less than 10 years the Company may cause an advertisement circulating in the place shown in the Register as the address of the Member stating that the Company after expiration of 1 month from the date of the advertisement intends to transfer the shares to the Minister charged with responsibility for finance.

**Clause 38 - Transfer of shares to Minister charged with responsibility for finance**

Subject to the provisions of the Act, the Central Depositories Act and the Rules, if after the expiration of 1 month from the date of the advertisement the whereabouts of the Member remains unknown, the Company may transfer the shares held by the Member to the Minister charged with responsibility for finance and for the purpose may execute for and on behalf of such Member a transfer of those shares to the Minister charged with responsibility for finance.

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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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**Clause 39 - Death of Member**

In the case of the death of a Member, the legal representative(s) of the deceased shall be the only person(s) recognised by the Company as having any title to his interest in the shares; but nothing herein contained shall release the estate of a deceased Member from any liability in respect of any share which had been held by him.

**Clause 40 - Notice of election**

Subject to the provisions of the Act, the Central Depositories Act and the Rules, any person becoming entitled to a share in consequence of the death or bankruptcy of a Member may, upon such evidence being produced as may from time to time properly be required by the Directors and subject as hereinafter provided, elect either to be registered himself as holder of the share or to have some person nominated by him registered as the transferee thereof, but the Directors shall in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the share by that Member before his death or bankruptcy. Provided always that where the share is a Deposited Security and subject to the Rules, a transfer or withdrawal of the shares may be carried out by the person becoming so entitled. Nothing herein contained shall release the estate of a deceased Member from any liability in respect of any share which had been held by him.

**Clause 41 - Share of deceased or bankrupt Member**

Subject to Clause 44, if any person so becoming entitled elects to register himself, he shall deliver or send to the Company, a notice in writing signed by him and stating that he so elects, provided that where the share is a Deposited Security and the person becoming entitled elects to have the share transferred to him, the aforesaid notice must be served by him to the Depository together with such other relevant documents as may be required by the Depository. If he elects to have another person registered, he shall testify his election by executing to that person a transfer of the share. All the limitations, restrictions and provisions of our Constitution relating to the right to transfer and the registration of transfers of shares shall be applicable to any such notice or transfer as aforesaid as if the death or bankruptcy of the Member had not occurred and the notice or transfer were a transfer signed by that Member.

**Clause 43 - Transmission of Securities**

Where:-

- (a) the securities of the Company are listed on another stock exchange; and
- (b) the Company is exempted from compliance with Section 14 of the Central Depositories Act or Section 29 of the Securities Industry (Central Depositories)(Amendment) Act 1998, as the case may be, under the Rules in respect of such securities,

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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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the Company shall, upon request of a holder of securities, permit a transmission of securities held by such securities holder from the register of holders maintained by the Registrar of the Company in the jurisdiction of the other stock exchange, to the register of holders maintained by the Registrar of Companies in Malaysia and vice versa provided that there shall be no change in the ownership of such securities.

**(4) Rights, preferences and restrictions attached to each class of securities relating to voting, dividend, liquidation and any special rights**

The provisions in our Constitution dealing with rights, preferences and restrictions attached to each class of securities relating to voting, dividend, liquidation and any special rights are as follows:

**Clause 10 - New shares to rank with original shares**

Except so far as otherwise provided by the conditions of issue, any capital raised by the creation of new shares shall be considered as part of the original share capital of the Company, and shall be subject to the same provisions with reference to the payment of calls, lien, transfer, transmission, forfeiture and otherwise as the original share capital.

**Clause 11 - Rights of preference shareholders**

Subject to the Act, any preference shares may with the sanction of an ordinary resolution, be issued on the terms that they are, or at the option of the Company are liable, to be redeemed and the Company shall not issue preference shares ranking in priority above preference shares already issued, but may issue preference shares ranking equally therewith. Preference shareholders shall have the same rights as ordinary shareholders in relation to receiving notices, reports and audited financial statements and attending general meetings of the Company. Preference shareholders shall also have the rights to vote at any meeting convened:-

- (a) when the dividend or part of the dividend on the preference shares is in arrears for more than 6 months;
- (b) on a proposal to reduce the Company's share capital;
- (c) on a proposal for the disposal of the whole of the Company's property, business and undertaking;
- (d) on a proposal that affects rights attached to the preference shares;
- (e) on a proposal to wind up the Company; and
- (f) during the winding up of the Company.

