

**NOTICE ACCOMPANYING THE ELECTRONIC PROSPECTUS OF SPRING ART HOLDINGS BERHAD (“SPRING ART HOLDINGS” OR “COMPANY”) DATED 16 OCTOBER 2019 (“ELECTRONIC PROSPECTUS”)**

*(Unless otherwise indicated, specified or defined in this notice, the definitions in the Prospectus shall apply throughout this notice)*

**Website**

The Electronic Prospectus can be viewed or downloaded from Bursa Malaysia Securities Berhad’s (“**Bursa Securities**”) website at [www.bursamalaysia.com](http://www.bursamalaysia.com) (“**Website**”).

**Availability and Location of Paper/Printed Prospectus**

Any applicant in doubt concerning the validity or integrity of the Electronic Prospectus should immediately request a paper/printed copy of the Prospectus directly from the Company, M&A Securities Sdn Bhd (“M&A Securities”), or Tricor Investor & Issuing House Services Sdn Bhd. Alternatively, the applicant may obtain a copy of the Prospectus from participating organisations of Bursa Securities, members of the Association of Banks in Malaysia and members of the Malaysian Investment Banking Association.

Prospective investors should note that the Application Form is not available in electronic format.

**Jurisdictional Disclaimer**

This distribution of the Electronic Prospectus and the sale of the units are subject to Malaysian law. Bursa Securities, M&A Securities and Spring Art Holdings take no responsibility for the distribution of the Electronic Prospectus and/or the sale of the units outside Malaysia, which may be restricted by law in other jurisdictions. The Electronic Prospectus does not constitute and may not be used for the purpose of an offer to sell or an invitation of an offer to buy any units, to any person outside Malaysia or in any jurisdiction in which such offer or invitation is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation.

**Close of Application**

Applications will be accepted from 10.00 a.m. on 16 October 2019 and will close at 5.00 p.m. on 24 October 2019. In the event there is any change to the timetable, Spring Art Holdings will advertise the notice of changes in a widely circulated English and Bahasa Malaysia daily newspaper in Malaysia.

The Electronic Prospectus made available on the Website after the closing of the application period is made available solely for informational and archiving purposes. No securities will be allotted or issued on the basis of the Electronic Prospectus after the closing of the application period.

**Persons Responsible for the Internet Site in which the Electronic Prospectus is Posted**

The Electronic Prospectus which is accessible at the Website is owned by Bursa Securities. Users’ access to the website and the use of the contents of the Website and/or any information in whatsoever form arising from the Website shall be conditional upon acceptance of the terms and conditions of use as contained in the Website.

The contents of the Electronic Prospectus are for informational and archiving purposes only and are not intended to provide investment advice of any form or kind, and shall not at any time be relied upon as such.

## SPRING ART HOLDINGS BERHAD

(Company No. 1278159-A)  
(Incorporated in Malaysia under the Companies Act 2016)

### Head Office

Lot Plo 49, Jalan Rami 4,  
Kawasan Persindustrian Bukit Pasir,  
84300 Bukit Pasir, Muar, Johor,  
Malaysia.

Phone : +606 - 985 9971  
Fax : +606 - 985 9972  
Email : info@springart.com

[www.springart.com](http://www.springart.com)



SPRING ART HOLDINGS BERHAD

PROSPECTUS

# PROSPECTUS

This Prospectus is dated 16 October 2019



## SPRING ART HOLDINGS BERHAD

(Company No. 1278159-A)  
(Incorporated in Malaysia under the Companies Act 2016)

INITIAL PUBLIC OFFERING IN CONJUNCTION WITH OUR LISTING ON THE ACE MARKET OF BURSA MALAYSIA SECURITIES BERHAD ("BURSA SECURITIES") COMPRISING:

- (I) PUBLIC ISSUE OF 97,687,000 NEW ORDINARY SHARES IN OUR COMPANY ("SHARES") 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 OUR ELIGIBLE DIRECTORS AND EMPLOYEES AS WELL AS PERSONS WHO HAVE CONTRIBUTED TO THE SUCCESS OF OUR GROUP; AND
  - 72,745,800 NEW SHARES BY WAY OF PRIVATE PLACEMENT TO SELECTED BUMIPUTERA INVESTORS APPROVED BY THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY AND SELECTED INVESTORS
- (II) OFFER FOR SALE OF 27,019,000 EXISTING SHARES BY WAY OF PRIVATE PLACEMENT TO SELECTED INVESTORS

AT AN ISSUE/OFFER PRICE OF RM0.25 PER SHARE, PAYABLE IN FULL UPON APPLICATION.

*Adviser, Sponsor, Underwriter And Placement Agent*



**M&A SECURITIES SDN BHD (15017-H)**  
(A Wholly-Owned Subsidiary of Insas Berhad)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)



This Prospectus has been registered by the Securities Commission Malaysia ("SC"). The registration of this Prospectus, should not be taken to indicate that the SC recommends the offering or assumes responsibility for the correctness of any statement made, opinion expressed or report contained in this Prospectus. The SC has not, in any way, considered the merits of the securities being offered for investment. The SC is not liable for any non-disclosure on the part of the company and takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness, and expressly disclaims any liability for any loss you may suffer arising from or in reliance upon the whole or any part of the contents of this Prospectus. No securities will be allotted or issued based on this Prospectus after 6 months from the date of this Prospectus.

**YOU ARE ADVISED TO READ AND UNDERSTAND THE CONTENTS OF THIS PROSPECTUS. IF IN DOUBT, PLEASE CONSULT A PROFESSIONAL ADVISER.**

**FOR INFORMATION CONCERNING RISK FACTORS WHICH SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS, SEE "RISK FACTORS" COMMENCING ON PAGE 112.**

**THE ACE MARKET OF BURSA SECURITIES IS AN ALTERNATIVE MARKET DESIGNED PRIMARILY FOR EMERGING CORPORATIONS THAT MAY CARRY HIGHER INVESTMENT RISK WHEN COMPARED WITH LARGER OR MORE ESTABLISHED CORPORATIONS LISTED ON THE MAIN MARKET. THERE IS ALSO NO ASSURANCE THAT THERE WILL BE A LIQUID MARKET IN THE SHARES OR UNITS OF SHARES TRADED ON THE ACE MARKET. YOU SHOULD BE AWARE OF THE RISKS OF INVESTING IN SUCH CORPORATIONS AND SHOULD MAKE THE DECISION TO INVEST ONLY AFTER CAREFUL CONSIDERATION.**

**THE ISSUE, OFFER OR INVITATION FOR THE OFFERING IS AN EXEMPT TRANSACTION UNDER SECTION 212(8) OF THE CAPITAL MARKETS AND SERVICES ACT 2007 AND IS THEREFORE NOT SUBJECT TO THE APPROVAL OF THE SC.**

Our Directors, Promoters and Selling Shareholders (as defined herein) have seen and approved this Prospectus. They collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus. Having made all reasonable enquiries, and to the best of their knowledge and belief, they confirm that there is no false or misleading statement or other facts which if omitted, would make any statement in this Prospectus false or misleading.

M&A Securities Sdn Bhd, being the Adviser, Sponsor, Underwriter and Placement Agent to our IPO (as defined herein), acknowledges that, based on all available information, and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning our IPO.

A copy of this Prospectus, together with the Application Form (as defined herein), has also been lodged with the Registrar of Companies, who takes no responsibility for its contents.

You should note that you may seek recourse under Sections 248, 249 and 357 of the Capital Markets and Services Act 2007 ("CMSA") for breaches of securities laws including any statement in this Prospectus that is false, misleading, or from which there is a material omission; or for any misleading or deceptive act in relation to this Prospectus or the conduct of any other person in relation to our Group (as defined herein).

Securities listed on Bursa Securities are offered to the public premised on full and accurate disclosure of all material information concerning our IPO, for which any person set out in Section 236 of the CMSA, is responsible.

Approval has been obtained from Bursa Securities for the listing of and quotation for our IPO Shares (as defined herein) on 18 April 2019. Our admission to the Official List of the ACE Market of Bursa Securities is not to be taken as an indication of the merits of our IPO, our Company or our Shares. Bursa Securities shall not be liable for any non-disclosure on our part and takes no responsibility for the contents of this Prospectus, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

This Prospectus has not been and will not be made to comply with the laws of any jurisdiction other than Malaysia, and has not been and will not be lodged, registered or approved pursuant to or under any applicable securities or equivalent legislation or by any regulatory authority or other relevant body of any jurisdiction other than Malaysia.

We will not, prior to acting on any acceptance in respect of our IPO, make or be bound to make any enquiry as to whether you have a registered address in Malaysia and will not accept or be deemed to accept any liability in relation thereto whether or not any enquiry or investigation is made in connection therewith.

It shall be your sole responsibility if you are or may be subject to the laws of countries or jurisdictions other than Malaysia, to consult your legal and/or other professional advisers as to whether our IPO would result in the contravention of any law of such countries or jurisdictions.

Further, it shall also be your sole responsibility to ensure that your application for our IPO would be in compliance with the terms of our IPO as stated in our Prospectus and the Application Forms and would not be in contravention of any laws of countries or jurisdictions other than Malaysia to which you may be subjected. We will further assume that you had accepted our IPO in Malaysia and will be subjected only to the laws of Malaysia in connection therewith.

However, we reserve the right, in our absolute discretion to treat any acceptance as invalid if we believe that such acceptance may violate any law or applicable legal or regulatory requirements.

No action has been or will be taken to ensure that this Prospectus complies with the laws of any country or jurisdiction other than the laws of Malaysia. It shall be your sole responsibility to consult your legal and/or other professional adviser on the laws to which our IPO or you are or might be subjected to. Neither us nor our Adviser nor any other advisers in relation to our IPO shall accept any responsibility or liability in the event that any application made by you shall become illegal, unenforceable, avoidable or void in any country or jurisdiction.

### **ELECTRONIC PROSPECTUS**

This Prospectus can be viewed or downloaded from Bursa Securities' website at [www.bursamalaysia.com](http://www.bursamalaysia.com). The contents of the Electronic Prospectus and the copy of this Prospectus registered with the SC are the same.

You are advised that the internet is not a fully secured medium, and that your Internet Share Application (as defined herein) may be subject to the risks of problems occurring during the data transmission, computer security threats such as viruses, hackers and crackers, faults with computer software and other events beyond the control of the Internet Participating Financial Institutions (as defined herein). These risks cannot be borne by the Internet Participating Financial Institutions.

If you are in doubt of the validity or integrity of an Electronic Prospectus, you should immediately request from us, the Adviser or Issuing House, a paper printed copy of this Prospectus.

In the event of any discrepancy arising between the contents of the electronic and the contents of the paper printed copy of this Prospectus for any reason whatsoever, the contents of the paper printed copy of this Prospectus which are identical to the copy of this Prospectus registered with the SC shall prevail.

In relation to any reference in this Prospectus to third party internet sites (referred to as "Third Party Internet Sites"), whether by way of hyperlinks or by way of description of the third party internet sites, you acknowledge and agree that:

- (a) We and our Adviser do not endorse and is not affiliated in any way with the Third Party Internet Sites and is not responsible for the availability of, or the contents or any data, information, files or other material provided on the third party internet sites. You shall bear all risks associated with the access to or use of the Third Party Internet Sites;
- (b) We and our Adviser are not responsible for the quality of products or services in the Third Party Internet Sites, for fulfilling any of the terms of your agreements with the Third Party Internet Sites. We and our Adviser are also not responsible for any loss or damage or costs that you may suffer or incur in connection with or as a result of dealing with the Third Party Internet Sites or the use of or reliance of any data, information, files or other material provided by such parties; and
- (c) Any data, information, files or other material downloaded from Third Party Internet Sites is done at your own discretion and risk. We and our Adviser are not responsible, liable or under obligation for any damage to your computer system or loss of data resulting from the downloading of any such data, information, files or other material.

