

SPRING ART HOLDINGS BERHAD
REGISTRATION NO: 201801016143 (1278159-A)**NOTES TO THE INTERIM FINANCIAL STATEMENTS**
FOR THE FIRST QUARTER ENDED 31 MARCH 2021**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 2020 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 2020.

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 2021:

- 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 2020 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

There were no issuances, cancellation, repurchase, resale or repayment of debt and/or equity securities, share buy-backs, share cancellations, share held as treasury shares and resale of treasury shares during the current financial quarter under review except the conversion of 2,400 of Warrants A at exercise price of RM0.28 per share as illustrated as per below table:

Type of Securities	As at 01.01.2021	Allotment	Conversion	As at 31.03.2021
Ordinary shares	415,687,000	2,400	-	415,689,400
Warrants B	166,274,800	-	2,400	166,272,400

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	
	31.03.2021	31.03.2020	31.03.2021	31.03.2020
	RM'000	RM'000	RM'000	RM'000
Middle East	11,594	11,368	11,594	11,368
Asia Pacific	1,434	4,541	1,434	4,541
North America and Latin America	2,325	195	2,325	195
Europe	326	91	326	91
Total	15,679	16,195	15,679	16,195

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

As at the date of this report, The Group has contingent liabilities as follows:

Corporate guarantees for credit facilities granted to subsidiary companies (unsecured)	RM'000 25,248
--	-------------------------

A14. CAPITAL COMMITMENTS

The material capital commitments of the Group as at 31 March 2021 are as follows:

	As at 31.03.2021 RM'000	As at 31.03.2020 RM'000
Authorised and Contracted for:		
Application for access road	260	260
Purchase of property, plant and equipment	146	-
	406	260

A15. RELATED PARTY TRANSACTIONS

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

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

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

B1. PERFORMANCE REVIEW

- Results for current quarter and financial year-to-date

	INDIVIDUAL QUARTER			CUMULATIVE QUARTER		
	Current Year	Preceding Year	+/-	Current Year-To-Date	Preceding Year	+/-
	Quarter	Corresponding Quarter		Period	Corresponding	
	31.03.2021	31.03.2020	%	31.03.2021	31.03.2020	%
RM'000	RM'000		RM'000	RM'000		
Revenue	15,679	16,195	(3.2)	15,679	16,195	(3.2)
PBT	1,637	2,411	(32.1)	1,637	2,411	(32.1)

The Group recorded revenue of RM15.68 million for the current financial quarter ended 31 March 2021 ("Q1 2021"), a decrease of 3.2% as compare to the same quarter ended 31 March 2020 ("Q1 2020"). The decrease was mainly due to the temporary suspension of business ordered by Ministry of Health (MOH) to implement the mitigating steps to contain the spread of COVID-19 at the premises as some of the employees have been tested positive on 11 January 2021.

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 74.00% of the total revenue in current financial quarter.

The Group registered a PBT of RM1.64 million in Q1 2021 as compared to RM2.41 million in Q1 2020. Lower PBT recorded in Q1 2021 was mainly due to the production and shipment of furniture were interrupted by a production halt from 11 January 2021 to 23 January 2021. The COVID-19 related production interruptions have resulted a substantial drop in number of production days during the financial quarter under review.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER RESULTS

	INDIVIDUAL QUARTER		CHANGES	
	Current Year	Preceding Quarter	RM'000	%
	Quarter	Quarter		
	31.03.2021	31.12.2020		
RM'000	RM'000			
Revenue	15,679	15,335	344	2.24
PBT	1,637	1,669	(32)	(1.92)

The Group recorded revenue of RM15.68 million in Q1 2021 as compared to RM15.34 million in Q4 2020, an increase of RM0.34 million during current financial quarter.

The increase of revenue was due to some of the container's shortage issues have been resolved in Q1 2021. However, the production halt has caused the shipment of furniture interrupted again in Q1 2021.

The lower production level against a relatively fixed labour and factory overhead costs, couple with the incidental costs for the COVID-19 screening had resulted in a lower profit of RM0.03 million for the current reporting quarter compared to RM1.67 million in the previous reporting quarter.

B3. PROSPECT AND OUTLOOK FOR THE CURRENT FINANCIAL YEAR

Ready-to-assemble (RTA) furniture products have become increasingly 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.