The rights attaching to shares of a class other than ordinary shares shall be expressly set out in our Constitution or provided by the terms of issue of such shares.

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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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**Clause 42 - Person entitled may receive dividends**

Where the registered holder of any share dies or becomes bankrupt, his personal representative or the assignee or his estate, as the case may be, shall, upon the production of such evidence as may from time to time be properly required by the Directors in that behalf, be entitled to the same dividends and other advantages and to the same rights (whether in relation to meetings of the Company or to voting or otherwise) as the registered holder would have been entitled to if he had not died or become bankrupt.

**Clause 56 - Rights of stock holders**

The holders of stock shall, according to the amount of the stock held by them have the same rights, privileges and advantages as regards dividends, participation in assets on a winding up, voting at meetings of the Company and other matters as if they held the shares from which the stock arose, but no such right, privilege or advantage (except participation in the dividends and profits of the Company and in the assets on winding up) shall be conferred by any such aliquot part of stock as would not, if existing in shares, have conferred that right, privilege or advantage.

**Clause 66 - Record of Depositors eligible to be present and vote**

Subject to the Securities Industry (Central Depositories) (Foreign Ownership) Regulations, 1996 (where applicable) and notwithstanding any provision in the Act, a Depositor shall not be regarded as a Member entitled to attend any general meeting and to speak and vote thereat unless his name appears in the General Meeting Record of Depositors.

**Clause 76 - Evidence of passing resolutions**

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded (before or on the declaration of the result of the show of hands) or as required by the Listing Requirements: -

- (a) by the Chairman of the meeting;
- (b) at least 3 members;
- (c) by any Member or Members present in person or by proxy and representing not less than one-tenth (1/10) of the total voting rights of all Members having the right to vote at the meeting; or
- (d) by a Member or Members holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth (1/10) of the total sum paid on all the shares conferring that right.

Unless a poll is so demanded, a declaration by the Chairman of the meeting that a resolution has on a show of hands been carried unanimously by a particular majority or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution. The demand for a poll may be withdrawn. A proxy shall be entitled to vote on a show of hands on any question of any general meeting.

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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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**Clause 78 - Voting**

Subject to any rights or restrictions for the time being attached to any class of shares at meetings of Members or classes of Members, each Member entitled to vote may vote in person or by proxy or by attorney or duly authorized representative, and on a resolution to be decided on a show of hands, a holder of ordinary shares or preference shares who is personally present or by proxy or attorney or representative appointed under our Constitution and entitled to vote shall be entitled to 1 vote, and on a poll, every Member present in person or by proxy or attorney or representative shall have 1 vote for each share he holds.

**Clause 79 - Shares of different monetary denominations**

Where the capital of the Company consists of shares of different monetary denominations, voting rights shall be prescribed in such a manner that a unit of capital in each class, when reduced to a common denominator, shall carry the same voting power when such right is exercisable.

**Clause 80 - Vote of Member of unsound mind and person entitled to transfer**

A Member who is of unsound mind or whose person or estate is liable to be dealt with in any way under the law relating to mental disorder may vote, whether in a show of hands or on a poll, by his committee or by such other person as properly has the management of his estate, and any such committee or other person may vote by proxy or attorney and subject to the provisions of the Act, the Central Depositories Act and the Depository Rules, any person entitled, under the Clause relating to transmission of shares in our Constitution to transfer any shares, may vote at any general meeting in respect thereof in the same manner as if he was the registered holder of such shares provided that at least 48 hours before the time of holding the meeting or adjourned meeting or, in the case of a poll, not less than 24 hours before the time appointed for the taking of the poll, as the case may be at which he proposes to vote, he shall satisfy the Directors of his right to transfer such shares unless the Directors shall have previously admitted his right to vote at such meeting in respect thereof.