Where an Electronic Prospectus is hosted on the website of the Internet Participating Financial Institutions, you are advised that:

- (a) The Internet Participating Financial Institutions are only liable in respect of the integrity of the contents of an Electronic Prospectus, to the extent of the contents of the Electronic Prospectus situated on the web server of the Internet Participating Financial Institutions and shall not be responsible in any way for the integrity of the contents of an Electronic Prospectus which has been downloaded or otherwise obtained from the web server of the Internet Participating Financial Institutions and thereafter communicated or disseminated in any manner to you or other parties; and
- (b) While all reasonable measures have been taken to ensure the accuracy and reliability of the information provided in an Electronic Prospectus, the accuracy and reliability of an Electronic Prospectus cannot be guaranteed as the internet is not a fully secured medium.

The Internet Participating Financial Institutions shall not be liable (whether in tort or contract or otherwise) for any loss, damage or costs, you or any other person may suffer or incur due to, as a consequence of or in connection with any inaccuracies, changes, alterations, deletions or omissions in respect of the information provided in an Electronic Prospectus which may arise in connection with or as a result of any fault or faults with web browsers or other relevant software, any fault or faults on your or any third party's personal computer, operating system or other software, viruses or other security threats, unauthorised access to information or systems in relation to the website of the internet participating financial institutions, and/or problems occurring during data transmission, which may result in inaccurate or incomplete copies of information being downloaded or displayed on your personal computer.

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**INDICATIVE TIMETABLE**

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All terms used are defined under "Definitions" commencing from page vii.

The indicative timing of events leading to our Listing is set out below:

<b>Events</b>	<b>Tentative Dates</b>
Issuance of this Prospectus/Opening of Application	16 October 2019
Closing of Application	24 October 2019
Balloting of the Application	31 October 2019
Allotment of our IPO Shares to successful applicants	6 November 2019
Date of Listing	8 November 2019

In the event there is any change to the timetable, we will advertise the notice of the changes in a widely circulated English and Bahasa Malaysia daily newspaper in Malaysia.

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## **PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

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All terms used are defined under "Definitions" commencing from page vii.

All references to "Spring Art Holdings" and the "Company" in this Prospectus are to Spring Art Holdings Berhad (1278159-A). Unless otherwise stated, references to "Group" are to our Company and our subsidiary taken as a whole; and references to "we", "us", "our" and "ourselves" are to our Company, and, save where the context otherwise requires, our subsidiary. Unless the context otherwise requires, references to "Management" are to our Directors and key senior management as at the date of this Prospectus, and statements as to our beliefs, expectations, estimates and opinions are those of our Management.

The word "approximately" used in this Prospectus is to indicate that a number is not an exact one, but that number is usually rounded off to the nearest hundredth or 1 decimal place (for percentages) or dollar and sen for currency. Any discrepancies in the tables included herein between the amounts listed and the totals thereof are due to rounding.

Certain abbreviations, acronyms and technical terms used are defined in "Definitions" and "Technical Glossary" appearing after this section. Words denoting the singular only shall include the plural and vice versa and words denoting the masculine gender shall, where applicable, include the feminine gender and vice versa. Reference to persons shall include companies and corporations.

All reference to dates and times are references to dates and times in Malaysia.

Any reference in this Prospectus to any enactment is a reference to that enactment as for the time being amended or re-enacted.

This Prospectus includes statistical data provided by our management and various third parties and cites third party projections regarding growth and performance of the industry in which our Group operates. This data is taken or derived from information published by industry sources and from our internal data. In each such case, the source is stated in this Prospectus, provided that where no source is acknowledged, it can be assumed that the information originates from our Management. In particular, certain information in this Prospectus is extracted or derived from report(s) prepared by the Independent Market Researcher. We believe that the statistical data and projections cited in this Prospectus are useful in helping you to understand the major trends in the industry in which we operate.

The information on our website, or any website directly or indirectly linked to such websites does not form part of this Prospectus.

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## **FORWARD-LOOKING STATEMENTS**

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All terms used are defined under "Definitions" commencing from page vii.

This Prospectus contains forward-looking statements. All statements other than statements of historical facts included in this Prospectus, including, without limitation, those regarding our financial position, business strategies, plans and objectives for future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, contingencies and other factors which may cause our actual results, our performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Such forward-looking statements reflect our Management's current view with respect to future events and are not a guarantee of future performance.

Forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "would", "could", "believe", "expect", "anticipate", "intend", "estimate", "aim", "plan", "forecast", "project" or similar expressions and include all statements that are not historical facts.

Such forward-looking statements include, without limitations, statements relating to:

- (a) Demand for our products;
- (b) Our business strategies and prospects;
- (c) Our financial position; and
- (d) Our ability to pay future dividends.

Our actual results may differ materially from information contained in such forward-looking statements as a result of a number of factors beyond our control, including, without limitation:

- (a) The economic, political and investment environment in Malaysia and globally; and
- (b) Government policy, legislation or regulation.

Additional factors that could cause our actual results, performance or achievements to differ materially include, but are not limited to, those discussed in "Section 8 - Risk Factors" and "Section 11 - Financial Information". We cannot give any assurance that the forward-looking statements made in this Prospectus will be realised. Such forward-looking statements are made only as at the date of this Prospectus.

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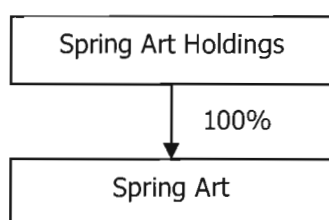
## DEFINITIONS

The following terms in this Prospectus bear the same meanings as set out below unless otherwise defined or the context requires otherwise:

### COMPANIES WITHIN OUR GROUP:

"Spring Art"	:	Spring Art Industries Sdn Bhd (415155-P), a wholly-owned subsidiary of Spring Art Holdings
"Spring Art Holdings" or "Company"	:	Spring Art Holdings Berhad (1278159-A)
"Spring Art Holdings Group" or "Group"	:	Spring Art Holdings and its subsidiary, collectively

A diagrammatic illustration of our Group structure is as follows:



### GENERAL:

"ACE Market"	:	ACE Market of Bursa Securities
"Act"	:	Companies Act 2016
"Acquisition of Spring Art"	:	Acquisition by Spring Art Holdings of the entire share capital of Spring Art for a purchase consideration of RM31,799,980 which was wholly satisfied by the issuance of 317,999,800 new Shares at an issue price of RM0.10 per Share.

The Acquisition of Spring Art was completed on 31 July 2019 and resulted in Spring Art becoming a wholly-owned subsidiary of Spring Art Holdings

"ADA"	:	Authorised Depository Agent
"Adviser" or "Sponsor"	:	M&A Securities
"Application"	:	The application for our IPO Shares by way of Application Form, Electronic Share Application or Internet Share Application
"Application Form"	:	The printed application form for the application of our IPO Shares accompanying this Prospectus
"ATM(s)"	:	Automated Teller Machine(s)
"Board"	:	Board of Directors of Spring Art Holdings
"Bursa Depository" or "Depository"	:	Bursa Malaysia Depository Sdn Bhd (165570-W)

**DEFINITIONS (Cont'd)**

"Bursa Securities"	:	Bursa Malaysia Securities Berhad (635998-W)
"CAGR"	:	Compounded annual growth rate
"CDS"	:	Central Depository System
"CDS Account"	:	An account established by Bursa Depository for a depositor for the recording of securities and for dealing in such securities by the depositor
"Closing Date"	:	The date adopted in this Prospectus as the last date for acceptance and receipt of Application
"CMSA"	:	Capital Markets and Services Act 2007
"Constitution"	:	Constitution of our Company
"Depository Rules"	:	The Rules of Bursa Depository and any appendices thereto
"DDWG"	:	Due diligence working group for the purpose of our IPO
"Director"	:	Either an executive director or a non-executive director of our Company within the meaning of Section 2 of the Act
"EBIT"	:	Earnings before interest and taxation
"EBITDA"	:	Earnings before interest, taxation, depreciation and amortisation
"Electronic Prospectus"	:	Copy of this Prospectus that is issued, circulated or disseminated via the internet and/or an electronic storage medium
"Electronic Share Application"	:	Application for our IPO Shares through a Participating Financial Institution's ATM
"EPS"	:	Earnings per share
"ETP"	:	Economic Transformation Programme
"FPE"	:	4-month financial period ended 30 April
"FYE(s)"	:	Financial year(s) ended 31 December
"GP"	:	Gross profit
"IFRS"	:	International Financial Reporting Standards
"IMR" or "Providence"	:	Providence Strategic Partners Sdn Bhd (1238910-A), our Independent Market Researcher
"IMR Report"	:	Independent Market Research Report titled "Outlook of Malaysia's Furniture Industry and the Global Furniture Market"
"Initial Public Offering" or "IPO"	:	Our initial public offering comprising our Public Issue and Offer for Sale

**DEFINITIONS (Cont'd)**

"Internet Participating Financial Institutions"	:	Participating financial institutions for Internet Share Application as listed in Section 15
"Internet Share Application"	:	Application for our IPO Shares through an online share application service provided by the Internet Participating Financial Institutions
"IPO Price"	:	Our issue/offer price of RM0.25 per Share pursuant to our Public Issue and Offer for Sale
"IPO Share(s)"	:	The Issue Share(s) and Offer Share(s), collectively
"ISO"	:	International Organisation for Standardisation
"Issue Share(s)"	:	97,687,000 new Share(s) to be issued pursuant to our Public Issue
"Issuing House"	:	Tricor Investor & Issuing House Services Sdn Bhd (11324-H)
"Listing"	:	Listing of and quotation for our entire enlarged share capital of RM56,221,750 comprising 415,687,000 Shares on the ACE Market
"Listing Requirements"	:	ACE Market Listing Requirements of Bursa Securities
"Listing Scheme"	:	Comprising our Public Issue, Offer for Sale and Listing, collectively
"LPD"	:	17 September 2019, being the latest practicable date for ascertaining certain information contained in this Prospectus
"M&A Securities"	:	M&A Securities Sdn Bhd (15017-H)
"Malaysian Public"	:	Malaysian citizens and companies, co-operatives, societies and institutions incorporated or organised under the laws of Malaysia
"Market Day(s)"	:	Any day(s) between Monday to Friday (both days inclusive) which is not a public holiday and on which Bursa Securities is open for the trading of securities
"MFRS"	:	Malaysian Financial Reporting Standards
"MIDA"	:	Malaysian Investment Development Authority
"MITI"	:	Ministry of International Trade and Industry Malaysia
"NA"	:	Net assets
"NBV"	:	Net book value
"Offer for Sale"	:	The offer for sale by our Selling Shareholders of 27,019,000 Offer Shares at our IPO Price by way of private placement to selected investors
"Offer Shares"	:	27,019,000 existing Shares to be offered pursuant to our Offer for Sale
"Official List"	:	The list specifying all securities which have been admitted for listing of Bursa Securities and not removed

**DEFINITIONS (Cont'd)**

"Participating Financial Institutions"	:	Participating financial institutions for Electronic Share Application, as listed in Section 15
"PAT"	:	Profit after taxation
"PBT"	:	Profit before taxation
"PE Multiple"	:	Price-to-earnings multiple
"Pink Form Allocations"	:	The allocation of 4,156,800 Issue Shares to our eligible Directors and employees as well as persons who have contributed to the success of our Group
"Placement Agent"	:	M&A Securities
"Promoters"	:	Collectively, Lim Kok Eng and Kwan Chian Poh
"Prospectus"	:	This prospectus dated 16 October 2019 in relation to our IPO
"Public Issue"	:	The public issue of 97,687,000 Issue Shares at our IPO Price
"ROC"	:	Registrar of Companies
"SC"	:	Securities Commission Malaysia
"Selling Shareholders"	:	Lim Kok Eng and Kwan Chian Poh, whom are undertaking the Offer for Sale
"Shares" or "Spring Art Holdings Shares"	:	Ordinary shares in Spring Art Holdings
"SICDA" or "Depository Act"	:	Securities Industry (Central Depositories) Act, 1991
"sq ft"	:	Square foot
"sqm"	:	Square metre
"SST"	:	Sales and Service Tax
"Taiwan"	:	The Republic of China (Taiwan)
"UAE"	:	The United Arab Emirates
"Underwriter"	:	M&A Securities
"Underwriting Agreement"	:	The underwriting agreement dated 4 September 2019 entered into between our Company and M&A Securities pursuant to our IPO
"USA"	:	United States of America
"Vendors"	:	Lim Kok Eng and Kwan Chian Poh, collectively