A wholly owned subsidiary, Elisa Home Sdn Bhd has been set up to cater to the demands for online sales in the local market. The official website of Elisa Home has been successfully launched to public on 16 April 2021. This is the first time that the Group is involved in conducting B2C e-commerce business. The Group believes that the new marketing B2C strategy is the business trend in coming years.

The building plan for Factory C has been approved by the Majlis Perbandaran Muar on 2nd May 2021. We expect the construction works to commence in July 2021 and the Factory C will be completed approximately by July 2022. Currently, our total annual production capacity is 393,165 units. With the addition of Factory C, our annual production capacity is expected to increase to approximately 730,169 units.

With the increasing production capacity, the Group is now focused 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.

In addition, the Board will continue to monitor the status and progress of COVID-19 and will regularly review the performance and progress of the Group's operations and financial performance as well as introduce measures to minimise its operating costs, if required. The Board expects that the Group's prospects for the financial year ending 31 December 2021 to be challenging but satisfactory.

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	
	31.03.2021	31.03.2020	31.03.2021	31.03.2020
	RM'000	RM'000	RM'000	RM'000
Current tax expense	143	315	143	315
Deferred tax expense	230	67	230	67
Total tax expense	373	382	373	382
Effective tax rate (a) (%)	22.3	15.8	22.3	15.8

(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 23 February 2021.

The Warrants have a tenure of four (4) years commencing from and inclusive of the date of the issue of the Warrants i.e., 4 March 2021. The exercise price of the Warrants is RM0.28 per Warrant. Subsequently, the Proposed Bonus Warrants was approved by the shareholders of the Company at an extraordinary general meeting held on 8 February 2021. It was completed on 4 March 2021, following the listing and quotation of 166,274,800 Warrants A on the ACE Market of Bursa Malaysia Securities Berhad.

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.

B8. GROUP'S BORROWINGS AND DEBT SECURITIES

The Group's borrowings are as follows:

	As At 31.03.2021 RM'000	As At 31.03.2020 RM'000
Non-current :		
Term loan	4,673	5,393
	4,673	5,393
Current :		
Term loan	697	645
	697	645
Total borrowings	5,370	6,038

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	
	31.03.2021	31.03.2020	31.03.2021	31.03.2020
	RM'000	RM'000	RM'000	RM'000
Foreign currency contracts				
Less than one year	10,203	10,268	313	453

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 March 2021.

B11. DIVIDEND

The Board of Directors is pleased to propose a final single tier tax-exempt dividend of RM0.004 per ordinary share for the financial year ended 31 December 2020. The proposed final dividend is subject to shareholders' approval in the forthcoming Annual General Meeting.

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	
	31.03.2021	31.03.2020	31.03.2021	31.03.2020
	RM'000	RM'000	RM'000	RM'000
Depreciation of property, plant and equipment	497	435	497	435
Depreciation of right-of-use assets	244	183	244	183
Fair value loss on derivative financial instruments	313	453	313	453
Gain on disposal of property, plant and equipment	(5)	-	(5)	-
Gain on foreign exchange				
Realised	(47)	(154)	(47)	(154)
Unrealised	(285)	(120)	(285)	(120)
Interest income	(98)	(190)	(98)	(190)
Finance costs	73	78	73	78

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	
	31.03.2021	31.03.2020	31.03.2021	31.03.2020
Profit after tax attributable to owners of the Company (RM'000)	1,273	2,029	1,273	2,029
Weighted average number of ordinary shares in issue ('000) (a)	415,687	415,687	415,687	415,687
Basic earnings per share (sen)	0.30	0.49	0.30	0.49
Profit after tax attributable to owners of the Company (RM'000)	1,273	2,029	1,273	2,029
Weighted average number of ordinary shares in issue ('000) (b)	415,687	415,687	415,687	415,687
Diluted earnings per share (sen)	0.30	0.49	0.30	0.49

Notes:

- (a) 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.
- (b) Diluted earnings per share is calculated based on the Company's weighted average number of ordinary shares at the end of the reporting period which is 415,687,066 shares as 2,400 warrants have been converted to ordinary shares as at the end of the reporting period.

Board of Directors
Spring Art Holdings Berhad
12th May 2021