**Clause 81 - Member barred from voting while call unpaid**

Subject to our Constitution, a Member shall be entitled to be present and vote at any general meeting in respect of any share or shares of which he is the registered holder and upon which all calls due to the Company have been paid. No person shall be entitled to be present or to vote on any resolution either as a Member or otherwise as a proxy or attorney or representative at any general meeting or demand a poll or be reckoned in the quorum in respect of any shares upon which calls are due and unpaid.

**Clause 82 - Time for objection**

No objection shall be raised to the qualification of any voter except at the meeting or adjourned meeting at which the vote objected to is given or tendered, and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection made in due time shall be referred to the Chairman of the meeting whose decision shall be final and conclusive.

**14. STATUTORY AND OTHER INFORMATION (Cont'd)****Clause 86 - Power of attorney**

Every power, right or privilege herein given in these presents to any Member of the Company to convene, attend, vote and in any way take part in any meeting of the Company, may be exercised in the event of such Member being out of Malaysia by any attorney, whether a Member of the Company or not, duly appointed by such Member for the purpose, by a power of attorney produced at the Office of the Company during business hours not less than 2 clear days before the same is acted on. And any vote given or thing done by such attorney shall be valid notwithstanding the previous death of the Member giving such power of attorney or revocation of such power of attorney by other means provided no intimation in writing of such death or revocation shall have been received at the Office of the Company before such vote is given or thing done.

**Clause 87 - Validity of vote given under proxy**

A vote given in accordance with the terms of an instrument of proxy or attorney or authority shall be valid, notwithstanding the previous death or unsoundness of mind of the principal or revocation of the instrument or proxy or of the authority under which the instrument of proxy was executed, or the transfer of the share in respect of which the instrument of proxy is given, if no intimation in writing of such death, unsoundness of mind, revocation or transfer as aforesaid has been received by the Company at the Office before the commencement of the meeting or adjourned meeting or in the case of a poll before the time appointed for the taking of the poll, at which the instrument of proxy is used.

**Clause 88 – Corporate Representative**

A corporation may by resolution of its Directors or other governing body, if it is a Member of the Company, authorise such person as it thinks fit to act as its representative either at a particular meeting or at all meetings of the Company or of any class of Members and a person so authorised shall in accordance with his authority and until his authority is revoked by the corporation, be entitled to exercise the same powers on behalf of the corporation as the corporation could exercise if it were an individual Member of the Company.

**14.3 GENERAL INFORMATION**

- (a) Save for the purchase consideration paid to the shareholders of our subsidiary pursuant to the Acquisition of Spring Art as disclosed in Section 6.2, Directors' remuneration as disclosed in Section 5.2.4, dividends paid to our Promoters as disclosed in Section 11.14, no other amount or benefit has been paid or given within the past 2 years immediately preceding the date of this Prospectus, nor is it intended to be so paid or given, to any of our Promoter, Director or substantial shareholder.
- (b) Save as disclosed in Section 9.1, none of our Directors or substantial shareholders has any interest, direct or indirect, in any contract or arrangement subsisting at the date of this Prospectus and which is significant in relation to the business of our Group.
- (c) The manner in which copies of this Prospectus together with the official application forms and envelopes may be obtained and the details of the procedures for application of our Shares are set out in Section 15.

**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

- (d) There is no limitation on the right to own securities including limitation on the right of non-residents or foreign shareholders to hold or exercise their voting rights on our Shares.

**14.4 CHANGES IN SHARE CAPITAL**

As at the LPD, our share capital is RM31,800,000 comprising 318,000,000 Shares. The movements in our share capital since the date of our incorporation are set out below:

<b>Date of allotment</b>	<b>No. of Shares allotted</b>	<b>Consideration</b>	<b>Cumulative share capital</b>
		<b>RM</b>	<b>RM</b>
25 April 2018	200	20	20
19 June 2019	317,999,800	31,799,980	31,800,000

As at the LPD, we do not have any outstanding warrants, options, convertible securities and uncalled capital. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

Upon completion of our IPO, our enlarged share capital will be increased to RM56,221,750 comprising 415,687,000 Shares from the issuance of 97,687,000 Issue Shares.

