

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 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 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 June 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) Amendments effective for financial period beginning on or after 1 June 2020

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

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

- Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16 – *Interest Rate Benchmark Reform — Phase 2*

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

- Amendments to MFRSs 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) MFRS and amendments effective for financial period beginning on or after 1 January 2023

- MFRS 17 – *Insurance Contracts*
- Amendments to MFRS 17 – *Insurance Contracts*
- Amendment to MFRS 101 – *Classification of Liabilities as Current or Non-current*

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

- Amendments to MFRS 10 and MFRS 128 – *Sale or Contribution of 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 2023.

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.

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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	
	30.09.2020	30.09.2019	30.09.2020	30.09.2019
	RM'000	RM'000	RM'000	RM'000
Middle East	14,476	9,262	30,727	26,618
Asia Pacific	1,112	6,491	6,066	15,285
North America and Latin America	913	366	1319	1,262
Europe	716	44	845	165
Africa	86	287	120	816
Total	17,303	16,450	39,077	44,146

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

Saved as disclosed in Note B6, 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

On 12 November 2020, the Company had incorporated a wholly-owned subsidiary, namely Elisa Home Sdn. Bhd., a company incorporated in Malaysia under the Companies Act, 2016 with an issued share capital of RM1.00 divided into 1 ordinary share.

Save as disclosed above, 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 September 2020 are as follows:

	As at 30.09.2020 RM'000	As at 30.09.2019 RM'000
Authorised and Contracted for:		
Application for access road	260	260
Purchase of property, plant and equipment	743	366
	1,003	626

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

	INDIVIDUAL QUARTER		CHANGES	
	Current Year Quarter 30.09.2020 RM'000	Preceding Year Corresponding Quarter 30.09.2019 RM'000	RM'000	%
Revenue	17,303	16,450	853	5.2
PBT	3,949	3,755	194	5.2

The Group recorded revenue of RM17.30 million for the current financial quarter ended 30 September 2020 ("Q3 2020"), an increase of 5.2% as compare to the same quarter ended 30 September 2019 ("Q3 2019"). The increase was mainly due to the higher demand from Small Office Home Office ("SOHO") furniture due to the change of working style as people starts to work from home which caused by the stay-at-home orders.

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 84.00% of the total revenue in current financial quarter.

The Group registered a PBT of RM3.95 million in Q3 2020 as compared to RM3.76 million in Q3 2019. Higher PBT recorded in Q3 2020 was mainly due to the higher revenue generated. However, the gross margin slightly reduced to 30.9% in Q3 2020 from 31.6% in Q3 2019 as more labour cost incurred to catch up the export deadline after the Movement Control Order ("MCO").

(b) Results for financial year-to-date

	CUMULATIVE QUARTER		CHANGES	
	Current Year-To-Date 30.09.2020 RM'000	Preceding Year Corresponding Period 30.09.2019 RM'000	RM'000	%
Revenue	39,077	44,146	(5,069)	-11.48
PBT	6,595	9,006	(2,411)	-26.77

The Group recorded revenue of RM39.08 million in Q3 2020, a decrease of RM5.07 million or 11.48% from RM44.15 million in Q3 2019. The lower revenue in cumulative Q3 2020 was mainly due to lower sales contribution recorded in preceding financial quarter ended 30 June 2020 ("Q2 2020") which effected by Covid-19 pandemic. The decrease in the Group's cumulative revenue has also resulted in lower PBT recorded.

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B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER RESULTS

	INDIVIDUAL QUARTER		CHANGES	
	Current Year Quarter 30.09.2020 RM'000	Preceding Quarter 30.06.2020 RM'000	RM'000	%
Revenue	17,303	5,580	11,723	210.09
PBT	3,949	232	3,717	1,602.16

The Group recorded revenue of RM17.30 million in Q3 2020 as compared to RM5.58 million in Q2 2020, an increase of RM11.72 million during current financial quarter.

