

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE FIRST QUARTER ENDED 31 MARCH 2020

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 third interim financial statements on the Company’s unaudited condensed consolidated financial results for the first (1st) quarter ended 31 March 2020 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 Group’s annual audited financial statements for the year ended 31 December 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 Group’s annual audited financial statements for the year ended 31 December 2019.

Adoption of new or revised MFRSs

The Group and the Company have applied the following standards, amendments to published standards and IC Interpretation approved by Malaysian Accounting Standards Board (“MASB”) for the first time for the financial year beginning on 1 January 2020:

- Amendments to MFRS 2 – *Share-based Payment*
- Amendments to MFRS 3 – *Business Combinations*
- Amendments to MFRS 6 – *Exploration for and Evaluation of Mineral Resources*
- Amendments to MFRS 9, MFRS139 and MFRS 7 – *Interest Rate Benchmark Reform*
- Amendments to MFRS 14 – *Regulatory Deferral Accounts*
- Amendments to MFRS 101 – *Presentation of Financial Statements*
- Amendments to MFRS 108 – *Accounting Policies, Changes in Accounting Estimates and Errors*
- Amendments to MFRS 134 – *Interim Financial Reporting*
- Amendments to MFRS 137 – *Provisions, Contingent Liabilities and Contingent Assets*
- Amendments to MFRS 138 – *Intangible Assets*
- Amendments to IC Interpretation 12 – *Service Concession Arrangements*
- Amendments to IC Interpretation 19 – *Extinguishing Financial Liabilities with Equity Instruments*
- Amendments to IC Interpretation 20 – *Stripping Costs in the Production Phase of a Surface Mine*
- Amendments to IC Interpretation 22 – *Foreign Currency Transactions and Advance Consideration*
- Amendments to IC Interpretation 132 – *Intangible Assets – Web Site Costs*

The adoption of the above MFRSs, amendments to published standards and IC Interpretation did not have any material impact on the current and prior year financial statements of the Group and of the Company.

Standards issued but not yet effective

The following are MFRSs, Amendments to MFRSs and IC Interpretations with effective dates on or after 1 January 2020 issued by MASB and they have not been early adopted by the Group. The Group intends to adopt these new standards, amendments to the published standards and interpretations, if applicable, when they become effective.

(a) MFRS effective for financial period beginning on or after 1 January 2021

- MFRS 17 *Insurance Contracts*

(b) MFRS effective for financial period beginning on or after 1 January 2022

- Amendments to MFRS 101 – *Classification of Liabilities as Current or Non-current*

(c) Amendments effective for a date yet to be confirmed

- Amendments to MFRS 10 and MFRS 128 – *Sale or Contribution Assets between an Investor and its Associate or Joint Venture*

The initial application of the MFRSs and amendments to the published standards and interpretations is not expected to have any material impact on the financial statements of the Group and of the Company.

A3. AUDITORS' REPORT

The audited financial statements for the financial year ended 31 December 2019 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.

A8. DIVIDENDS PAID

The Group paid an interim dividend of RM0.005 per share amounting to approximately RM2.078 million on 15 January 2020 in respect of the financial year ended 31 December 2019 to all holders of ordinary shares whose names appear in the Record of Depositors at the close of business 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:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	31.03.2020 RM'000	31.03.2019 (a) RM'000	31.03.2020 RM'000	31.03.2019 (a) RM'000
Middle East	11,368	N/A	11,368	N/A
Asia Pacific	4,541	N/A	4,541	N/A
North America and Latin America	195	N/A	195	N/A
Europe	91	N/A	91	N/A
Total	16,195	N/A	16,195	N/A

Note:

(a) This is the third interim financial report on the Company's unaudited condensed consolidated financial results for the first quarter ended 31 March 2020 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 period ended 31 March 2020 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 March 2020 are as follows:

	As at 31.03.2020 RM'000	As at 31.03.2019(a) RM'000
Authorised and Contracted for:		
Application for access road	260	N/A
	<u>260</u>	<u>N/A</u>

Note:

- (a) This is the third interim financial report on the Company's unaudited condensed consolidated financial results for the first quarter ended 31 March 2020 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 RM16.20 million for the current financial quarter ended 31 March 2020.

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 70.20% of the total revenue in current financial quarter.

The Group's businesses, being non-essential businesses, were temporarily closed during the Movement Control Order ("MCO") period which commenced on 18 March 2020 due to the Covid-19 pandemic. It caused the gross profit dropped from 29.0% recorded for the year ended 31 December 2019 to 26.1% for the current financial quarter ended 31 March 2020 as most of the factory overhead and labour cost need to be paid in full although there were no operations.

The Group registered a PBT of RM2.41 million for the current financial quarter ended 31 March 2020.

(b) Results for financial year-to-date

The Group recorded revenue of RM16.20 million and PBT of RM2.41 million for the financial period ended 31 March 2020.

This is the third interim financial report on the company's unaudited condensed consolidated financial results for the current financial quarter ended 31 March 2020 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

	<u>INDIVIDUAL QUARTER</u>		<u>CHANGES</u>	
	Current Year Quarter 31.03.2020 RM'000	Preceding Quarter 31.12.2019 RM'000	RM'000	%
Revenue	16,195	17,285	(1,090)	(6.31)
PBT	2,411	1,476	935	63.35

The Group recorded revenue of RM16.20 million for the current financial quarter ended 31 March 2020 as compared to RM17.29 million in preceding quarter ended 31 December 2019, a decrease of RM1.09 million during current financial quarter. The decrease was due to the shipment of containers were disrupted during the MCO period.

