

**SPRING ART HOLDINGS BERHAD**  
**COMPANY NO: 201801016143 (1278159-A)**

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2019**

**PART A – EXPLANATORY NOTES IN COMPLIANCE WITH MALAYSIAN FINANCIAL REPORTING STANDARDS (“MFRS”) 134, INTERIM FINANCIAL REPORTING**

**A1. BASIS OF PREPARATION**

The interim financial report of SPRING ART HOLDINGS BERHAD (“**SPRING**” or “**the Company**”) and its subsidiaries (“**the Group**”) are unaudited and have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards (“**MFRS**”) No. 134: Interim Financial Reporting and Rule 9.22 of Listing Requirements.

This is the first interim financial statements on the Company’s unaudited condensed consolidated financial results for the third (3<sup>rd</sup>) quarter ended 30 September 2019 announced by the Company in compliance with the Listing Requirements of Bursa Securities and as such, there are no comparative figures for the preceding year’s corresponding period.

This interim financial report should be read in conjunction with the Accountants’ Report as disclosed in the Prospectus of the Company dated 16 October 2019 and the accompanying notes attached to this interim financial report.

**A2. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted as disclosed in the Accountants’ Report in the Prospectus of the Group dated 16 October 2019. The Group has adopted those standards, amendments and interpretations that have become effective and such adoptions do not have material impact on the financial position and performance of the Group.

**Adoption of new and amended standard**

During the financial period, the Group has adopted the following amendments for MFRSs issued by the MASB that are mandatory for current financial period.

- MFRS 16 Leases

Adoption of the above standard and interpretation did not have any material impact to the financial statements of the Group.

**MFRS 16 Leases – effective 1 January 2019**

MFRS 16 ‘Leases’ supersedes MFRS 117 ‘Leases’ and the related interpretations. MFRS 16 introduces a single accounting model for a lessee and eliminates the distinction between finance lease and operating lease. Lessee is now required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Upon adoption of MFRS 16, the Group is required to account for major part of their operating leases in the statement of financial position by recognising the ‘right-of-use’ assets and the lease liability, thus increasing the assets and liabilities of the Group.

### Standards issued but not yet effective

At the date of authorisation for issue of this interim financial report, the new and revised Standards and Amendments, which were in issue but not yet effective and have not been early adopted by the Group are as follow:

	<u>Standard</u>	<u>Title</u>	<u>Effective Date</u>
1	Amendments to MFRS 2	Share-based Payment	1 January 2020
2	Amendments to MFRS 3	Business Combinations	1 January 2020
3	Amendments to MFRS 101	Presentation of Financial Statements	1 January 2020
4	Amendments to MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020
5	Amendments to MFRS 134	Interim Financial Reporting	1 January 2020
6	Amendment to MFRS 137	Provision, Contingent Liabilities and Contingent Assets	1 January 2020
7	Amendments to IC Int. 22	Foreign Currency Transactions and Advance Consideration	1 January 2020

#### A3. AUDITORS' REPORT

The audited financial statements for the financial year ended 31 December 2018 was not subject to any qualification.

#### A4. SEASONAL OR CYCLICAL FACTORS

Our operations are not significantly affected by seasonal or cyclical patterns as our furniture products are exported to several regions globally, where the differing sales and promotion period of furniture sales in different regions allow us to benefit from consistent sales throughout the year.

#### A5. EXTRAORDINARY AND EXCEPTIONAL ITEMS

There were no extraordinary and exceptional items of unusual nature affecting assets, liabilities, equity, net income, or cash flows during the current financial quarter under review.

#### A6. CHANGES IN ESTIMATES OF AMOUNTS REPORTED

There were no material changes in estimates of amounts reported in prior interim periods or prior financial year that have a material effect during the current financial quarter under review.

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## A7. CHANGES IN DEBT AND EQUITY SECURITIES

Save as disclosed below, there were no issuances, cancellations, repurchases, resale and repayment of debts and equity during the current financial quarter under review.

On 16 November 2018, the Company had entered into a conditional SSA with the vendors of Spring Art Industries Sdn Bhd ("**Spring Art Industries**") to acquire the entire equity interest in Spring Art Industries for a total purchase consideration of RM31,799,980 satisfied via the issuance of 317,999,800 new ordinary Shares in the Company at an issue price of approximately RM0.10 per Share. The Acquisition of Spring Art Industries was completed on 31 July 2019. Thereafter, Spring Art Industries became a wholly-owned subsidiary of the Company.

In conjunction with the Company's listing on the ACE Market of Bursa Securities, the Company has undertaken an initial public offering ("**IPO**") comprising:

(i) Public issue of 97,687,000 new ordinary shares in the Company ("**Shares**") at an issue price of RM0.25 per Share ("**IPO Price**") allocated in the following manner:-

- 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 as well as persons who have contributed to the success of the Group;
- 72,745,800 new Shares by way of private placement to selected Bumiputera investors approved by the Ministry of International Trade and Industry ("**MITI**") and selected investors; and

(ii) Offer for sale of 27,019,000 existing Shares by way of private placement to selected investors at the IPO Price.