The increase of revenue was due to the production started pick up the speed to the productivity before Movement Control Order (“MCO”). Therefore, the Group registered a PBT of RM3.95 million in Q3 2020, an increase of RM3.72 million from RM0.23 million in the preceding quarter.

B3. PROSPECT AND OUTLOOK FOR THE CURRENT FINANCIAL YEAR

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 observed a surge in demand for SOHO furniture in online shopping amid the coronavirus pandemic. Therefore, the Group decided to sell the RTA furniture products locally through the local online platform (e.g. Lazada and Shopee). A wholly owned subsidiary, Elisa Home Sdn Bhd has been incorporated in month of November 2020. This subsidiary will cater the online sales to local market, this is the first time that the Group involved in conducting B2C e-commerce business.

The Group believes that the new marketing B2C strategy is the business trend in next few years. Herewith, we also launched our new brand of products to the public – “*ELISA*” which carried the meaning as below: “*ELISA*” - *E-commerce Live in Spring Art*

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 or beginning of Year 2021. 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.

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B5. INCOME TAX EXPENSE

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	30.09.2020	30.09.2019	30.09.2020	30.09.2019
	RM'000	RM'000	RM'000	RM'000
Current tax expense	731	802	1,194	1,910
Deferred tax expense	179	(100)	172	(120)
Total tax expense	910	702	1,366	1,790
Effective tax rate (a) (%)	23.04	18.7	20.71	19.88

Notes:

- (a) 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.

B6. STATUS OF CORPORATE PROPOSALS

On 10 November 2020, the Company had announced that the Company proposes to undertake a bonus issue of 166,274,800 free warrants ("Warrants") on the basis of two (2) warrants for every five (5) existing ordinary shares in the Company held on an entitlement date to be determined and announced later.

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	-
		24,422	3,200	21,222

Note:

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

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B8. GROUP'S BORROWINGS AND DEBT SECURITIES

The Group's borrowings are as follows:

	As At 30.09.2020 RM'000	As At 30.09.2019 RM'000
Non-current :		
Term loan	5,026	5,732
	<u>5,026</u>	<u>5,732</u>
Current :		
Term loan	686	613
	<u>686</u>	<u>613</u>
Total borrowings	<u>5,712</u>	<u>6,345</u>

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: -

	NOTIONAL AMOUNT AS AT		FAIR VALUE LOSS AS AT	
	30.09.2020 RM'000	30.09.2019 RM'000	30.09.2020 RM'000	30.09.2019 RM'000
Foreign currency contracts				
Less than one year	7,483	8,590	74	109

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 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	
	30.09.2020	30.09.2019(a)	30.09.2020	30.09.2019(a)
	RM'000	RM'000	RM'000	RM'000
Depreciation of property, plant and equipment	450	553	1,324	1,383
Depreciation of right-of-use assets	235	-	647	-
Fair value (gain)/loss on derivative financial instruments	(227)	7	74	109
(Gain)/Loss on foreign exchange				
Realised	147	(37)	(22)	(78)
Unrealised	110	1	57	(8)
Interest income	(124)	(22)	(481)	(63)
Finance costs	63	72	213	234

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	
		30.09.2020	30.09.2019(a)	30.09.2020	30.09.2019(a)
		RM'000	RM'000	RM'000	RM'000
Earnings attributable to owner of the Parent	(RM)	3,039	3,053	5,229	7,216
Number of ordinary shares after IPO	(shares)	415,687	318,000	415,687	318,000
Basic earnings per share (b)	(sen)	0.73	2.51	1.26	5.94
Diluted earnings per share (c)	(sen)	0.73	2.51	1.26	5.94

Notes:

- (a) Basic earnings per share is calculated based on enlarged share capital of 318,000,000 shares before our IPO. Diluted EPS of the Company for the individual quarter ended 30 September 2019 and period-to-date 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 30 September 2019.
- (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 September 2020 and year-to-date ended 30 September 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.

**Board of Directors
Spring Art Holdings Berhad
19th November 2020**