The Group registered a PBT of RM2.41 million in the current financial quarter, an increase of RM0.94 million from RM1.48 million in the preceding quarter whereby the listing expenses being offset.

B3. PROSPECT AND OUTLOOK FOR THE CURRENT FINANCIAL YEAR

The unprecedented outbreak of Covid-19 has caused economic activities to be affected significantly. The severity of the economic impact and the duration of the outbreak are highly unpredictable in the absence of a safe and effective vaccine to combat the virus. Our Group businesses are not spared from this crisis. While the challenges ahead are highly uncertain, the Group has implemented strict cost control measures to contain operating costs. Some investment plan such as the expansion of manufacturing facilities in existing factories will be temporarily postponed as well.

Nevertheless, the Group remain optimistic as the outbreak of Covid-19 might brought the negative impact in short term but it brings positive impact in long term to the Group. The Group manufacture ready-to-assemble (RTA) furniture products in flat pack format to distributors, retailers, chain store and also e-commerce companies. Spending habits changed after the MCO/lockdown was implemented, people are spending more time in online shopping and have shown more willingness to purchase items online now. It presents new opportunities for eCommerce.

The Group businesses will continue with their business plans to expand market coverage and product range and at the same time, remain vigilant and responsive to market changes.

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

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	31.03.2020	31.03.2019 (a)	31.03.2020	31.03.2019 (a)
	RM'000	RM'000	RM'000	RM'000
Current tax expense	315	N/A	315	N/A
Deferred tax expense	67	N/A	67	N/A
Total tax expense	382	N/A	382	N/A
Effective tax rate (b) (%)	16	N/A	16	N/A

Notes:

(a) This is the third interim financial report on the Company's unaudited condensed consolidated financial results for the first quarter ended 31 March 2020 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 increased in exports and 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.

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:

Utilisation of proceeds	Estimated timeframe for utilisation	Proposed utilisation	Actual utilisation (a)	Unutilised Amount
		RM'000	RM'000	RM'000
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	-
		<u>24,422</u>	<u>3,200</u>	<u>21,222</u>

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:

	As At 31.03.2020 RM'000	As At 31.03.2019(a) RM'000
Non-current :		
Term loan	<u>5,393</u>	<u>N/A</u>
	<u>5,393</u>	<u>N/A</u>
Current :		
Term loan	<u>645</u>	<u>N/A</u>
	<u>645</u>	<u>N/A</u>
Total borrowings	<u>6,038</u>	<u>N/A</u>

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

Notes:

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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: -

	<u>NOTIONAL AMOUNT AS AT</u>		<u>FAIR VALUE LOSS AS AT</u>	
	<u>31.03.2020</u>	<u>31.03.2019(a)</u>	<u>31.03.2020</u>	<u>31.03.2019(a)</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Foreign currency contracts				
Less than one year	10,268	N/A	453	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.

Notes:

- (a) This is the third interim financial report on the Company's unaudited condensed consolidated financial results for the first quarter ended 31 March 2020 announced in compliance with the Listing Requirements and as such, there are no comparative figures for the preceding year's corresponding quarter

B10. MATERIAL LITIGATION

There were no material litigation involving the Group as at 31 March 2020.

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): -

	<u>INDIVIDUAL QUARTER</u>		<u>CUMULATIVE QUARTER</u>	
	<u>31.03.2020</u>	<u>31.03.2019(a)</u>	<u>31.03.2020</u>	<u>31.03.2019(a)</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Depreciation of property, plant and equipment	435	N/A	435	N/A
Depreciation of right-of-use assets	183	N/A	183	N/A
Fair value loss on derivative financial instruments	453	N/A	453	N/A
Gain on foreign exchange				N/A
Realised	(154)	N/A	(154)	N/A
Unrealised	(120)	N/A	(120)	N/A
Interest income	(190)	N/A	(190)	N/A

Notes:

- (a) This is the third interim financial report on the Company's unaudited condensed consolidated financial results for the first quarter ended 31 March 2020 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.

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>INDIVIDUAL QUARTER</u>		<u>CUMULATIVE QUARTER</u>	
		<u>31.03.2020</u>	<u>31.03.2019(a)</u>	<u>31.03.2020</u>	<u>31.03.2019(a)</u>
		RM'000	RM'000	RM'000	RM'000
Earnings attributable to owner of the Parent	(RM)	2,029	N/A	2,029	N/A
Number of ordinary shares after IPO	(shares)	415,687	N/A	415,687	N/A
Basic earnings per share (b)	(sen)	0.49	N/A	0.49	N/A
Diluted earnings per share (c)	(sen)	0.49	N/A	0.49	N/A

Notes:

- (a) This is the third interim financial report on the Company's unaudited condensed consolidated financial results for the first quarter ended 31 March 2020 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 Company's number of ordinary shares at the end of the reporting period which is 415,687,000 shares.
- (c) Diluted earnings per share of the Company for the individual quarter ended 31 March 2020 and year-to-date ended 31 March 2020 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
12th June 2020