## A8. DIVIDENDS PAID

On 23 May 2019, the Directors declared a special single tier dividend of RM2 per share in Spring Art Industries in respect of the financial year ending 31 December 2019 amounting to RM1,000,000. This amount has been paid on 29 July 2019.

## A9. SEGMENTAL INFORMATION

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.

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:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTERS	
	30.09.2019	30.09.2018 (a)	30.09.2019	30.09.2018 (a)
	RM'000	RM'000	RM'000	RM'000
Middle East	9,262	N/A	26,618	N/A
Asia Pacific	6,491	N/A	15,285	N/A
North America and Latin America	366	N/A	1,262	N/A
Africa	287	N/A	816	N/A
Europe	44	N/A	165	N/A
<b>Total</b>	<b>16,450</b>	<b>N/A</b>	<b>44,146</b>	<b>N/A</b>

**Note:**

- (a) This is the first interim financial report on the Company's unaudited condensed consolidated financial results for the third quarter ended 30 September 2019 announced in compliance with the Listing Requirements and as such, there are no comparative figures for the preceding period's corresponding quarter.

***N/A – Not applicable***

**A10. VALUATION OF PROPERTY, PLANT AND EQUIPMENT**

There was no valuation of property, plant and equipment during the current financial quarter under review.

**A11. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE INTERIM REPORT**

No material events subsequent to the period ended 30 September 2019 that have not been reflected in the financial statements for the interim period.

In conjunction with the Company's listing on the ACE Market of Bursa Securities, on 16 October 2019, the Company issued its Prospectus for its IPO entailing the following:

- (i) Public issue of 97,687,000 new ordinary shares in the Company allocated in the following manner:
- - 20,784,400 issue shares made available for application by the Malaysian Public;
  - 4,156,800 issue shares made available for application by our eligible Directors and employees as well as person who have contributed to the success of our Group;
  - 41,569,000 issue shares made available for application by way of private placement to selected Bumiputra investors approved by MITI; and
  - 31,176,800 issue shares made available for selected investors; and
- (ii) Offer for sale of 27,019,000 existing shares made available to selected investors by way of private placement at our IPO price.

Thereafter, the listing of and quotation for the Company's enlarged share capital of 415,687,000 shares on ACE Market of Bursa Securities is expected to be on 8 November 2019.

**A12. CHANGES IN THE COMPOSITION OF THE GROUP**

Save as disclosed in Note A7, there were no changes in the composition of the Group for the current financial quarter under review.

**A13. CHANGES IN CONTINGENT LIABILITIES/ASSETS**

There were no contingent assets and contingent liabilities as at the date of this interim report.

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#### A14. CAPITAL COMMITMENTS

The material capital commitments of the Group as at 30 September 2019 are as follows:

	<b>As at 30.09.2019 RM'000</b>	<b>As at 30.09.2018 (a) RM'000</b>
<b>Authorised and Contracted for:</b>		
Application for access road	260	N/A
Purchase of machinery	366	N/A

**Note:**

(a) This is the first interim financial report on the Company's unaudited condensed consolidated financial results for the third quarter ended 30 September 2019 announced in compliance with the Listing Requirements and as such, there are no comparative figures for the preceding period's corresponding quarter.

*N/A – Not applicable*

#### A15. RELATED PARTY TRANSACTIONS

There were no related party transactions in the current financial quarter under review.

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**PART B - EXPLANATORY NOTES PURSUANT TO CHAPTER 9, APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

**B1. PERFORMANCE REVIEW**

**(a) Results for current quarter**

The Group recorded revenue of RM16.45 million and PBT of RM3.76 million for the current financial quarter ended 30 September 2019.

The Group's revenue was derived from 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. Middle East was the largest market contributing to the Group's revenue accounting for approximately 56.3% of the total revenue in current financial quarter.

**(b) Results for financial year-to-date**

The Group recorded revenue of RM44.15 million and PBT of RM9.01 million for the period-to-date ended 30 September 2019.

This is the first interim financial report on the company's unaudited condensed consolidated financial results for the current financial quarter ended 30 September 2019 announced in compliance with the Listing Requirements and as such, there are no comparative figures for the preceding period's corresponding quarter.

**B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER RESULTS**

	INDIVIDUAL QUARTER		CHANGES	
	Current Year Quarter 30.09.2019 RM'000	Preceding Quarter 30.06.2019 (a) RM'000	RM'000	%
Revenue	16,450	N/A	N/A	N/A
PBT	3,755	N/A	N/A	N/A

**Note:**

(a) This is the first interim financial report on the Company's unaudited condensed consolidated financial results for the third quarter ended 30 September 2019 announced in compliance with the Listing Requirements and as such, there are no comparative figures for the preceding period's corresponding quarter.