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**DEFINITIONS (Cont'd)**

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"WAFEX" : Weighted average foreign exchange of USD against RM for export sales. It represents the total export sales in RM after currency conversion at respective invoice dates for a financial year divided by the total export sales denominated in USD as per sales invoices in the same financial year

**PROPERTIES OWNED BY OUR GROUP:**

"Factory A1" : A single storey detached factory with a single storey integral office building situated on Land 1

"Factory A2" : An extended single storey detached factory with an annexed 3 storey office situated on Land 1

"Factory B" : An extended single storey detached factory situated on Land 2

"Factory C" : A new factory to be constructed on Land 3, which shall include a 2-storey office and a 2-storey hostel

"Investment Land" : A vacant freehold land identified as Lot 1850, Mukim of Sungai Raya, District of Muar, Johor

"Land 1" : An industrial leasehold land bearing postal address Plo 49, Jalan Rami 4, Taman Perindustrian Bukit Pasir, 84300 Bukit Pasir, Muar, Johor which houses Factory A1 and Factory A2

"Land 2" : An industrial freehold land bearing postal address PTD 2626, Jalan Rami 5, Taman Perindustrian Bukit Pasir, 84300 Bukit Pasir, Muar, Johor which houses Factory B

"Land 3" : An agriculture freehold land bearing title Lot 343, Mukim of Sungai Raya, District of Muar, Johor Darul Takzim held under Title No. GM 231. We plan to construct Factory C on the land

**CURRENCIES:**

"RM" and "sen" : Ringgit Malaysia and sen respectively

"SGD" : Singapore Dollar

"USD" : United States Dollar

**TECHNICAL GLOSSARY:**

"CNC machine" : Computer numerical control machines, the automation of processes in the manufacturing sector that involves the use of computers to control machinery

"Conveyor belts" : A mechanical handling equipment or system that is used to transport materials from one location to another

"e-commerce" : Electronic commerce, the activity of buying and selling products over the internet

"MDF" : Medium density fibreboard, a type of wood product which is made from wood fibres bonded under heat and pressure

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**DEFINITIONS (Cont'd)**

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- "Particle board" : A low density fibreboard made from compressed wood particles
- "PVC" : Polyvinyl chloride, a synthetic polymer with wide application across multiple industries
- "QC" : Quality control, a set of procedures intended to ensure that a manufactured product adheres to a defined set of quality criteria
- "ready-to-assemble" : Flat packed furniture that requires customer to assemble. Furniture parts are packed in cartons along with assembly instructions. Ready to assemble furniture is generally easily assembled with basic tools such as screwdrivers

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**1. CORPORATE DIRECTORY****BOARD OF DIRECTORS**

<b>Name (Gender)</b>	<b>Designation</b>	<b>Address</b>	<b>Nationality</b>
Haji Ismail Bin Tunggak (M)	Independent Non-Executive Chairman	No 107, Taman Pertama Sungai Abong 84000 Muar Johor	Malaysian
Lim Kok Eng (M)	Managing Director	No 315, Jalan Selatan Bukit Bakri 84200 Muar Johor	Malaysian
Kwan Chian Poh (F)	Executive Director	No 315, Jalan Selatan Bukit Bakri 84200 Muar Johor	Malaysian
Law Sang Thiam (M)	Independent Non-Executive Director	No 59, Jalan M9 Taman Merbok Bukit Baru 75450 Melaka	Malaysian
Tan Meng Loon (M)	Independent Non-Executive Director	No 4, Jalan Perdana 6 Taman Junid Perdana Jalan Abdul Rahman 84000 Muar Johor	Malaysian

Notes:

M refers to male  
F refers to female

**AUDIT COMMITTEE**

<b>Name</b>	<b>Designation</b>	<b>Directorship</b>
Law Sang Thiam	Chairman	Independent Non-Executive Director
Haji Ismail Bin Tunggak	Member	Independent Non-Executive Chairman
Tan Meng Loon	Member	Independent Non-Executive Director

**REMUNERATION COMMITTEE**

<b>Name</b>	<b>Designation</b>	<b>Directorship</b>
Haji Ismail Bin Tunggak	Chairman	Independent Non-Executive Chairman
Law Sang Thiam	Member	Independent Non-Executive Director
Tan Meng Loon	Member	Independent Non-Executive Director

**1. CORPORATE DIRECTORY (Cont'd)**

**NOMINATION COMMITTEE**

<b>Name</b>	<b>Designation</b>	<b>Directorship</b>
Tan Meng Loon	Chairman	Independent Non-Executive Director
Haji Ismail Bin Tunggak	Member	Independent Non-Executive Chairman
Law Sang Thiam	Member	Independent Non-Executive Director

**REGISTERED OFFICE** : No. 7 (1st Floor), Jalan Pesta 1/1  
Taman Tun Dr Ismail 1, Jalan Bakri  
84000 Muar  
Johor  
  
Telephone number: 06-954 1705

**HEAD OFFICE** : Lot Plo 49  
Jalan Rami 4  
Kawasan Perindustrian Bukit Pasir  
84300 Bukit Pasir, Muar  
Johor  
  
Telephone number: 06-985 9971

**EMAIL ADDRESS AND WEBSITE** : Email address: info@springart.com  
Website: http://www.springart.com

**COMPANY SECRETARIES** : Ng Mei Wan (MIA 28862)  
(Malaysian Institute of Accountants)  
  
Tan Hui Khim (LS 0009936)  
(Licenced Secretary)  
  
No. 7 (1st Floor), Jalan Pesta 1/1  
Taman Tun Dr Ismail 1, Jalan Bakri  
84000 Muar  
Johor  
  
Telephone number: 06-954 1705

**AUDITORS AND REPORTING ACCOUNTANTS FOR OUR IPO** : Grant Thornton Malaysia (AF 0737)  
Level 11  
Sheraton Imperial Court  
Jalan Sultan Ismail  
50250 Kuala Lumpur  
  
Telephone number: 03-2692 4022  
  
Partner's name: Ooi Poh Lim  
(Chartered Accountant, Malaysian Institute of Accountants, Association of Chartered Certified Accountants)

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**1. CORPORATE DIRECTORY (Cont'd)**

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- PRINCIPAL ADVISER, SPONSOR,  
UNDERWRITER AND PLACEMENT  
AGENT** : M&A Securities Sdn Bhd (15017-H)  
Level 11, No. 45 & 47, The Boulevard  
Mid Valley City  
Lingkaran Syed Putra  
59200 Kuala Lumpur  
  
Telephone number: 03-2284 2911
- SOLICITORS FOR OUR IPO** : Ben & Partners  
Advocates & Solicitors  
7-2, Level 2, Block D2  
Dataran Prima  
Jalan PJU 1/39  
47301 Petaling Jaya  
Selangor  
  
Telephone number: 03-7805 2922
- SHARE REGISTRAR AND ISSUING  
HOUSE** : Tricor Investor & Issuing House Services Sdn Bhd  
(11324-H)  
Unit 32-01, Level 32, Tower A  
Vertical Business Suite, Avenue 3  
Bangsar South  
8, Jalan Kerinchi  
59200 Kuala Lumpur  
  
Telephone number: 03-2783 9299
- INDEPENDENT MARKET  
RESEARCHER** : Providence Strategic Partners Sdn Bhd (1238910-A)  
67-1, Block D, Jaya One  
No. 72A, Jalan Universiti  
46200 Petaling Jaya  
Selangor  
  
Telephone number: 03-7625 1769  
  
Executive Director's name: Elizabeth Dhoss  
(Bachelor of Business Administration from University  
of Malaya)
- LISTING SOUGHT** : ACE Market of Bursa Securities

## 2. APPROVALS AND CONDITIONS

### 2.1 APPROVALS AND CONDITIONS

#### 2.1.1 Bursa Securities

Bursa Securities had vide its letter dated 18 April 2019 approved our admission to the Official List of the ACE Market and the listing of and quotation for our entire enlarged issued share capital on the ACE Market. The approval from Bursa Securities is subject to the following conditions:

No.	Details of conditions imposed	Status of compliance
1.	Submission of the following information in respect of the moratorium on the shareholdings of the Promoters to the Bursa Depository: <ul style="list-style-type: none"> <li>(i) Name of shareholders;</li> <li>(ii) Number of shares; and</li> <li>(iii) Date of expiry of the moratorium for each block of shares.</li> </ul>	Complied
2.	Approvals from other relevant authorities have been obtained for implementation of the Listing.	Complied
3.	Make the relevant announcements pursuant to Paragraphs 8.1 and 8.2 of Guidance Note 15 of Listing Requirements.	To be complied
4.	Furnish Bursa Securities with a copy of the schedule of distribution showing compliance with the share spread requirements based on the entire issued share capital of Spring Art Holdings on the first day of Listing.	To be complied
5.	Any director of Spring Art Holdings that has not attended the Mandatory Accreditation Programme must do so prior to the Listing.	Complied
6.	In relation to the public offering to be undertaken by Spring Art Holdings, please announce at least 2 Market Days prior to the Listing date, the result of the offering including the following: <ul style="list-style-type: none"> <li>(i) Level of subscription of public balloting and placement;</li> <li>(ii) Basis of allotment/allocation;</li> <li>(iii) A table showing the distribution for placement tranche, in format prescribed; and</li> <li>(iv) Disclosure of placees who become substantial shareholders of Spring Art Holdings arising from the public offering, if any.</li> </ul> M&A Securities is reminded to ensure that the overall distribution of Spring Art Holdings' securities is properly carried out to mitigate any disorderly trading in the secondary market.	To be complied
7.	Spring Art Holdings/M&A Securities to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval upon the admission of Spring Art Holdings to the Official List of the ACE Market.	To be complied
8.	Spring Art Holdings/M&A Securities to ensure full compliance of all requirements as provided under the Listing Requirements at all times.	Noted

## 2. APPROVALS AND CONDITIONS (Cont'd)

### 2.1.2 SC

Our Listing is an exempt transaction under Section 212(8) of the CMSA and is therefore not subject to the approval of the SC.

The SC had, vide its letter dated 24 May 2019, approved the resultant equity structure of Spring Art Holdings under the equity requirement for public listed companies pursuant to our Listing.

The approval from the SC is subject to the following conditions:

No.	Details of conditions imposed	Status of compliance
(i)	Spring Art Holdings to allocate Shares equivalent to at least 12.5% of its enlarged share capital at the point of Listing to Bumiputera investors. This includes the Shares offered under the balloted public offer portion, of which at least 50.0% are to be offered to Bumiputera investors.	To be complied

In the event that MITI is unable to allocate the shares to Bumiputera investors, the unsubscribed shares shall be offered to Bumiputera public investors via balloting.

The effect of our Listing on the equity structure of Spring Art Holdings shall be as follows:

Category of shareholders	As at 30 November 2018		After the Acquisition of Spring Art <sup>(1)</sup>		After Listing	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Bumiputera	<sup>(2)</sup> 200	100.0	<sup>(2)</sup> 200	*	<sup>(3)</sup> 51,961,400	12.5
Non-Bumiputera	-	-	317,999,800	100.0	363,725,600	87.5
<b>Malaysians</b>	<b>200</b>	<b>100.0</b>	<b>318,000,000</b>	<b>100.0</b>	<b>415,687,000</b>	<b>100.0</b>
Foreigners	-	-	-	-	-	-
<b>TOTAL</b>	<b>200</b>	<b>100.0</b>	<b>318,000,000</b>	<b>100.0</b>	<b>415,687,000</b>	<b>100.0</b>

Notes:

\* Negligible.