The share capital of our subsidiary is as follows.

**14.4.1 Spring Art**

As at the LPD, Spring Art share capital is RM500,000 comprising 500,000 ordinary shares.

The changes in the share capital of Spring Art since its incorporation are as follows:

<b>Date of allotment</b>	<b>No. of shares allotted</b>	<b>Consideration</b>	<b>Cumulative share capital</b>
		<b>RM</b>	<b>RM</b>
28 December 1996	2	2.00	2.00
24 February 1997	49,998	49,998.00	50,000.00
23 July 1997	50,000	50,000.00	100,000.00
20 October 1998	200,000	200,000.00	300,000.00
18 October 2006	200,000	200,000.00	500,000.00

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Spring Art. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

**14.5 CONSENTS**

- (a) The written consents of the Adviser, Sponsor, Underwriter, Placement Agent, Solicitors, Share Registrar, Company Secretary and Issuing House to the inclusion in this Prospectus of their names in the form and context in which such names appear have been given before the issue of this Prospectus and have not subsequently been withdrawn;



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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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- (b) The written consents of the Auditors and Reporting Accountants to the inclusion in this Prospectus of their names, Accountants' Report and letter relating to the Pro forma Consolidated Financial Information in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus and have not subsequently been withdrawn; and
- (c) The written consent of the IMR to the inclusion in this Prospectus of its name and the IMR Report titled "Outlook of Malaysia's Furniture Industry and Global Furniture Market", in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus and have not been subsequently withdrawn.

**14.6 DOCUMENTS FOR INSPECTION**

Copies of the following documents are available for inspection at the Registered Office of our Company during normal business hours for a period of 6 months from the date of this Prospectus:

- (a) Constitution of our Company;
- (b) The audited financial statements of the Spring Art Group for the FYEs 2015, 2016, 2017 and 2018 and FPE 2019;
- (c) The Accountants' Report as set out in Section 12;
- (d) The Reporting Accountants' reports relating to our pro forma combined statements of financial information as set out in Section 13;
- (e) The IMR Report as set out in Section 7;
- (f) The material contracts as set out in Section 6.16; and
- (g) The letters of consent as set out in Section 14.5.

**14.7 RESPONSIBILITY STATEMENTS**

Our Directors and Promoters have seen and approved this Prospectus, and they collectively and individually accept full responsibility for the accuracy of the information contained herein, and confirm that after making all reasonable enquiries and to the best of their knowledge and belief, there are no false or misleading statements or other facts which if omitted, would make any statement in this Prospectus false or misleading.

M&A Securities acknowledge that, based on all available information and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning our IPO.

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## **15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE**

**THIS SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE DOES NOT CONTAIN THE DETAILED PROCEDURES AND FULL TERMS AND CONDITIONS AND YOU CANNOT RELY ON THIS SUMMARY FOR PURPOSES OF ANY APPLICATION FOR OUR IPO SHARES. YOU MUST REFER TO THE DETAILED PROCEDURES AND TERMS AND CONDITIONS AS SET OUT IN THE "DETAILED PROCEDURES FOR APPLICATION AND ACCEPTANCE" ACCOMPANYING THE ELECTRONIC PROSPECTUS ON THE WEBSITE OF BURSA SECURITIES. YOU SHOULD ALSO CONTACT THE ISSUING HOUSE FOR FURTHER ENQUIRIES.**

**Unless otherwise defined, all words and expressions used here shall carry the same meaning as ascribed to them in our Prospectus.**

**Unless the context otherwise requires, words used in the singular include the plural, and vice versa.**

### **15.1 OPENING AND CLOSING OF APPLICATION**

OPENING OF THE APPLICATION PERIOD: 10.00 A.M. ON 16 OCTOBER 2019

CLOSING OF THE APPLICATION PERIOD: 5.00 P.M. ON 24 OCTOBER 2019

In the event there is any change to the timetable, we will advertise the notice of the changes in a widely circulated English and Bahasa Malaysia daily newspaper in Malaysia.