*N/A – Not applicable*

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### **B3. PROSPECT AND OUTLOOK FOR THE CURRENT FINANCIAL YEAR**

#### **INDUSTRY OUTLOOK**

As disclosed in the Prospectus of the Company dated 16 October 2019, the outlook for the furniture industry remains positive, in light of the growth in the furniture industry in Malaysia which are driven by the followings:

**(a) Rising demand for Malaysian furniture products globally will boost the furniture industry in Malaysia**

An increase in furniture demand globally signifies growth opportunities for the furniture industry in Malaysia, as consumers may opt to purchase imported furniture due to factors such as product pricing, design and quality. In line with the increasing furniture demand globally, demand for Malaysian furniture products has also increased globally, as depicted by Malaysia's growth in furniture exports. Between 2010 and 2018, Malaysia's furniture exports increased from RM8.0 billion to RM9.8 billion at a CAGR of 2.7%. The rising demand for Malaysian furniture products globally will continue to boost the furniture industry in Malaysia.

**(b) Implementation of plans, policies and initiatives will help propel the furniture industry in Malaysia**

Several plans, policies and initiatives have been implemented by the Government and/or various trade bodies to help propel the furniture industry in Malaysia. These initiatives may boost the country's furniture industry in terms of labour supply as well as global recognition. Initiatives specific to the furniture industry's labour supply include:

- Furniture Technology Certification Course
- Wood Industry Skills Development Centre ("WISDEC")

There are also several furniture-related events and exhibitions held annually in Malaysia which serve as a platform for furniture industry players to showcase their products and to help boost the reputation of Malaysia's furniture industry as a manufacturer as well as designer. These events and exhibitions include:

- Export Furniture Exhibition ("EFE")
- Professional Designers Programme ("PDP")
- Malaysian Furniture & Furnishings Fair
- Malaysian International Furniture Fair ("MIFF")

**(c) Malaysia's favourable foreign currency exchange rates will facilitate the growth of the country's furniture exports**

Malaysia's favourable foreign currency exchange rates will help boost the country's furniture exports as consumers from other countries are more inclined to purchase furniture from Malaysia due to the cheaper product prices. Malaysia was ranked the 13<sup>th</sup> largest furniture exporter globally in 2018. A significant portion of Malaysia's locally manufactured furniture is exported, where between 2010 and 2017, Malaysia exported between 62.0% and 70.5% of its locally manufactured furniture.

**(d) The implementation of free trade agreements in Malaysia will have a positive effect on the country's furniture exports**

Free trade agreements ("FTA") are generally aimed at providing the means to achieve quicker and higher levels of liberalisation that would create effective market access between the participants of the FTA.

These FTAs provide exporters in Malaysia with market access, cost savings from elimination or reduction of customs duties and from mutual recognition agreements, trade facilitating customs procedures and removal of onerous regulations. This will have a positive effect on Malaysia's furniture exports due to the increased trade facilitation.

## **CORPORATE PROSPECT**

The total annual production capacity is 337,016 units for Factory A and Factory B. In order to supplement our current production volume, we have 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. One (1) production line has been placed at our subcontractor's factory.

The manufacturing arrangement shall be for a term of 3 years and the production of furniture has commenced in June 2019. The manufacturing arrangement does not affect us operationally as the subcontractor is responsible for its own factory operations without our involvement. It allows us to increase the volumes of furniture products that we can supply to our customers by 49,158 units per annum. Hence, our combined sales volume is expected to increase to 386,174 units per annum which is expected to increase our revenue.

### **B4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT**

The Group did not issue any profit forecast or profit guarantee during the current financial quarter under review.

### **B5. INCOME TAX EXPENSE**

	<b>INDIVIDUAL QUARTER</b>		<b>CUMULATIVE QUARTERS</b>	
	<b>30.09.2019</b>	<b>30.09.2018 (a)</b>	<b>30.09.2019</b>	<b>30.09.2018 (a)</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Current tax expense	802	N/A	1,910	N/A
Deferred tax expense	(100)	N/A	(120)	N/A
<b>Total tax expense</b>	<b>702</b>	<b>N/A</b>	<b>1,790</b>	<b>N/A</b>
Effective tax rate (b) (%)	18.70	N/A	19.88	N/A

#### **Notes:**

(a) This is the first interim financial report on the Company's unaudited condensed consolidated financial results for the third quarter ended 30 September 2019 announced in compliance with the Listing Requirements and as such, there are no comparative figures for the preceding period's corresponding quarter.

(b) The Group's effective tax rate was lower than the statutory tax rate 24% mainly due to the utilisation of tax credit i.e. allowance for increased in exports and capital allowance.