(1) Acquisition of Spring Art for a purchase consideration of RM31,799,980.

(2) 2 subscriber shareholders.

(3) Based on the assumption that the Shares allocated to Bumiputera investors shall be fully subscribed as follows:

Category	No. of Shares
Bumiputera public investors via balloting	10,392,200
Private placement to selected Bumiputera investors approved by the MITI	41,569,000
<b>Total</b>	<b>51,961,200</b>

## 2. APPROVALS AND CONDITIONS (Cont'd)

### 2.1.3 MITI

The MITI had, vide its letter dated 1 July 2019 taken note and has no objection to our Listing.

## 2.2 MORATORIUM ON OUR SHARES

In accordance with Paragraph 3.19 of the Listing Requirements and pursuant to the conditions imposed under the approval letter by Bursa Securities, a moratorium will be imposed on the sale, transfer or assignment of those Spring Art Holdings Shares held by our Promoters as follows:

- (a) The moratorium applies to the entire shareholdings of our Promoters after the Offer for Sale for a period of 6 months from the date of our admission to the ACE Market ("First 6-Month Moratorium");
- (b) Upon the expiry of the First 6-Month Moratorium, our Company must ensure that our Promoters' aggregate shareholdings amounting to at least 45% of our total number of issued ordinary shares (adjusted for any bonus issue or subdivision of shares) remain under moratorium for another period of 6 months ("Second 6-Month Moratorium"); and
- (c) On the expiry of the Second 6-Month Moratorium, our Promoters may sell, transfer or assign up to a maximum of 1/3rd per annum (on a straight line basis) of those Spring Art Holdings Shares held under moratorium.

Details of our Promoters and their Shares which will be subject to the abovementioned moratorium, are set out below:

Promoters	Moratorium shares during the First 6-Month Moratorium <sup>(1)</sup>		Moratorium shares during the Second 6-Month Moratorium	
	<sup>(1)</sup> No. of Shares	<sup>(2)</sup> %	<sup>(1)</sup> No. of Shares	<sup>(2)</sup> %
Lim Kok Eng	232,784,640	56.0	149,647,320	36.0
Kwan Chian Poh	58,196,160	14.0	37,411,830	9.0
	<b>290,980,800</b>	<b>70.0</b>	<b>187,059,150</b>	<b>45.0</b>

Notes:

<sup>(1)</sup> After the Offer for Sale.

<sup>(2)</sup> Based on the enlarged share capital of 415,687,000 Shares.

The moratorium has been fully accepted by our Promoters, who have provided written undertakings that they will not sell, transfer or assign their shareholdings under moratorium during the moratorium period.

The moratorium restrictions are specifically endorsed on the share certificates representing the Shares under moratorium held by the Promoters to ensure that our Share Registrar does not register any transfer that contravenes with such restrictions.

### 3. PROSPECTUS SUMMARY

**THIS PROSPECTUS SUMMARY ONLY HIGHLIGHTS THE KEY INFORMATION FROM OTHER PARTS OF THIS PROSPECTUS. IT DOES NOT CONTAIN ALL THE INFORMATION THAT MAY BE IMPORTANT TO YOU. YOU SHOULD READ AND UNDERSTAND THE CONTENTS OF THE WHOLE PROSPECTUS PRIOR TO DECIDING ON WHETHER TO INVEST IN OUR SHARES.**

#### 3.1 PRINCIPAL STATISTICS RELATING TO OUR IPO

The following statistics relating to our IPO are derived from the full text of this Prospectus and should be read in conjunction with that text:

No. of Shares to be issued under the Public Issue	97,687,000
No. of Shares to be offered under the Offer for Sale	27,019,000
IPO Price/Offer Price per Share (RM)	0.25

Further details on our IPO are set out in Section 4.

Our Promoters' entire shareholdings after IPO will be under moratorium for 6 months from the date of Listing. Thereafter, our Promoters' shareholdings amounting to 45% of our share capital will remain under moratorium for another 6 months. Our Promoters may sell, transfer or assign up to a maximum of 1/3rd per annum (on a straight line basis) of their shares held under moratorium upon expiry of the second 6 months.

Further details on the moratorium on our shares are set out in Section 2.2.

#### 3.2 BUSINESS MODEL

Our Company was incorporated in Malaysia on 25 April 2018 under the Act as a public limited company under the name of Spring Art Holdings Berhad. We were incorporated as a special purpose vehicle to facilitate the listing of our subsidiary, Spring Art, on the ACE Market.

We are an investment holding company. Through our subsidiary, we are involved in the manufacturing of ready-to-assemble furniture products, where we undertake 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.

Our Group has only one business segment, namely the design, development, manufacturing, marketing and sales of furniture products as shown below:

<b>Business segment</b>	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Design, development, manufacturing, marketing and sales of furniture products	36,425	100.0	41,287	100.0	48,276	100.0	50,382	100.0

<b>Business segment</b>	<b>FPE 2018</b>		<b>FPE 2019</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Design, development, manufacturing, marketing and sales of furniture products	15,626	100.0	18,297	100.0



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### **3. PROSPECTUS SUMMARY (Cont'd)**

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For the FYEs/FPE, all our sales were from overseas markets, mainly to Middle East and Asia Pacific regions.

#### **3.3 COMPETITIVE STRENGTHS**

Our Directors believe that our business sustainability and growth is built on the following competitive strengths:

**(a) We automate our manufacturing processes**

Automation allows us to produce standard specification furniture based on designs generated by our design and development team in standard sizes and dimensions. Nonetheless, our automated production line is flexible and thus, also able to produce customised furniture with adjustments and alterations in dimensions made according to customers' requirements.

We achieve consistent product quality by maintaining the quality of materials used and adopting QC inspections throughout production to maintain close tolerances in the manufacturing process. This is made possible through the use of automated machinery that is configured to ensure the accuracy of the dimension of boards, drilling of holes for the insertion of screws and boring of holes for panels, bed posts and table legs.

**(b) We are able to design and develop our own products**

Over the years, we have evolved to undertake the design and development, manufacturing as well as marketing and sales of office furniture, bedroom furniture, living room furniture and other furniture. We collect and analyse historical sales information as well as market data such as market trends and consumer lifestyle requirements from various countries. As a result, we are able to incorporate elements of design and functionality in our furniture products, based on market trends and consumer lifestyles.

**(c) We manufacture ready-to-assemble furniture product in flat pack format**

We have been able to market and ship our furniture products to export markets due to the inherent benefit of the flat pack format. By shipping our furniture products unassembled in flat packs, we are able to reduce the volume and cost of shipping, thereby making our furniture products cost competitive. Further, shipping losses are less with ready-to-assemble furniture as the flat packaged furniture is less vulnerable to damage during transportation.

**(d) We place emphasis on our QC processes to ensure consistent quality of furniture products**

We implement stringent QC processes throughout the design and development as well as manufacturing processes in order to ensure that our furniture products meet predefined quality standards, thereby meeting the demands and expectations of our customers.

Should there be any defects in our products, we have a replacement policy to replace these defected products at no cost to our customers. Further, with the key manufacturing processes being carried out at our own manufacturing factories, we are able to have better control over the quality of furniture products that we produce.

### 3. PROSPECTUS SUMMARY (Cont'd)

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**(e) We have a diversified revenue base**

Our diversified base consists of customers from 35 countries comprising distributors, furniture showroom retailers, home furnishing chain stores and e-commerce companies. By diversifying our revenue base across several regions globally, we are able to capture growth opportunities in various overseas markets while at the same time reducing our business concentration risk from unanticipated downturn in a particular overseas market.

**(f) We maintain long-term business relationships with our customers and suppliers**

The long-term business relationships that we have established with our existing customers have allowed us to sustain our business growth. Over the years, our established track record in maintaining consistent product quality has enabled us to retain our existing customers, thereby securing repeat orders and developing our reputation in the furniture manufacturing industry.

Further, we recognise the importance of maintaining long-term business relationships with our suppliers. The business relationships cultivated with our suppliers ensure stable supply of our raw materials in a timely manner.

**(g) We have an experienced key senior management team**

We have an experienced key senior management team with operational expertise and in-depth knowledge of the furniture manufacturing industry. Our Managing Director, Lim Kok Eng and Executive Director, Kwan Chian Poh have played a pivotal role in establishing and growing our business over the years. They are responsible for determining the overall strategic direction and management of our Group. Under their leadership, Spring Art has become an export-oriented furniture manufacturer with customers comprising distributors, furniture showroom retailers, home furnishing chain stores and e-commerce companies in various foreign markets. Lim Kok Eng and Kwan Chian Poh are supported by a qualified key senior management team.

Further details of our competitive strengths are set out in Section 6.8.

#### 3.4 BUSINESS STRATEGIES AND PROSPECTS

A summary of our business strategies and prospects are set out below:

**(a) We intend to set up a new manufacturing factory to expand our current manufacturing capacity**

We plan to construct a new factory, namely Factory C, with a total estimated factory built-up area of approximately 103,926 sq ft to undertake the manufacturing of office furniture, bedroom furniture, living room furniture and other furniture for export to North America and Europe.

Factory C is expected to increase our annual capacity to reach a combined manufacturing capacity of approximately 674,000 units per annum.

### **3. PROSPECTUS SUMMARY (Cont'd)**

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**(b) We aim to further increase the sales of our furniture products to the North America and European markets**

Given our track record in penetrating these foreign markets, we will continue to focus on export markets to grow our business. We aim to further increase our presence in the North America and European markets. To achieve this, we intend to attend trade fairs in North America and Europe to increase the awareness of our products and to better understand the current market trends and developments in these regions.

**(c) We aim to expand our product range**

We will continue to focus on our design and development efforts to expand our product range. We aim to expand our product range by releasing 4 new collections annually, with a focus on living room furniture and bedroom furniture every year, to appeal to changing consumer preferences.

Further details on our business strategies and prospects are set out in Section 6.19.

### **3.5 RISK FACTORS**

An investment in our Shares is subject to risks. A summary of some of the more important risks is set out below. A more detailed description of the risks associated with our Group and IPO can be found in the Section 8.

Investors should read and understand all the risk factors before making a decision to invest in our Shares.

**(a) We are subject to fluctuations in foreign exchange rates**

Our revenue is denominated in USD and SGD as all of our furniture products are exported to foreign markets. Further, we have been purchasing particle boards from a supplier based in Thailand, Green River Panels (Thailand) Co Ltd since FYE 2016. Any significant change in foreign exchange rates may affect our Group's financial results.

We maintain foreign currency accounts arising from our sales to settle our purchases in foreign currency. Additionally, we also enter into foreign currency forward exchange contracts with banking institutions to sell the USD received from our customers at agreed exchange rates for fixed periods of time to reduce the exposure of our receivables. Any adverse fluctuation in foreign exchange rates will have a negative impact on our financial performance.

**(b) We are exposed to customer concentration risk**

Our Group has not entered into any long term contract with any of our customers and it is not our business practice to do so. While we are not dependent on any single customer, we may be materially and adversely affected if we were to lose one of more of our major customers without securing new customers in a timely manner to replace the loss of business, or if we were to encounter difficulties in collecting payment from these major customers.

### 3. PROSPECTUS SUMMARY (Cont'd)

#### (c) We are dependent on foreign production workers

We rely on foreign workers in our operations. Our foreign workers are primarily from Bangladesh and Nepal. Currently, we obtain 1-year working permit for our foreign workers, which are renewed annually. If visa policies on foreign workers in Malaysia were to change in any way resulting in difficulties for our Group to maintain a sufficient foreign labour workforce, our business, financial condition and results of operations could be materially and adversely affected. In addition, our Group's business strategies which will involve expansion in our manufacturing operations, would require a corresponding increase in labour to meet increased manufacturing activities.

