



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

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE FOURTH QUARTER ENDED 31 DECEMBER 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 second interim financial statements on the Company’s unaudited condensed consolidated financial results for the fourth (4<sup>th</sup>) quarter ended 31 December 2019 announced by the Company in compliance with the Listing Requirements and as such, there are no comparative figures for the preceding year’s corresponding quarter.

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 supersedes MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

The Group adopted MFRS 16 using the modified retrospective method of adoption with the date of application of 1 January 2019. Under this method, comparative figures are not restated and the cumulative effect of initially applying the standard is recognised as an adjustment to the opening balance of retained earnings of the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low value assets').

The effect of the adoption of MFRS 16 Leases is as follows:

Group	Note	As at 1 January 2019 RM'000	Changes RM'000	As at 1 January 2019 RM'000
<b>Non-current assets</b>				
Right-of-use assets	(a)	-	176	176
<b>Non-current liabilities</b>				
Lease liabilities		-	98	98
<b>Current liabilities</b>				
Lease liabilities		-	78	78
<b>Total lease liabilities</b>	(b)	-	176	176

Note:

(a) The right-of-use assets representing the right to use the underlying asset during the lease term. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability.

(b) The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

(c) There is no impact to the Group's retained earnings as at 1 January 2019.

#### 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:

	<b><u>Standard</u></b>	<b><u>Title</u></b>	<b><u>Effective Date</u></b>
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.

### **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 8 November 2019, the Company was listed 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 18 November 2019, the Board of Directors declared an interim dividend of RM0.005 per share in respect of the financial year ending 31 December 2019 amounting to RM2,078,435.

This dividend was paid on 15 January 2020. The entitlement date is on 31 December 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:

	<b>INDIVIDUAL QUARTER</b>		<b>CUMULATIVE QUARTER</b>	
	<b>31.12.2019</b>	<b>31.12.2018 (a)</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Middle East	11,207	N/A	37,825	25,657
Asia Pacific	5,242	N/A	20,527	21,156
North America and Latin America	585	N/A	1,846	3,008
Africa	-	N/A	816	89
Europe	251	N/A	417	472
<b>Total</b>	<b>17,285</b>	<b>N/A</b>	<b>61,431</b>	<b>50,382</b>

### Note:

(a) This is the second interim financial report on the Company's unaudited condensed consolidated financial results for the fourth quarter ended 31 December 2019 announced in compliance with the Listing Requirements and as such, there are no comparative figures for the preceding year'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 financial year ended 31 December 2019 that have not been reflected in the financial statements for the interim period.

## 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.

#### A14. CAPITAL COMMITMENTS

The material capital commitments of the Group as at 31 December 2019 are as follows:

	As at 31.12.2019 RM'000	As at 31.12.2018(a) RM'000
<b>Authorised and Contracted for:</b>		
Application for access road	260	N/A
	<b>260</b>	<b>N/A</b>

#### Note:

- (a) This is the second interim financial report on the Company's unaudited condensed consolidated financial results for the fourth quarter ended 31 December 2019 announced in compliance with the Listing Requirements and as such, there are no comparative figures for the preceding year'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 RM17.29 million for the current financial quarter ended 31 December 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 64.84% of the total revenue in current financial quarter.

The Group registered a PBT of RM1.48 million for the current financial quarter ended 31 December 2019. During the current financial quarter under review, the Group has recognised a one-off non-recurring listing expenses amounted to RM1.91 million.

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

The Group recorded revenue of RM61.43 million and PBT of RM10.44 million for the financial year ended 31 December 2019.

This is the second interim financial report on the company's unaudited condensed consolidated financial results for the current financial quarter ended 31 December 2019 announced in compliance with the Listing Requirements and as such, there are no comparative figures for the preceding year's corresponding quarter.

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

	<b>INDIVIDUAL QUARTER</b>		<b>CHANGES</b>	
	<b>Current Year Quarter</b>	<b>Preceding Quarter</b>		
	<b>31.12.2019</b>	<b>30.09.2019</b>		
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>%</b>
Revenue	17,285	16,450	835	5.08
PBT	1,476	3,755	(2,279)	(60.69)

The Group recorded revenue of RM17.29 million for the current financial quarter ended 31 December 2019 as compared to RM16.45 million in preceding quarter ended 30 September 2019, an increase of RM0.84 million during current financial quarter.

The Group registered a PBT of RM1.48 million in the current financial quarter, a decrease of RM2.28 million from RM3.76 million in the preceding quarter. If excluding the listing expenses of RM1.91 million, the adjusted PBT would have been RM3.39 million for the current financial quarter.

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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, the wholly-owned subsidiary, Spring Art Industries Sdn Bhd has entered a tenancy agreement to rent a factory in Pagoh on 1 February 2020. The Group decided to undertake the manufacturing of our furniture products instead of appointing the subcontractor for the ease of control in quality and costing. One (1) production line has been placed at this newly rented factory.