***N/A – Not applicable***

### **B6. STATUS OF CORPORATE PROPOSALS**

Save as disclosed in A11, there were no other corporate proposals announced but not completed as at the date of this interim report.

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## B7. UTILISATION OF PROCEEDS RAISED FROM THE IPO

The estimated gross proceeds arising from Public Issue of approximately RM 24.42 million shall accrue entirely to us and will be utilised in the following manner:

<u>Utilisation of proceeds</u>	<u>Estimated timeframe for utilisation</u>	<u>Proposed utilisation</u>	<u>Actual utilisation (a)</u>	<u>%</u>
		<b>RM'000</b>	<b>RM'000</b>	
Machinery for Factory C	24 months	17,550	N/A	71.9
General working capital	24 months	3,672	N/A	15.0
Estimated listing expenses	1 month	3,200	N/A	13.1
		<b>24,422</b>	<b>N/A</b>	<b>100.0</b>

### Note:

- (a) The utilisation of proceeds disclosed above should be read in conjunction with the Prospectus of the Company dated 16 October 2019. As at the date of this report, the IPO is pending completion and hence there was no utilisation of the IPO proceeds.

*N/A – Not applicable*

## B8. GROUP'S BORROWINGS AND DEBT SECURITIES

The Group's borrowings are as follows:

	<b>As At 30.09.2019 RM'000</b>	<b>As At 30.09.2018(a) RM'000</b>
<b>Non-current :</b>		
Term loan	613	N/A
	<u>613</u>	<u>N/A</u>
<b>Current :</b>		
Term loan	5,732	N/A
	<u>5,732</u>	<u>N/A</u>
<b>Total borrowings</b>	<b><u>6,345</u></b>	<b><u>N/A</u></b>

All the Group's borrowings are secured and denominated in Ringgit Malaysia.

### Notes:

- (a) This is the first interim financial report on the Company's unaudited condensed consolidated financial results for the third quarter ended 30 September 2019 announced in compliance with the Listing Requirements and as such, there are no comparative figures for the preceding period's corresponding quarter.

**B9. FINANCIAL INSTRUMENTS - DERIVATIVES**

The Group uses derivative financial instruments, mainly foreign currency forward contracts to hedge its exposure to fluctuations in foreign exchange arising from sales. The Group does not hold or issue derivative financial instruments for trading purposes.

The details of the outstanding foreign currency forward contracts are as follows:-

	Notional amount as at		Fair value loss as at	
	30.09.2019	30.09.2018	30.09.2019	30.09.2018
	RM'000	RM'000	RM'000	RM'000
Foreign currency contracts				
Less than one year	8,590	N/A	109	N/A

The above instruments are executed with credit worthy financial institutions in Malaysia. The Directors are of the view that the possibility of non-performance by these financial institutions is remote on the basis of their financial strength. There are also no cash requirements risks as the Group only uses foreign currency forward contracts as its hedging instruments. The fair value changes have been recognised in the profit and loss.

**B10. MATERIAL LITIGATION**

There were no material litigation involving the Group as at 30 September 2019.

**B11. DIVIDEND**

No dividend has been proposed for the current quarter under review.

**B12. DISCLOSURE ON SELECTED EXPENSE/ INCOME ITEMS AS REQUIRED BY THE LISTING REQUIREMENTS**

Profit before tax is arrived after charging/ (crediting): -

	Current Quarter RM'000	Current Year-To- Date RM'000
Depreciation of property, plant and equipment	553	1,383
Fair value loss on derivative financial instruments	7	109
(Gain) / loss on foreign exchange		
Realised	(37)	(78)
Unrealised	1	(8)
Interest income	(22)	(63)
Finance costs	72	234

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### B13. EARNINGS PER SHARE

#### **Basic earnings per share**

Basic earnings per share amount are calculated by dividing the profit attributable to Owners of the Parent by the weighted average number of ordinary shares outstanding during the period.

		<u>Unaudited</u> Current Quarter 30.09.2019 RM'000	<u>Unaudited</u> Current Year-To-Date 30.09.2019 RM'000
Earnings attributable to owners of the Parent	(RM)	3,053	7,216
Number of ordinary shares before IPO	(shares)	318,000	318,000
Basic earnings per share (a)	(sen)	2.51	5.94
Diluted earnings per share (b)	(sen)	2.51	5.94

#### **Notes:**

- (a) Basic earnings per share is calculated based on the enlarged share capital of 318,000,000 shares before our IPO.
- (b) Diluted EPS of the Company for the individual quarter ended 30 September 2019 and period-to-date ended 30 September 2019 is equivalent to the basic earnings per share as the Company does not have any convertible options as at the end of the reporting period.

**Board of Directors**  
**Spring Art Holdings Berhad**  
**4<sup>th</sup> November 2019**