

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 30 JUNE 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 fourth interim financial statements on the Company’s unaudited condensed consolidated financial results for the second (2nd) quarter ended 30 June 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 June 2020

- Amendments to MFRS 16 – *Leases for Covid-19 – Related Rent Concessions*

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

- MFRS 17 *Insurance Contracts*

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

- Amendments to MFRS 101 – *Classification of Liabilities as Current or Non-current*
- Amendments to MFRS, contained in the document entitled – *Annual improvements to MFRS Standards 2018 – 2020*
- Amendments to MFRS 3 – *Business Combinations*
- Amendments to MFRS 116 – *Property, Plant and Equipment Proceeds before Intended Use*
- Amendments to MFRS 137 – *Provision, Contingent Liabilities and Contingent Assets for Onerous Contracts – Cost of Fulfilling a Contract*

(d) 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 existing MFRS 4 and Amendments to MFRS 4 will be withdrawn upon the adoption of the new MFRS 17 which will take effect on or after 1 January 2021.

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. MATERIAL 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

There were no dividends paid for the current financial quarter under review.

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	
	30.06.2020 RM'000	30.06.2019 (a) RM'000	30.06.2020 RM'000	30.06.2019 (a) RM'000
Middle East	4,883	N/A	16,251	N/A
Asia Pacific	413	N/A	4,954	N/A
North America and Latin America	211	N/A	406	N/A
Europe	39	N/A	129	N/A
Africa	34	N/A	34	N/A
Total	5,580	N/A	21,774	N/A

Note:

(a) This is the fourth interim financial report on the Company's unaudited condensed consolidated financial results for the second quarter ended 30 June 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 CURRENT FINANCIAL QUARTER

There were no other material events subsequent to the end of the current financial quarter that have not been reflected in this interim financial report.

A12. CHANGES IN THE COMPOSITION OF THE GROUP

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 30 June 2020 are as follows:

	As at 30.06.2020 RM'000	As at 30.06.2019(a) RM'000
Authorised and Contracted for:		
Application for access road	260	N/A
	260	N/A

Note:

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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 RM 5.58 million for the current financial quarter ended 30 June 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 88.00% of the total revenue in current financial quarter.

The Group's operations were disrupted due to the Movement Control Order ("MCO") issued by the Malaysian Government in response to Covid-19 pandemic. Only 50% of workforce able to backed to the production operations on 13 April 2020. The Group only resumed back to operations with 100% of workforce during the Conditional Movement Control Order ("CMCO") which was from 7 May 2020. With the new norm in running operations, it has limited the production capacity of the Group which is likely to impact the sales performance during this period.

This caused the gross profit dropped to 18.5% for the current financial quarter ended 30 June 2020 as most of the factory overhead and other costs need to be paid in full although the production lines cannot operate in full.

However, the Group managed to register a PBT of RM0.23 million for the current financial quarter ended 30 June 2020 as the Group has implemented strict cost control measures to contain operating costs.

(b) Results for financial year-to-date

The Group recorded revenue of RM21.77 million and PBT of RM2.64 million for the financial period ended 30 June 2020.

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B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER RESULTS

	INDIVIDUAL QUARTER		CHANGES	
	Current Year Quarter 30.06.2020 RM'000	Preceding Quarter 31.03.2020 RM'000	RM'000	%
Revenue	5,580	16,195	(10,615)	(65.54)
PBT	232	2,411	(2,179)	(90.38)

The Group recorded revenue of RM5.58 million for the current financial quarter ended 30 June 2020 as compared to RM16.20 million in preceding quarter ended 31 March 2020, a decrease of RM10.62 million during current financial quarter.

The decrease of revenue was due to the shipment of containers were disrupted during the MCO period.

The pandemic has caused worldwide curfews and similar restrictions (i.e. stay-at-home orders, shelter-in-place orders, shutdowns or lockdowns) established to prevent further spread of COVID-19. The pandemic has resulted in the largest of lockdowns worldwide at the same time in history. Most of the countries only allowed the containers with essential goods entered their countries. This also affected our business operations as the goods unable to be shipped out and caused the high inventory level as at 30 June 2020.

Most of the finished goods are able to ship out in mid of June 2020 as many countries have allowed to transport the non-essential goods under strict protocols of self-protection and social distancing.

The Group registered a PBT of RM0.23 million in the current financial quarter, a decrease of RM2.18 million from RM2.41 million in the preceding quarter whereby there was no Covid-19 pandemic.

B3. PROSPECT AND OUTLOOK FOR THE CURRENT FINANCIAL YEAR

The outbreak of Covid-19 has caused economic activities to be affected significantly. Our Group businesses are not spared from this crisis especially in the current financial quarter. However, the Group realised that it might brought the negative impact in short term but it brings positive impact in long term to the Group.