#### (d) We are subject to volatility in prices of raw materials

The prices of certain raw materials used in our manufacturing processes such as particle boards and MDF may fluctuate due to demand and supply conditions. As such, any shortage or disruption in the supply of raw materials which results in fluctuation in the prices of raw materials may adversely affect both our Group's operations and financial performance.

### 3.6 DIRECTORS, KEY SENIOR MANAGEMENT, PROMOTERS AND SUBSTANTIAL SHAREHOLDERS

Our Directors and key senior management are as follows:

Name	Designation
<b>Directors</b>	
Haji Ismail Bin Tunggak	Independent Non-Executive Chairman
Lim Kok Eng	Managing Director
Kwan Chian Poh	Executive Director
Law Sang Thiam	Independent Non-Executive Director
Tan Meng Loon	Independent Non-Executive Director
<b>Key Senior Management</b>	
Teo Miow Loo	Chief Financial Officer
Peter Teo Swee Chyang	Production Manager
Loo Soon Chuan	Marketing Manager
Lim Vivian	Assistant Purchasing Manager
Ahmad Mahdzir Bin Joffri	Assistant Design, Development and Quality Control Manager

The details of our Promoters and substantial shareholders are as follows:

Name / Nationality	Before IPO <sup>(1)</sup>		Offer Shares offered <sup>(2)</sup>		After IPO <sup>(2)</sup>	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Lim Kok Eng / Malaysian	254,399,840	80.0	21,615,200	5.2	232,784,640	56.0
Kwan Chian Poh / Malaysian	63,599,960	20.0	5,403,800	1.3	58,196,160	14.0

### 3. PROSPECTUS SUMMARY (Cont'd)

Notes:

- (1) Based on the share capital of 318,000,000 Shares after the Acquisition of Spring Art.  
 (2) Based on our enlarged share capital of 415,687,000 Shares after the IPO.

Further details of the Promoters are set out in Section 5.1.2.

#### 3.7 UTILISATION OF PROCEEDS

The gross proceeds arising from the Public Issue of approximately RM24.4 million shall accrue entirely to us and will be utilised in the following manner:

Utilisation of proceeds	Estimated timeframe for utilisation	RM'000	%
Machinery for Factory C	24 months <sup>(1)</sup>	17,550	71.9
General working capital	24 months <sup>(2)</sup>	3,672	15.0
Estimated listing expenses	1 month <sup>(2)</sup>	3,200	13.1
		<b>24,422</b>	<b>100.0</b>

Notes:

- (1) From the estimated commencement of construction of Factory C in July 2020.  
 (2) From the date of listing of our Shares.

There is no minimum subscription to be raised from our IPO.

Detailed information on our utilisation of proceeds is set out in Section 4.10.

The gross proceeds arising from the Offer for Sale of approximately RM6.8 million shall accrue entirely to our Selling Shareholders.

#### 3.8 FINANCIAL AND OPERATIONAL HIGHLIGHTS

##### 3.8.1 Historical combined statements of profit or loss and other comprehensive income

The following table sets out the financial highlights of our historical audited combined statements of profit or loss and other comprehensive income for the FYEs 2015 to 2018 and FPE 2019:

	Audited			
	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	FYE 2018 RM'000
Revenue	36,425	41,287	48,276	50,382
Cost of sales	(25,112)	(28,366)	(34,152)	(36,000)
GP	11,313	12,921	14,124	14,382
PBT	8,104	9,594	10,142	8,433
PAT	7,194	7,474	7,860	6,229
EBIT	8,301	9,694	10,184	8,673
EBITDA	9,578	11,296	12,034	10,577
GP margin (%)	31.1	31.3	29.3	28.5
PBT margin (%)	22.2	23.2	21.0	16.7
PAT margin (%)	19.8	18.1	16.3	12.4
Effective tax rate (%)	11.2	22.1	22.5	26.1

**3. PROSPECTUS SUMMARY (Cont'd)**

	<b>Unaudited</b>	<b>Audited</b>
	<b>FPE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>	<b>RM'000</b>
Revenue	15,626	18,297
Cost of sales	(11,559)	(13,292)
GP	4,067	5,005
PBT	2,376	3,113
PAT	1,736	2,576
EBIT	2,406	3,192
EBITDA	2,927	3,707
GP margin (%)	26.0	27.4
PBT margin (%)	15.2	17.0
PAT margin (%)	11.1	14.1
Effective tax rate (%)	26.9	17.3

There were no exceptional or extraordinary items during the financial years/period under review. Our audited financial statements for the financial years/period under review were not subject to any audit qualifications.

**3.8.2 Pro forma combined statements of financial position**

The following table sets out a summary of the pro forma combined statements of financial position of our Group, to show the effects of the Acquisition of Spring Art, Public Issue and utilisation of IPO proceeds.

The pro forma combined statements of financial position is presented for illustrative purposes only and should be read in conjunction with the Reporting Accountants' report together with the notes and assumptions accompanying the Pro forma Combined Statements of Financial Position as set out in Section 13.

	<b>Spring Art</b>		<b>I</b>	<b>II</b>	<b>III</b>
	<b>Holdings</b>		<b>After</b>	<b>After I and</b>	<b>After II and</b>
	<b>As at 30</b>		<b>Acquisition</b>	<b>Public</b>	<b>utilisation of</b>
	<b>April</b>		<b>of Spring Art</b>	<b>Issue</b>	<b>IPO proceeds</b>
	<b>2019</b>		<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
	<b>RM'000</b>		<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Equity attributable to owners of the Company</b>					
Share capital	*	31,800	56,222	55,422	
Revaluation reserve	-	7,375	7,375	7,375	
Merger deficit	-	(31,300)	(31,300)	(31,300)	
(Accumulated losses)/Retained earnings	(60)	29,755	29,754	27,354	
<b>Total equity</b>	<b>(60)</b>	<b>37,630</b>	<b>62,051</b>	<b>58,851</b>	
Number of Shares in issue ('000)	^	318,000	415,687	415,687	
Net (liabilities)/asset per share (RM)	(301.22)	0.12	0.15	0.14	
Borrowings (All interest bearing debts)	-	6,878	6,878	12,678	
Gearing (times)	-	0.18	0.11	0.22	
Current ratio (times)	0.73	3.17	6.36	3.38	

**3. PROSPECTUS SUMMARY (Cont'd)**

Notes:

- \* Representing RM20.00 only.  
 ^ Representing 200 Shares only.

**3.9 DIVIDENDS**

Our Company does not have any formal dividend policy. As we are a holding company, our Company's income and therefore our ability to pay dividends is dependent upon the dividends we receive from our subsidiary, present or future. The payment of dividends or other distributions by our subsidiary will depend on their distributable profits, operating results, financial condition, capital expenditure plans, business expansion plans and other factors that their respective boards of directors deem relevant.

In respect of FYEs 2015 to FYE 2018 and FPE 2019, dividends declared by our subsidiary were as follows:

	<u>FYE 2015</u> <u>RM'000</u>	<u>FYE 2016</u> <u>RM'000</u>	<u>FYE 2017</u> <u>RM'000</u>	<u>FYE 2018</u> <u>RM'000</u>	<u>FPE 2019</u> <u>RM'000</u>
Dividends declared	5,500	1,800	4,500	-	1,000

Further details of our dividends are set out in Section 11.14.

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## **4. PARTICULARS OF OUR IPO**

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### **4.1 INTRODUCTION**

This Prospectus is dated 16 October 2019. Our IPO is subject to the terms and conditions of this Prospectus.

We have registered a copy of this Prospectus with the SC. We have also lodged a copy of this Prospectus, together with the Application Forms with the ROC. Neither the SC nor the ROC takes any responsibility for its contents.

We have obtained the approval from Bursa Securities vide its letter dated 18 April 2019, for, amongst others, our admission to the Official List of the ACE Market and for the listing of and quotation for our entire enlarged share capital on the ACE Market.

Our Shares will be admitted to the Official List of the ACE Market and an official quotation will commence after, amongst others, the receipt of confirmation from Bursa Depository that all of our IPO Shares have been duly credited into the respective CDS Accounts of the successful applicants and the notices of allotment have been issued and despatched to all the successful applicants.

Pursuant to Section 14(1) of the SICDA, Bursa Securities has prescribed our Shares as securities to be deposited into the CDS. Following this, we will deposit our Shares directly with Bursa Depository and any dealings in our Shares will be carried out in accordance with the SICDA and Depository Rules. We will not issue any share certificates to successful applicants.

Pursuant to the Listing Requirements, at least 25.0% of our enlarged share capital for which listing is sought must be in the hands of a minimum number of 200 public shareholders, each holding not less than 100 Shares each upon admission to the ACE Market. We expect to meet the public shareholding requirement at the point of our Listing. In the event we fail to meet the said requirement pursuant to our IPO, we may not be allowed to proceed with our Listing on the ACE Market. In such an event, we will return in full, without interest, all monies paid in respect of all applications. If any such monies are not repaid within 14 days after we become liable to do so, the provision of sub-section 243(2) of the CMSA shall apply accordingly.

You should rely only on the information contained in this Prospectus or any applicable supplemental Prospectus. Neither we nor our advisers have authorised anyone to provide you with information that is different and not contained in this Prospectus. The delivery of this Prospectus or any issue made in connection with this Prospectus shall not, under any circumstances, constitute a representation or create any implication that there has been no change in our affairs since the date of this Prospectus. Nonetheless, should we become aware of any subsequent material change or development affecting a matter disclosed in this Prospectus arising from the date of issue of this Prospectus up to the date of our Listing, we shall further issue a supplemental or replacement prospectus, as the case may be, in accordance with the provisions of Section 238 of the CMSA.

We are not making any invitation to subscribe for our IPO Shares in any jurisdiction and in any circumstances in which such offer or invitation are not authorised or unlawful, or to any person to whom it is unlawful to make such an offer or invitation. As the distribution of this Prospectus and the sale of our IPO Shares in certain other jurisdictions may be restricted by law, persons who may be in possession of this Prospectus are required to inform themselves of and to observe such restrictions. The distribution of this Prospectus and the making of our IPO in certain jurisdictions outside Malaysia may be restricted by law. The distribution of this Prospectus and the sale of any part of our IPO Shares are subject to the Malaysian laws and we, together with M&A Securities as our Adviser, Sponsor, Underwriter and Placement Agent, take no responsibility for the distribution of this Prospectus and the offer of any part of our IPO Shares outside Malaysia, which may be restricted by law in certain other jurisdictions.



#### 4. PARTICULARS OF OUR IPO (Cont'd)

Applications for the Issue Shares may be made using either of the following:

Type of application form	Category of Investor
White Application Form or Electronic Share Application or Internet Share Application	Malaysian Public (for individuals)
White Application Form	Malaysian Public (for non-individuals, e.g. corporations, institutions etc)
Pink Form Applications	Our eligible Directors and employees as well as persons who have contributed to the success of our Group

**You must have a CDS Account when applying for our IPO Shares.** In the case of an application by way of Application Form, you must state your CDS Account number in the space provided in the Application Form. If you do not presently have a CDS Account, you should open a CDS Account at an ADA prior to making an application for our IPO Shares.

Please refer to Section 15 for further details on the procedures for application for our IPO Shares. Details of the ADAs that you may open a CDS Account can be obtained at the following link:

<http://www.bursamalaysia.com/market/securities/equities/brokers>

If you are an individual with a CDS Account, you may make an Application by way of Electronic Share Application. You are required to furnish your CDS Account number to the Participating Financial Institution by keying in your CDS Account number if the instructions on the ATM screen at which you enter your Electronic Share Application require you to do so. A corporation or institution cannot apply for our IPO Shares by way of Electronic Share Application.

If you have a CDS Account and an existing account to their internet financial services of an Internet Participating Financial Institutions, you can make an Internet Share Application. You shall furnish your CDS Account number to the Internet Participating Financial Institutions by keying your CDS Account number into the online application form. A corporation or institution cannot apply for our IPO Shares by way of Internet Share Application.