**Late Applications will not be accepted.**

### **15.2 METHODS OF APPLICATIONS**

#### **15.2.1 Retail Offering**

Application must accord with our Prospectus and our Constitution. The submission of an Application Form does not mean that the Application will succeed.

<b><u>Types of Application and category of investors</u></b>	<b><u>Application Method</u></b>
Applications by our eligible Directors and employees as well as persons who have contributed to the success of our Group	Pink Application Form only
Applications by the Malaysian Public:	
(a) Individuals	White Application Form or Electronic Share Application or Internet Share Application
(b) Non-Individuals	White Application Form only

## 15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE *(Cont'd)*

### 15.2.2 Placement

<b>Types of Application</b>	<b>Application Method</b>
Applications by:	
(a) Selected investors	The Placement Agent will contact the selected investors directly. They should follow the Placement Agent's instructions.
(b) Bumiputera Investors approved by MITI	MITI will contact the Bumiputera Investors directly. They should follow MITI's instructions.

Selected investors and Bumiputera Investors approved by MITI may still apply for our IPO Shares offered to the Malaysian Public using the White Application Form, Electronic Share Application or Internet Share Application.

## 15.3 ELIGIBILITY

### 15.3.1 General

You must have a CDS account and a correspondence address in Malaysia. If you do not have a CDS account, you may open a CDS account by contacting any of the ADAs set out in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the Electronic Prospectus on the website of Bursa Securities. The CDS account must be in your own name. Invalid, nominee or third party CDS accounts will not be accepted for the Applications.

Only **ONE** Application Form for each category from each applicant will be considered and **APPLICATIONS MUST BE FOR AT LEAST 100 IPO SHARES OR MULTIPLES OF 100 IPO SHARES.**

**MULTIPLE APPLICATIONS WILL NOT BE ACCEPTED UNLESS EXPRESSLY ALLOWED IN THESE TERMS AND CONDITIONS. AN APPLICANT WHO SUBMITS MULTIPLE APPLICATIONS IN HIS OWN NAME OR BY USING THE NAME OF OTHERS, WITH OR WITHOUT THEIR CONSENT, COMMITS AN OFFENCE UNDER SECTION 179 OF THE CMSA AND IF CONVICTED, MAY BE PUNISHED WITH A MINIMUM FINE OF RM1,000,000 AND A JAIL TERM OF UP TO 10 YEARS UNDER SECTION 182 OF THE CMSA.**

**AN APPLICANT IS NOT ALLOWED TO SUBMIT MULTIPLE APPLICATIONS IN THE SAME CATEGORY OF APPLICATION.**

### 15.3.2 Application by the Malaysian Public

You can only apply for our IPO Shares if you fulfill all of the following:

- (a) You must be one of the following:
  - (i) a Malaysian citizen who is at least 18 years old as at the date of the application for our IPO Shares; or
  - (ii) a corporation / institution incorporated in Malaysia with a majority of Malaysian citizens on your board of directors / trustees and if you have a

## **15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**

- share capital, more than half of the issued share capital, excluding preference share capital, is held by Malaysian citizens; or
- (iii) a superannuation, co-operative, foundation, provident, pension fund established or operating in Malaysia.
- (b) You must not be a director or employee of the Issuing House or an immediate family member of a director or employee of the Issuing House; and
  - (c) You must submit Applications by using only one of the following methods:
    - (i) White Application Form;
    - (ii) Electronic Share Application; or
    - (iii) Internet Share Application.

### **15.3.3 Application by our eligible Directors, employees as well as persons who have contributed to the success of our Group**

Our eligible Directors and employees as well as persons (including any entities, wherever established) who have contributed to the success of our Group will be provided with Pink Application Forms and letters from us detailing their respective allocation.

### **15.4 APPLICATION BY WAY OF APPLICATION FORMS**

The Application Form must be completed in accordance with the notes and instructions contained in the respective category of the Application Form. Applications made on the incorrect type of Application Form or which do not conform **STRICTLY** to the terms of our Prospectus or the respective category of Application Form or notes and instructions or which are illegible will not be accepted.