One of the responses we've seen to how people are approaching this period of isolation and uncertainty is in huge overnight changes to their shopping behaviours. From bulk-buying to online shopping, people are changing what they're buying, when, and how. Companies that previously embraced the e-commerce trend have already experienced expansion, in the midst of retail shrinking. By the end of Year 2020, global e-commerce sales are expected to reach USD 4.2 trillion. *(Source: Shopify Plus E-commerce Platform)*

The stay-at-home orders created more demands to the furniture as people starts to work from home. Small Office Home Office (SOHO) furniture's orders are increasing due to this change of working style. Ready-to-assemble (RTA) furniture products become popular as people will prefer online shopping to avoid crowded area.

RTA furniture products are more suitable to online sales compared to assembled furniture products. Assembled furniture is bulky and it caused the storage cost and transportation cost is much higher compare to RTA furniture products. Compared to assembled furniture products, transport companies will prefer RTA furniture products because are easier to handle as they are in flat pack format.

The Group manufactures ready-to-assemble (RTA) furniture products in flat pack format to distributors, retailers, chain store and also e-commerce companies. The demand from e-commerce companies are increasing especially the orders from North America. Although the financial results in the current financial quarter being affected, but the Group is remained optimistic and confident with the increasing demand in future. Hence, some of the expansion plan in existing factories will be continued as previous planning.

Besides, the Group has succeeded to obtain the approval from Pejabat Pengarah Tanah dan Galian Johor to convert the land use of Land 3 from agriculture to industrial use on 3 August 2020. The construction of Factory C will be conducted at the end of Year 2020. Currently, our total annual production capacity is 393,165 units, Factory C is expected to increase our annual capacity to reach a combined manufacturing capacity of approximately 730,169 units.

With the increasing production capacity, the Group is now focusing in driving more research and development activities in enhancing our products to better suit the needs of our customers. 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	
	30.06.2020	30.06.2019 (a)	30.06.2020	30.06.2019 (a)
	RM'000	RM'000	RM'000	RM'000
Current tax expense	146	N/A	461	N/A
Deferred tax expense	(73)	N/A	(7)	N/A
Total tax expense	73	N/A	454	N/A
Effective tax rate (b) (%)	31	N/A	17	N/A

Notes:

(a) This is the fourth interim financial report on the Company's unaudited condensed consolidated financial results for the second quarter ended 30 June 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. 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:

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 30.06.2020 RM'000	As At 30.06.2019(a) RM'000
Non-current :		
Term loan	5,240	N/A
	<u>5,240</u>	<u>N/A</u>
Current :		
Term loan	670	N/A
	<u>670</u>	<u>N/A</u>
Total borrowings	<u>5,910</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>30.06.2020</u>	<u>30.06.2019(a)</u>	<u>30.06.2020</u>	<u>30.06.2019(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	9,281	N/A	300	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 fourth interim financial report on the Company's unaudited condensed consolidated financial results for the second quarter ended 30 June 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 30 June 2020.

B11. DIVIDEND

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

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

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

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	30.06.2020	30.06.2019(a)	30.06.2020	30.06.2019(a)
	RM'000	RM'000	RM'000	RM'000
Depreciation of property, plant and equipment	439	N/A	874	N/A
Depreciation of right-of-use assets	230	N/A	412	N/A
Fair value (gain)/loss on derivative financial instruments	(153)	N/A	300	N/A
(Gain)/Loss on foreign exchange				N/A
Realised	(15)	N/A	(169)	N/A
Unrealised	68	N/A	(52)	N/A
Interest income	(167)	N/A	(357)	N/A
Finance costs	73	N/A	151	N/A

Notes:

(a) This is the fourth interim financial report on the Company's unaudited condensed consolidated financial results for the second quarter ended 30 June 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.

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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.

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		30.06.2020	30.06.2019(a)	30.06.2020	30.06.2019(a)
		RM'000	RM'000	RM'000	RM'000
Earnings attributable to owner of the Parent	(RM)	159	N/A	2,188	N/A
Number of ordinary shares after IPO	(shares)	415,687	N/A	415,687	N/A
Basic earnings per share (b)	(sen)	0.04	N/A	0.53	N/A
Diluted earnings per share (c)	(sen)	0.04	N/A	0.53	N/A

Notes:

- (a) This is the fourth interim financial report on the Company's unaudited condensed consolidated financial results for the second quarter ended 30 June 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 30 June 2020 and year-to-date ended 30 June 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
26th August 2020**