Our IPO is subject to the terms and conditions of this Prospectus and upon acceptance, our IPO Shares are expected to be allocated in the manner described below.

The SC and Bursa Securities assume no responsibility for the correctness of any statement made or of any opinion or report expressed in this Prospectus. Our admission to the Official List of the ACE Market shall not be taken as an indication of the merits of our Group, our Shares and/or our IPO exercise. This Prospectus can also be viewed or downloaded from the website of Bursa Securities at [www.bursamalaysia.com](http://www.bursamalaysia.com).

**YOU SHOULD RELY ON YOUR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT. IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR ANY OTHER PROFESSIONAL ADVISERS IMMEDIATELY.**

#### 4. PARTICULARS OF OUR IPO (Cont'd)

##### 4.2 OPENING AND CLOSING OF APPLICATION

The period for Application will open at 10.00 a.m. on 16 October 2019 and will remain open until at 5.00 p.m. on 24 October 2019. **LATE APPLICATIONS WILL NOT BE ACCEPTED.**

##### 4.3 IMPORTANT TENTATIVE DATES

<b>Events</b>	<b>Tentative Dates</b>
Issuance of this Prospectus/Opening of Application for our IPO	16 October 2019
Closing Date	24 October 2019
Balloting of the Application for our IPO Shares	31 October 2019
Allotment of our IPO Shares to successful applicants	6 November 2019
Date of Listing	8 November 2019

In the event there is any change to the timetable, we will advertise the notice of the changes in a widely circulated English and Bahasa Malaysia daily newspaper in Malaysia.

##### 4.4 DETAILS OF OUR IPO

###### 4.4.1 Public Issue

A total of 97,687,000 Issue Shares, representing 23.5% of our enlarged share capital are offered at our IPO Price. The Issue Shares shall be allocated in the following manner:

###### (a) Malaysian Public

20,784,400 Issue Shares, representing 5.0% of our enlarged share capital, will be made available for application by the Malaysian Public, to be allocated via balloting process as follows:

- (i) 10,392,200 Issue Shares made available to public investors; and
- (ii) 10,392,200 Issue Shares made available to Bumiputera public investors.

###### (b) Our eligible Directors and employees as well as persons who have contributed to the success of our Group

4,156,800 Issue Shares, representing 1.0% of our enlarged share capital, will be reserved for our eligible Directors and employees as well as persons who have contributed to the success of our Group under the Pink Form Allocations. Further details of our Pink Form Allocations are set out in Section 4.4.3.

###### (c) Private placement to selected Bumiputera investors approved by MITI and selected investors

72,745,800 Issue Shares, representing 17.5% of our enlarged share capital, have been reserved for private placement in the following manner:

- (i) 41,569,000 Issue Shares made available for selected Bumiputera investors approved by MITI; and
- (ii) 31,176,800 Issue Shares made available for selected investors.

#### 4. PARTICULARS OF OUR IPO (Cont'd)

The basis of allocation for the Issue Shares shall take into account our Board's intention to distribute the Issue Shares to a reasonable number of applicants to broaden our Company's shareholding base to meet the public spread requirements, and to establish a liquid and adequate market for our Shares. Applicants will be selected in a fair and equitable manner to be determined by our Directors. There is no over-allotment or "greenshoe" option that will result in an increase in the number of our IPO Shares.

Our Public Issue is subject to the terms and conditions of this Prospectus.

##### 4.4.2 Offer for Sale

A total of 27,019,000 Offer Shares, representing 6.5% of our enlarged share capital, are offered by our Selling Shareholders to selected investors by way of private placement at our IPO Price. Our Offer for Sale is subject to the terms and conditions of this Prospectus.

The details of our Selling Shareholders and their relationship with our Group are as follows:

Name / Address	Relationship with our Group	<sup>(1)</sup> Before IPO		Offer Shares offered		After IPO	
		No. of Shares	%	No. of Shares	<sup>(2)</sup> %	No. of Shares	<sup>(2)</sup> %
Lim Kok Eng / No 315, Jalan Selatan Bukit Bakri 84200 Muar Johor	Promoter, substantial shareholder and Managing Director	254,399,840	80.0	21,615,200	5.2	232,784,640	56.0
Kwan Chian Poh / No 315, Jalan Selatan Bukit Bakri 84200 Muar Johor	Promoter, substantial shareholder and Executive Director	63,599,960	20.0	5,403,800	1.3	58,196,160	14.0

Notes:

<sup>(1)</sup> As at the LPD, after completion of the Acquisition of Spring Art but before the Public Issue and Offer for Sale.

<sup>(2)</sup> Based on our enlarged share capital of 415,687,000 Shares after the IPO.

Further details of our Selling Shareholders, who are also our substantial shareholders can be found in Section 5.1.

#### 4. PARTICULARS OF OUR IPO (Cont'd)

##### 4.4.3 Pink Form Allocations

We have allocated 4,156,800 Issue Shares to our eligible Directors and employees as well as persons who have contributed to the success of our Group under the Pink Form Allocations as follows:

<b>Category</b>	<b>No. of eligible persons</b>	<b>Aggregate no. of Issue Shares allocated</b>
Our Eligible Directors	3	900,000
Our Eligible employees	26	1,926,800
Persons who have contributed to the success of our Group	13	1,330,000
	<b>42</b>	<b>4,156,800</b>

The criteria for allocation to our eligible Directors are based on their anticipated contribution to our Group. Our Managing Director and Executive Director have opted not to participate in the Pink Form Allocations.

The criteria for allocation to our eligible employees (as approved by our Board) are based on the following factors:

- (a) The employee must be at least 18 years of age;
- (b) The employee must have his/her employment confirmed in writing; and
- (c) The employees' seniority, position, length of service and contribution to our Group.

The number of IPO Shares to be allotted to those persons who have contributed to the success of our Group shall be based on amongst others, the nature and terms of their business relationship with us, length of their relationship with us and the level of contribution and support to our Group. Persons who have contributed to the success of our Group are our suppliers.

Our Executive Directors have opted out of the Pink Form Allocations. Details of the allocation to our remaining Directors and key senior management are as follows:

<b>Name</b>	<b>Designation</b>	<b>No. of Issue Shares allocated</b>
Haji Ismail Bin Tunggak	Independent Non-Executive Chairman	300,000
Law Sang Thiam	Independent Non-Executive Director	300,000
Tan Meng Loon	Independent Non-Executive Director	300,000
Teo Miow Loo	Chief Financial Officer	300,000
Peter Teo Swee Chyang	Production Manager	260,000
Loo Soon Chuan	Marketing Manager	20,000
Lim Vivian	Assistant Purchasing Manager	89,000
Ahmad Mahdzir Bin Joffri	Assistant Design, Development and Quality Control Manager	22,000
		<b>1,591,000</b>

**4. PARTICULARS OF OUR IPO (Cont'd)**

Our Directors and key senior management intends to subscribe to their Issue Shares allocated under the Pink Form Allocations.

Pink Form Allocations which are not subscribed to will be re-allocated to the other eligible Directors mentioned in the table above, employees and business associates/persons who have contributed to the success of our Group at the discretion of our Board.

**4.5 BASIS OF ARRIVING AT OUR IPO PRICE**

Our IPO Price was determined and agreed upon by us and M&A Securities, as our Adviser, Sponsor, Underwriter and Placement Agent, after taking into consideration the following factors:

- (a) The PE Multiple of approximately 16.67 times based on our EPS of 1.50 sen for the FYE 2018 calculated based on our PAT for the FYE 2018 of RM6.23 million and our enlarged share capital of 415,687,000 Shares upon Listing;
- (b) Our pro forma combined NA per Share as at 30 April 2019 after our IPO of RM0.14 based on our combined NA as at 30 April 2019 of RM58.85 million (after the Public Issue and utilisation of IPO proceeds) and our enlarged share capital of 415,687,000 Shares upon Listing;
- (c) Our historical financial track record for the past FYEs 2015 to 2018 and FPE 2019 summarised as follows:

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Revenue	36,425	41,287	48,276	50,382
GP	11,313	12,921	14,124	14,382
PAT	7,194	7,474	7,860	6,229
EPS (sen) <sup>(1)</sup>	2.3	2.4	2.5	2.0
	<b>Unaudited</b>	<b>Audited</b>		
	<b>FPE 2018</b>	<b>FPE 2019</b>		
	<b>RM'000</b>	<b>RM'000</b>		
Revenue	15,626	18,297		
GP	4,067	5,005		
PAT	1,736	2,576		
EPS (sen) <sup>(1)</sup>	0.5	0.8		

Note:

<sup>(1)</sup> Based on our share capital of 318,000,000 Shares before our IPO.

- (d) Our competitive strengths as set out in Section 6.8; and
- (e) Our Group's business strategies and prospects as further described in Section 6.19.

You should note that our market price upon Listing is subject to the vagaries of market forces and other uncertainties that may affect the price of our Shares. You should form your own views on the valuation of our IPO Shares before deciding to invest in them. You are reminded to carefully consider the risk factors as set out in Section 8 before deciding to invest in our Shares.

#### 4. PARTICULARS OF OUR IPO (Cont'd)

##### 4.6 SHARE CAPITAL, CLASSES OF SHARES AND RANKING

Upon completion of our IPO, our share capital would be as follows:

Details	No. of Shares	RM
<b>Share capital</b>		
As at the date of this Prospectus	318,000,000	31,800,000
To be issued pursuant to our Public Issue	97,687,000	24,421,750
<b>Enlarged share capital upon our Listing</b>	<b>415,687,000</b>	<b>56,221,750</b>
<b>Offer for Sale<sup>(1)</sup></b>	27,019,000	6,754,750
<b>Market capitalisation<sup>(2)</sup></b>		103,921,750

Notes:

(1) Our Offer for Sale will not have any effect on our share capital.

(2) Based on our IPO Price and our enlarged number of shares upon Listing.

As at the date of this Prospectus, we have only 1 class of shares, being ordinary shares, all of which rank equally amongst one another.

The Issue Shares will, upon allotment and issue, rank equally in all respects with our existing ordinary shares including voting rights and will be entitled to all rights and dividends and other distributions that may be declared subsequent to the date of allotment of the Issue Shares.

The Offer Shares rank equally in all respects with our existing ordinary shares including voting rights and will be entitled to all rights and dividends and other distributions that may be declared subsequent to the date of transfer of the Offer Shares.

Subject to any special rights attaching to any Shares which may be issued by us in the future, our shareholders shall, in proportion to the amount of Shares held by them, be entitled to share in the whole of the profits paid out by us as dividends and other distributions and any surplus in the event of the liquidation of our Group, in accordance with our Constitution.

Each of our shareholders shall be entitled to vote at any of our general meeting in person, or by proxy or by attorney or by other duly authorised representative. Every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have 1 vote for each ordinary share held.

#### 4. PARTICULARS OF OUR IPO (Cont'd)

##### 4.7 OBJECTIVES OF OUR IPO

The objectives of our IPO are as follows:

- (a) To provide an opportunity for the Malaysian Public, our eligible Directors and employees as well as persons who have contributed to the success of our Group to participate in our equity;
- (b) To enable our Group to raise funds for the purposes specified in Section 4.10;
- (c) To enable us to tap into the equity capital market for future fund raising and to provide us the financial flexibility to pursue future growth opportunities as and when they arise; and
- (d) To gain recognition through our listing status which will enhance our Group's reputation in the marketing of our furniture products and to retain and attract new, skilled employees in the industry.

##### 4.8 TOTAL MARKET CAPITALISATION UPON LISTING

Based on our IPO Price and our enlarged share capital of 415,687,000 Shares upon Listing, our total market capitalisation is estimated to be RM103,921,750 upon Listing.

##### 4.9 DILUTION

Dilution is the amount by which our IPO Price exceeds the pro forma combined NA per Share immediately after our IPO.