The FULL amount payable is RM0.25 for each IPO Share.

Payment must be made out in favour of "**TIIH SHARE ISSUE ACCOUNT NUMBER 690**" and crossed "**A/C PAYEE ONLY**" and endorsed on the reverse side with your name and address.

Each completed Application Form, accompanied by the appropriate remittance and legible photocopy of the relevant documents may be submitted using one of the following methods:

- (i) despatch by **ORDINARY POST** in the official envelopes provided, to the following address:

Tricor Investor & Issuing House Services Sdn Bhd (11324-H)  
Unit 32-01, Level 32, Tower A  
Vertical Business Suite, Avenue 3  
Bangsar South  
8, Jalan Kerinchi  
59200 Kuala Lumpur

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**15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**

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- (ii) **DELIVER BY HAND AND DEPOSITED** in the drop-in box provided at the following address:

Customer Service Centre  
Unit G-3, Ground Floor  
Vertical Podium, Avenue 3, Bangsar South  
No. 8, Jalan Kerinchi  
59200 Kuala Lumpur

so as to arrive not later than 5.00 p.m. on 24 October 2019 or by such other time and date specified in any change to the date or time for closing.

We, together with the Issuing House, will not issue any acknowledgement of the receipt of your Application Forms or Application monies. Please direct all enquiries in respect of the White Application Form to the Issuing House.

**15.5 APPLICATION BY WAY OF ELECTRONIC SHARE APPLICATIONS**

Only Malaysian individuals may apply for our IPO Shares offered to the Malaysian Public by way of Electronic Share Application.

Electronic Share Applications may be made through the ATM of the following Participating Financial Institutions and their branches, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, AmBank (M) Berhad, CIMB Bank Berhad, HSBC Bank Malaysia Berhad, Malayan Banking Berhad, Public Bank Berhad, RHB Bank Berhad and Standard Chartered Bank Malaysia Berhad (at selected branches only). A processing fee will be charged by the respective Participating Financial Institutions (unless waived) for each Electronic Share Application.

**15.6 APPLICATION BY WAY OF INTERNET SHARE APPLICATIONS**

Only Malaysian individuals may use the Internet Share Application to apply for our IPO Shares offered to the Malaysian Public.

Internet Share Applications may be made through an internet financial services website of the Internet Participating Financial Institutions, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, CIMB Bank Berhad, CGS-CIMB Securities Sdn Bhd, Malayan Banking Berhad, Public Bank Berhad and RHB Bank Berhad. A processing fee will be charged by the respective Internet Participating Financial Institutions (unless waived) for each Internet Share Application.

The exact procedures, terms and conditions for Internet Share Application are set out on the internet financial services website of the respective Internet Participating Financial Institutions.

**15.7 AUTHORITY OF OUR BOARD AND THE ISSUING HOUSE**

The Issuing House, on the authority of our Board reserves the right to:

- (a) reject Applications which:

**15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**

- (i) do not conform to the instructions of our Prospectus, Application Forms, Electronic Share Application and Internet Share Application (where applicable); or
  - (ii) are illegible, incomplete or inaccurate; or
  - (iii) are accompanied by an improperly drawn up, or improper form of, remittance; or
- (b) reject or accept any Application, in whole or in part, on a non-discriminatory basis without the need to give any reason; and
- (c) bank in all Application monies (including those from unsuccessful / partially successful applicants) which would subsequently be refunded, where applicable (without interest), in accordance with Section 8 below.

If you are successful in your Application, our Board reserves the right to require you to appear in person at the registered office of the Issuing House at anytime within 14 days of the date of the notice issued to you to ascertain that your Application is genuine and valid. Our Board shall not be responsible for any loss or non-receipt of the said notice nor will it be accountable for any expenses incurred or to be incurred by you for the purpose of complying with this provision.

**15.8 UNSUCCESSFUL / PARTIALLY SUCCESSFUL APPLICANTS**

If you are unsuccessful / partially successful in your Application, your Application monies (without interest) will be refunded to you in the following manner.