It allows the Group to increase the volumes of furniture products to supply to its customers by 56,169 units per annum. Hence, the combined sales volume is expected to increase to 393,185 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 QUARTER</b>	
	<b>31.12.2019</b>	<b>31.12.2018 (a)</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Current tax expense	97	N/A	2,007	2171
Deferred tax expense	485	N/A	366	33
<b>Total tax expense</b>	<b>582</b>	<b>N/A</b>	<b>2,373</b>	<b>2,204</b>

#### **Notes:**

- (a) This is the second interim financial report on the Company's unaudited condensed consolidated financial results for the fourth quarter ended 31 December 2019 announced in compliance with the Listing Requirements and as such, there are no comparative figures for the preceding year's corresponding quarter.
- (b) The Group's effective tax rate for the year-to-date was lower than the statutory tax rate of 24% mainly due to the utilisation of tax credit i.e. allowance for automation capital allowance.

*N/A – Not applicable*

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

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 RM24.42 million shall accrue entirely to us and will be utilised in the following manner:

<b>Utilisation of proceeds</b>	<b>Estimated timeframe for utilisation</b>	<b>Proposed utilisation</b>	<b>Actual utilisation (a)</b>	<b>Unutilised Amount</b>
		<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Machinery for Factory C	24 months	17,550	-	17,550
General working capital	24 months	3,672	-	3,672
Estimated listing expenses	1 month	3,200	3,200	-
		<b>24,422</b>	<b>N/A</b>	<b>21,222</b>

### Note:

- (a) The utilisation of proceeds disclosed above should be read in conjunction with the Prospectus of the Company dated 16 October 2019.

## B8. GROUP'S BORROWINGS AND DEBT SECURITIES

The Group's borrowings are as follows:

	<b>As At 31.12.2019 RM'000</b>	<b>As At 31.12.2018 RM'000</b>
<b>Non-current :</b>		
Term loan	5,575	6,185
	<b>5,575</b>	<b>6,185</b>
<b>Current :</b>		
Term loan	619	592
	<b>619</b>	<b>592</b>
<b>Total borrowings</b>	<b>6,194</b>	<b>6,777</b>

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

## 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:-

	<b>Notional amount as at</b>		<b>Fair value (gain) / loss as at</b>	
	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Foreign currency contracts	6,972	3,516	(128)	88
Less than one year				

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 31 December 2019.

**B11. DIVIDEND**

On 18 November 2019, the Board of Directors declared an interim dividend of RM0.005 per share in respect of the financial year ending 31 December 2019 amounting to RM2,078,435.

This dividend was paid on 15 January 2020. The entitlement date is on 31 December 2019.

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

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

	<u>INDIVIDUAL QUARTER</u>		<u>CUMULATIVE QUARTER</u>	
	<u>31.12.2019</u>	<u>31.12.2018(a)</u>	<u>31.12.2019</u>	<u>31.12.2018</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Depreciation of property, plant and equipment	559	N/A	1,942	1,903
Fair value (gain) / loss on derivative financial instruments	(237)	N/A	(128)	88
(Gain) / loss on foreign exchange				
Realised	41	N/A	(37)	94
Unrealised	128	N/A	120	51
Interest income	(115)	N/A	(178)	(76)
Finance costs	69	N/A	302	316

**Notes:**

(a) This is the second interim financial report on the Company's unaudited condensed consolidated financial results for the fourth quarter ended 31 December 2019 announced in compliance with the Listing Requirements and as such, there are no comparative figures for the preceding year's corresponding quarter.

***N/A – Not applicable***

Other disclosure items pursuant to Appendix 9B, Note 16 of the Listing Requirements of Bursa Securities are not applicable.

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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 year.

		<u>INDIVIDUAL QUARTER</u>		<u>CUMULATIVE QUARTER</u>	
		<u>31.12.2019</u>	<u>31.12.2018 (a)</u>	<u>31.12.2019</u>	<u>31.12.2018</u>
		<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Earnings attributable to owner of the Parent	(RM)	894	N/A	8,069	6,229
Number of ordinary shares after IPO	(shares)	415,687	N/A	415,687	500
Weighted average no of shares	(shares)	185,446	N/A	185,446	500
Basic earnings per share (b)	(sen)	0.48	N/A	4.35	1,245.45
Diluted earnings per share (c)	(sen)	0.48	N/A	4.35	1,245.45

#### **Notes:**

- (a) This is the second interim financial report on the Company's unaudited condensed consolidated financial results for the fourth quarter ended 31 December 2019 announced in compliance with the Listing Requirements and as such, there are no comparative figures for the preceding year's corresponding quarter.
- (b) Basic earnings per share is calculated based on the weighted average number of ordinary shares in the Company in issuance of 97,687,000 shares for the individual quarter and 415,186,800 shares for the cumulative quarters.
- (c) Diluted earnings per share of the Company for the individual quarter ended 31 December 2019 and year-to-date ended 31 December 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.

**N/A – Not applicable**

**Board of Directors  
Spring Art Holdings Berhad  
28<sup>th</sup> February 2020**