Our pro forma combined NA per Share as at 30 April 2019 after the Acquisition of Spring Art is RM0.12. After giving effect to the Public Issue including adjustments for the estimated listing expenses, our pro forma combined NA per Share as at 30 April 2019 is RM0.14.

This represents an immediate increase in the pro forma combined NA per Share to our existing shareholders of RM0.02, and an immediate dilution in the pro forma combined NA per Share of RM0.11 to our new public investors. The following table illustrates such dilution on a per Share basis:

	<b>RM</b>
Pro forma combined NA per Share as at 30 April 2019 after taking into account the Acquisition of Spring Art	0.12
Pro forma combined NA per Share as at 30 April 2019 after taking into account the Acquisition of Spring Art and Public Issue	0.15
IPO Price	0.25
Pro forma combined NA per Share as at 30 April 2019 after taking into account the Acquisition of Spring Art, Public Issue and utilisation of IPO proceeds	0.14
Dilution in the pro forma combined NA per Share to our new public investors	(0.11)
Dilution in the pro forma combined NA per Share as a percentage of our IPO Price	44.0%

**4. PARTICULARS OF OUR IPO (Cont'd)**

Further details of our pro forma combined NA per Share as at 30 April 2019 is set out in Section 13.

The following table shows the average effective cost per Share paid by our existing shareholders for our Shares since our incorporation up to the date of this Prospectus:

<b>Shareholders</b>	<b><sup>(1)</sup>No. of Shares</b>	<b>Total consideration</b>	<b>Average effective cost per Share</b>
		<b>RM</b>	<b>RM</b>
Lim Kok Eng	254,399,840	25,439,984	0.10
Kwan Chian Poh	63,599,960	6,359,996	0.10
	<b>317,999,800</b>	<b>31,799,980</b>	<b>0.10</b>

Note:

(1) Issued pursuant to the Acquisition of Spring Art.

Save for the Shares received by our Promoters pursuant to the Acquisition of Spring Art, there has been no acquisition or subscription of any of our Shares by our Directors or key senior management, substantial shareholders or persons connected to them, or any transaction entered into by them which grants them the right to acquire any of our existing Shares, in the past 3 years up to the LPD.

**4.10 UTILISATION OF PROCEEDS****4.10.1 Public Issue**

The estimated gross proceeds arising from the Public Issue of approximately RM24.4 million shall accrue entirely to us and will be utilised in the following manner:

<b>Utilisation of proceeds</b>	<b>Reference</b>	<b>Estimated timeframe for utilisation</b>	<b>RM'000</b>	<b>%</b>
Machinery for Factory C	(a)	24 months <sup>(1)</sup>	17,550	71.9
General working capital	(b)	24 months <sup>(2)</sup>	3,672	15.0
Estimated listing expenses	(c)	1 month <sup>(2)</sup>	3,200	13.1
			<b>24,422</b>	<b>100.0</b>

Notes:

(1) From the estimated commencement of construction of Factory C in July 2020.

(2) From the date of listing of our Shares.

Pending the utilisation of the proceeds to be raised from our Public Issue, the funds will be placed with licensed financial institutions as deposits.



#### 4. PARTICULARS OF OUR IPO (Cont'd)

##### (a) Machinery for Factory C

We plan to construct a new factory, namely Factory C, with a total estimated factory built-up area of approximately 103,926 sq ft to undertake the manufacturing of office furniture, bedroom furniture, living room furniture and other furniture for export to North America and Europe.

To support our existing business and to expand our production capacity, we have allocated RM17.6 million from the proceeds of the IPO to acquire new machinery to set up 2 additional production lines in Factory C. The following machinery will be acquired to set up Factory C from the IPO proceeds of RM17.6 million:

	Units	Total estimated cost RM'000
CNC panel saw machines	2	2,164
Edge banding machines	6	6,998
CNC woodworking machines <sup>(1)</sup>	9	8,388
		<b>17,550</b>

Note:

<sup>(1)</sup> CNC woodworking machines to be purchased have the capability to automatically load and unload boards.

As at the LPD, our total annual production capacity is 337,016 units. Factory C is expected to increase our annual capacity to reach a combined manufacturing capacity of approximately 674,000 units per annum.

If the actual cost of machinery is higher than the amount budgeted, the deficit will be funded out of the portion allocated for our general working capital requirements and/or internally generated funds. Conversely, if the cost is lower than the amount budgeted, the excess will be utilised for our general working capital requirements.

Further details of the said new manufacturing line are set out in Section 6.19.1.

##### (b) General working capital requirements

Approximately RM3.7 million of the proceeds raised from our Public Issue has been earmarked to supplement the working capital requirements of our Group. The proceeds shall be used for the purchase of raw materials to support our manufacturing activities.

The raw materials to be purchased are boards, metal components, PVC edges and packing materials which will be used in the manufacturing of our furniture products.

##### (c) Estimated listing expenses

The amount of RM3.2 million is allocated to meet the estimated cost for our Listing. If our actual listing expenses are higher than the amount budgeted, the deficit will be funded out of the portion allocated for our general working capital requirements. Conversely, if our actual listing expenses are lower than the amount budgeted, the excess will be utilised for our general working capital requirements. The following summarises the estimated expenses incidental to our Listing to be borne by us:

**4. PARTICULARS OF OUR IPO (Cont'd)**

Description	RM'000
Fees payable to authorities	90
Printing and advertising fees	125
Professional fees <sup>(1)</sup>	1,860
Underwriting, placement and brokerage fees	1,033
Miscellaneous <sup>(2)</sup>	92
	<b>3,200</b>

Notes:

- (1) Includes advisory fees for, amongst others, our Principal Adviser, Solicitors, Reporting Accountants, IMR and Issuing House.
- (2) Other incidental or related expenses in connection with our IPO.

**4.10.2 Offer for Sale**

The Offer for Sale is expected to raise gross proceeds of approximately RM6.8 million which will accrue entirely to our Selling Shareholders and we will not receive any of the proceeds.

The Selling Shareholders shall bear all of the expenses relating to the Offer Shares, the aggregate of which is estimated to be approximately RM0.2 million.

**4.11 UNDERWRITING AND PLACEMENT ARRANGEMENT, COMMISSION AND BROKERAGE****4.11.1 Underwriting arrangement and commission**

Our Underwriter will underwrite 24,941,200 Issue Shares made available for application by the Malaysian Public and Pink Form Allocations. We are obliged to pay our Underwriter an underwriting commission of 3.0% of the total value of the underwritten Shares at our IPO Price.

Any of our Issue Shares which are not subscribed for by the Malaysian Public or Pink Form Allocations will be made available to selected investors via private placement. If all of our Issue Shares offered to the Malaysian Public are oversubscribed, shares not subscribed for under the Pink Form Allocations, if any, will be made available for application by the Malaysian Public. Thereafter, any remaining Issue Shares that are not subscribed for will be subscribed by our Underwriter based on the terms of the Underwriting Agreement.

There is no minimum subscription to be raised from our IPO. However, in order to comply with the public spread requirements of Bursa Securities, the minimum subscription in terms of the number of Issue Shares will be the number of Issue Shares required to be held by public shareholders to comply with the public spread requirements as set out in the Listing Requirements or as approved by Bursa Securities.

In the event of an over-subscription, acceptance of Applications by the Malaysian Public shall be subject to ballot to be conducted in a manner approved by our Board. Our Board will ensure that any excess Issue Shares will be allocated on a fair and equitable manner.

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#### **4. PARTICULARS OF OUR IPO (Cont'd)**

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##### **4.11.2 Placement arrangement and commission**

The balance 72,745,800 Issue Shares from the Public Issue and 27,019,000 Offer Shares available for application by selected investors and selected Bumiputera investors approved by MITI will not be underwritten and shall be placed out by our Placement Agent.

We are obliged to pay our Placement Agent a placement fee of 3.0% of the value of those Issue Shares to be placed out to selected Bumiputera investors and investors approved by MITI by our Placement Agent at our IPO Price. The placement fee of 3.0% of the value of those Offer Shares to be placed out to selected investors by our Placement Agent at our IPO Price will be borne entirely by the Selling Shareholders.

##### **4.11.3 Brokerage fees**

Brokerage is payable in respect of the Issue Shares at the rate of 1.00% of our IPO Price in respect of successful applicants which bear the stamp of member companies of Bursa Securities, member of the Association of Banks in Malaysia, members of the Malaysia Investment Banking Association in Malaysia or Issuing House.

#### **4.12 SALIENT TERMS OF THE UNDERWRITING AGREEMENT**

We have entered into the Underwriting Agreement with M&A Securities, to underwrite 24,941,200 Issue Shares ("Underwritten Shares").

The following are the salient terms contained in the Underwriting Agreement. The capitalised terms used in this section shall have the respective meanings as ascribed thereto in the Underwriting Agreement:

- 1.1 Our Company irrevocably appoints the Underwriter as the underwriter of the Underwritten Shares and the Underwriter accepts its appointment on the terms and conditions in the Underwriting Agreement.
- 1.2 The obligations of the Underwriter under the Underwriting Agreement shall further be conditional upon ("Conditions"):
  - (a) The Underwriter receiving a certificate issued by our Company, one dated the date of registration of the Prospectus and the other dated the Closing Date, both of which are to be signed by a director of our Company on behalf of our Board stating amongst others that, to the best of their knowledge and belief, having made all reasonable enquiries, there has been no such change, development or occurrence to the representations, warranties and undertakings as set out in the Underwriting Agreement and being provided with the reports or confirmation and being satisfied at the date of registration of this Prospectus and on the Closing Date that:
    - (i) no material change or any development likely to result in a material adverse change in the financial position, business operations or conditions (financial or otherwise) of our Group from that subsequent to the date of the Underwriting Agreement; or
    - (ii) there has not occurred any event or the discovery of any facts or circumstances which would render any representations, warranties or undertakings as set out in the Underwriting Agreement materially untrue or inaccurate or result in a material breach of the Underwriting Agreement by our Company;

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**4. PARTICULARS OF OUR IPO (Cont'd)**

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- (b) The Underwriting Agreement being duly signed by all parties and stamped within the statutory time frame;
- (c) The registration of the Prospectus and such other documents as may be required in accordance with the CMSA in relation to the IPO with the SC and its lodgement with the ROC by the date of issuance of this Prospectus;
- (d) All the approvals of the Listing Scheme by Bursa Securities; the SC; and the directors and shareholders of our Company via a circular board resolution and general meeting, remain in full force and effect and all the conditions to said approvals in this clause (except for any which can only be complied with after the IPO has been completed) have been complied with;
- (e) The approval of Bursa Securities for the admission of our Company to the Official List and the listing of and quotation for its entire issued share capital on the ACE Market being obtained on terms acceptable to the Underwriter and the approvals of Bursa Securities remaining in full force and effect and that all conditions (except for any which can only be complied with after the IPO has been completed) have been complied with;
- (f) The Underwriter being satisfied that our Company will, following completion of the IPO be admitted to the Official List and its entire enlarged issued share capital listed and quoted on the ACE Market without undue delay;
- (g) The Underwriting Agreement having become unconditional in all respects (save for any condition requiring the Underwriting Agreement to be unconditional) and not having been terminated or rescinded pursuant to the provisions thereof and upon the Underwriter's (in this regard, in its capacity as the Placement Agent for the Placement Shares) receipt of the full subscription monies for the Placement Shares on or before the last date for payment of the Placement Shares;
- (h) The Underwriter receiving copies certified by a Director of our Company or secretary of our Company to be a true and accurate copy and in full force and effect of a resolution of the Directors:
  - (i) approving the Prospectus, the issuance of the Prospectus, the application forms, the Underwriting Agreement and the transactions contemplated by it; and
  - (ii) authorising a person to sign and deliver the Underwriting Agreement on behalf of our Company;
- (i) The IPO not being prohibited or impeded by any statute, order, rule, directive, guideline (whether or not having a force of law) or regulation promulgated by any legislative, executive or regulatory body or authority of Malaysia or any condition imposed by the regulators in approving the Issue Shares and all consents, approvals, authorisations or other orders required by our Company under such laws for or in connection with the IPO and/or listing of and quotation for the entire enlarged issued share capital of our Company on the ACE Market have been obtained and are in force up to the Closing Date;