**15.8.1 For applications by way of Application Forms**

- (a) The application monies or the balance of it, as the case may be, will be returned to you through the self-addressed and stamped Official "A" envelope you provided by ordinary post (for fully unsuccessful applications) or by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or if you have not provided such bank account information to Bursa Depository, the balance of Application monies will be refunded via banker's draft sent by ordinary / registered post to your last address maintained with Bursa Depository (for partially successful applications) within 10 Market Days from the date of the final ballot at your own risk.
- (b) If your Application is rejected because you did not provide a CDS account number, your Application monies will be refunded via banker's draft sent by ordinary / registered post to your address as stated in the NRIC or any official valid temporary identity document issued by the relevant authorities from time to time or the authority card (if you are a member of the armed forces or police) at your own risk.
- (c) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected or unsuccessful or only partly successful will be refunded (without interest) by the Issuing House as per items (i) and (ii) above (as the case may be).

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**15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**

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- (d) The Issuing House reserves the right to bank into its bank account all Application monies from unsuccessful applicants. These monies will be refunded (without interest) within 10 Market Days from the date of the final ballot by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or by issuance of banker's draft sent by registered post to your last address maintained with Bursa Depository if you have not provided such bank account information to Bursa Depository or as per item (ii) above (as the case may be).

**15.8.2 For applications by way of Electronic Share Application and Internet Share Application**

- (a) The Issuing House shall inform the Participating Financial Institutions or Internet Participating Financial Institutions of the unsuccessful or partially successful Applications within 2 Market Days after the balloting date. The full amount of the Application monies or the balance of it will be credited without interest into your account with the Participating Financial Institution or Internet Participating Financial Institution (or arranged with the Authorised Financial Institutions) within 2 Market Days after the receipt of confirmation from the Issuing House.
- (b) You may check your account on the 5<sup>th</sup> Market Day from the balloting date.
- (c) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected will be refunded (without interest) by the Issuing House by crediting into your account with the Participating Financial Institution or Internet Participating Financial Institutions (or arranged with the Authorised Financial Institutions) not later than 10 Market Days from the date of the final ballot. For Applications that are held in reserve and which are subsequently unsuccessful or partially successful, the relevant Participating Financial Institution will be informed of the unsuccessful or partially successful Applications within 2 Market Days after the final balloting date. The Participating Financial Institution will credit the Application monies or any part thereof (without interest) within 2 Market Days after the receipt of confirmation from the Issuing House.

**15.9 SUCCESSFUL APPLICANTS**

If you are successful in your application:

- (i) Our IPO Shares allotted to you will be credited into your CDS account.
- (ii) A notice of allotment will be despatched to you at your last address maintained with the Bursa Depository, at your own risk, before our Listing. This is your only acknowledgement of acceptance of your Application.
- (iii) In accordance with Section 14(1) of the SICDA, Bursa Securities has prescribed our Shares as Prescribed Securities. As such, our IPO Shares issued / offered through our Prospectus will be deposited directly with Bursa Depository and any dealings in these Shares will be carried out in accordance with the SICDA and Rules of Bursa Depository.
- (iv) In accordance with Section 29 of the SICDA, all dealings in our Shares will be by book entries through CDS accounts. No physical share certificates will be issued to you and you shall not be entitled to withdraw any deposited securities held jointly with Bursa Depository or its nominee as long as our Shares are listed on Bursa Securities.

**15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)****15.10 ENQUIRIES**

Enquiries in respect of the applications may be directed as follows:

<b>Mode of application</b>	<b>Parties to direct the enquiries</b>
Application Form	Issuing House Enquiry Services Telephone at telephone no. 03-2783 9299
Electronic Share Application	Participating Financial Institution
Internet Share Application	Internet Participating Financial Institution and Authorised Financial Institution

The results of the allocation of IPO Shares derived from successful balloting will be made available to the public at the Issuing House website at <https://tiih.online>, 1 Market Day after the balloting date.

You may also check the status of your Application at the above website, 5 Market Days after the balloting date or by calling your respective ADA during office hours at the telephone number as stated in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the Electronic Prospectus on the website of Bursa Securities.

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