**4. PARTICULARS OF OUR IPO (Cont'd)**

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- (j) The Underwriter being satisfied that our Company has complied with and that the IPO is in compliance with the policies, guidelines and requirements of the SC and Bursa Securities and all revisions, amendments and/or supplements to it;
  - (k) All necessary consents, waivers, approvals, authorisations or other orders of all regulatory authorities, required for or in connection with the execution of the Underwriting Agreement and the issue of the Shares under the IPO and any other matters contemplated hereby:
    - (i) have been or will be unconditionally obtained by its due date;
    - (ii) or if granted subject to conditions, such conditions will be fulfilled to the reasonable satisfaction of the Underwriter by its due date; and
    - (iii) are or will remain in full force and effect;
  - (l) The FTSE Bursa Malaysia Kuala Lumpur Composite Index ("Index") being not lower than 90% of the level of the Index for at least 3 consecutive Market Days between the date of the Underwriting Agreement and the Closing Date, both dates inclusive;
  - (m) There being no occurrence of any event which occurs after the date of the Underwriting Agreement and on or prior to the date for acceptance, application for and payment of the subscriptions moneys in respect of the application for our Company's IPO Shares, which if it had occurred before the date of the Underwriting Agreement would have rendered any of the representations, warranties and undertakings provided in the Underwriting Agreement untrue or inaccurate;
  - (n) There being no breach of and/or failure, on or prior to the Closing Date by our Company to perform any of the terms and/or the undertakings as contained in the Underwriting Agreement;
  - (o) Our Company not being in any investigation, directions or actions by any judicial, governmental or regulatory authority in relation to the Listing or in connection with the Group which is still subsisting or unresolved to the satisfaction of the Underwriter; and
  - (p) The launching of Prospectus taking place within 3 months from the date of the Underwriting Agreement or such other later date as the Underwriter and our Company may from time to time agree in writing.
- 1.3 The Underwriter may waive all or any of the Conditions except for any required by a mandatory rule of law or a mandatory requirement of governmental, public or regulatory authorities in connection with the Underwriting Agreement.
- 1.4 If after the Conditions have been complied with and our Company decides not to proceed with the IPO, the Underwriter shall be entitled to terminate the Underwriting Agreement and in such event the provisions set out in item 1.6 below shall apply.

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**4. PARTICULARS OF OUR IPO (Cont'd)**

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- 1.5 If any of the conditions set out in item 1.2(b), (c), (d), (f), and / or (g) above to the extent not waived are not satisfied by the date of issuance of the Prospectus, the Underwriter after consultation with our Company shall be entitled to terminate the Underwriting Agreement pursuant to item 1.6 below and thereafter the parties shall be released and discharged from their obligations hereunder and the Underwriting Agreement shall become null and void and of no further force and effect and none of the parties shall have a claim against the other save for any antecedent breaches.
- 1.6 Notwithstanding anything contained in the Underwriting Agreement, the Underwriter may at any time on or before the Closing Date, terminate its obligations under the Underwriting Agreement if:
- (a) the Conditions set out in item 1.2 above (save and unless waived by the Underwriter) are not duly satisfied by the Closing Date;
  - (b) there is any material breach by our Company of any of the representations, warranties or undertakings contained in the Underwriting Agreement or which is contained in any certificate, statement or notice under or in connection with the Underwriting Agreement, which is not capable of remedy or, if capable of remedy, is not remedied within 10 Market Days from the date our Company is notified by the Underwriter of such breach; or
  - (c) there is failure on the part of our Company to perform any of its obligations contained in the Underwriting Agreement; or
  - (d) there is withholding of material information by the Company which in the reasonable opinion of the Underwriter, would have or can reasonably be expected to have, a material adverse effect on the business or operations of the Group, the success of the IPO, or the distribution or sale of the Shares issued or offered under the IPO; or
  - (e) the approval of Bursa Securities in respect of the IPO or the approval-in-principle of Bursa Securities for the listing and quotation of our entire issued share capital on the ACE Market is withdrawn; or
  - (f) there shall have occurred, or happened any material and adverse change in the business or financial condition of our Company or Group from that set out in this Prospectus which is material in the context of the offering of the Issue Shares and/or the Listing or any occurrence of any event rendering untrue or incorrect or misleading or not complied with to an extent which is material as aforesaid, any of the representations, warranties and undertakings contained in the Underwriting Agreement hereof as though given or made on such date; or
  - (g) the closing date of the application of the IPO Shares does not occur within 3 months from the date of the Underwriting Agreement, subject to the extension of Closing Date which is approved by the Underwriter; or
  - (h) our Company or any of our subsidiary becomes insolvent or is unable to pay its debts or admits in writing its inability to pay its debts as they fall due or enters into any composition or arrangement with its creditors or makes a general assignment for the benefit of its creditors; or
  - (i) the occurrence of any *force majeure* event including, but not limited to the following:

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**4. PARTICULARS OF OUR IPO (Cont'd)**

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- (i) any material adverse change, or any development involving a prospective change, in national or international monetary, financial, economic or political conditions or exchange control or currency exchange rate (including but not limited to conditions on the stock market, in Malaysia or overseas, foreign exchange market or money market or with regards to inter-bank offer or interest rates both in Malaysia and overseas) or the occurrence of any combination of any of the foregoing; or
- (ii) any new law or any change in the existing laws, regulations, directive, policy or ruling in any jurisdiction or any change in the interpretation or application thereof by any court or other competent authority; or
- (iii) any event or series of events beyond the reasonable control of the Underwriter (including but not limited to, acts of government, strikes, national disorder, declaration of a state of emergency, lockouts, fire, explosion, flooding, landslide, civil commotion, hurricanes/typhoons, tsunami, widespread diseases, acts of war, sabotage, acts of God etc); or
- (iv) any imposition of any moratorium, suspension or material restriction on trading on ACE Market due to exceptional financial circumstances or otherwise; or
- (v) any material adverse change in financial conditions as stated in item 1.6(i)(i) above to include stock market conditions and interest rates. A material adverse change in the stock market condition under this item shall mean the Index is, at the close of normal trading on Bursa Securities, on any Market Day on or after the date of the Underwriting Agreement and prior to the allotment of the Issue Shares, lower than 90% of the level of Index at the last close of normal trading on the relevant exchange on the Market Day immediately prior to the date of the Underwriting Agreement and remains at or below that level for at least 3 Market Days, which may materially prejudice the success of the IPO; or
- (vi) there is any government requisition or occurrence of any other nature which materially and adversely affects or will materially and adversely affect the business and/or financial position of our Company and/or our Group; or
- (vii) in the event that the listing of and quotation for the entire enlarged issued share capital of our Company on the ACE Market is withdrawn or not procured or procured but subject to conditions not acceptable to the Underwriter;

which would have or can reasonably be expected to have, in the reasonable opinion of the Underwriter, a material adverse effect on, and/or materially prejudice the business or the operations of our Company or Group, the success of the IPO, or the distribution or sale of the Issue Shares or which has or is reasonably likely to have the effect of making any material part of the Underwriting Agreement incapable of performance in accordance with its terms.

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**4. PARTICULARS OF OUR IPO (Cont'd)**

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- 1.7 Upon the notice as described in item 1.6 above being given, the Underwriter shall be released and discharged of its obligation without prejudice to its rights under the Underwriting Agreement, and where the Underwriter has terminated or withdrawn its Underwriting Commitment pursuant to item 1.5 or item 1.6, the Underwriting Agreement shall be of no further force or effect and no party shall be under any liability to any other parties in respect of the Underwriting Agreement, except the following:
- (a) our Company shall pay the Underwriting Commission and any SST, tax, duties or levies chargeable in respect of the Underwriting Commission in accordance with the Underwriting Agreement; and
  - (b) our Company shall continue to be liable to indemnify the Underwriter and the its affiliates and each of their (the Underwriter and its affiliates) directors, employees, agents, subsidiaries and each person who controls the Underwriter and affiliates, in such manner as set out in the Underwriting Agreement.

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## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL

### 5.1 PROMOTERS AND SUBSTANTIAL SHAREHOLDERS

#### 5.1.1 Promoters' and substantial shareholders' shareholdings

The shareholdings of our Promoters and substantial shareholders in our Company before and after our IPO are set out below:

Name/ Nationality	Before IPO <sup>(1)</sup>				After IPO <sup>(2)</sup>			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Lim Kok Eng/ Malaysian	254,399,840	80.0	<sup>(4)</sup> 63,599,960	20.0	<sup>(3)</sup> 232,784,640	56.0	<sup>(4)</sup> 58,196,160	14.0
Kwan Chian Poh/ Malaysian	63,599,960	20.0	<sup>(4)</sup> 254,399,840	80.0	<sup>(3)</sup> 58,196,160	14.0	<sup>(4)</sup> 232,784,640	56.0

Notes:

- (1) Based on the share capital of 318,000,000 Shares after the Acquisition of Spring Art.
- (2) Based on the enlarged share capital of 415,687,000 Shares after the IPO.
- (3) After the Offer for Sale.
- (4) Deemed interested by virtue of his/her spouse's shareholdings in our Group.

Our Promoters and substantial shareholders do not have different voting rights from the other shareholders of our Group.

#### 5.1.2 Profiles of Promoters and substantial shareholders

The profiles of Lim Kok Eng and Kwan Chian Poh are set out below:

##### (a) Lim Kok Eng

Lim Kok Eng, a Malaysian, aged 53, is our Promoter and Managing Director. He is responsible for our Company's strategic planning as well as overseeing the overall operations for Spring Art. He was appointed to our Board on 19 November 2018.

Lim Kok Eng graduated with Bachelor of Business Administration from Fu Jen Catholic University, Taipei, Taiwan in 1989. He has more than 20 years of experience in the furniture industry encompassing design and development, manufacturing as well as marketing and sales of furniture products.

Upon graduation, he started his career in 1989 in Spring Circle Computer Inc, Taiwan as an Export Sales Coordinator where he was responsible for the sales of computers and computer hardware in the European and Asian markets. In 1991, he left Spring Circle Computer Inc, Taiwan and returned to Malaysia. In 1992, he incorporated Deltaspring Computer Sdn Bhd together with other shareholders to sell personal computers to retail customers. In addition to selling personal computers, he also sells computer desks. He disposed his equity stake in Deltaspring Computer Sdn Bhd in 1997 and ceased to be a shareholder.

**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (Cont'd)**

In 1996, Lim Kok Eng together with his wife, Kwan Chian Poh incorporated Spring Art Marketing Sdn Bhd to pursue opportunities in the furniture business. They started their business by way of trading and distributing ready-to-assemble computer desks in Muar, Johor. In 1999, Spring Art Marketing Sdn Bhd's name was changed to Spring Art Industries Sdn Bhd to reflect its manufacturing activities.

Save for our Group, he does not hold any directorships in any other public listed companies.

He presently holds directorship in a number of private limited companies.

**(b) Kwan Chian Poh**

Kwan Chian Poh, a Malaysian, aged 51, is our Promoter and Executive Director. She is responsible for the purchasing, design, development and QC functions of Spring Art. She was appointed to our Board on 19 November 2018.

She completed Sijil Tinggi Persekolahan Malaysia in Institute Maharani, Muar in 1988. She has more than 20 years of experience in the furniture industry encompassing design and development, manufacturing as well as marketing and sales of furniture products.

In 1989, Kwan Chian Poh started her career in Customer Support in Zhang Tai Computer Sdn Bhd in the software department. She left Zhang Tai Computer Sdn Bhd in 1991. In 1992, she joined Panaaudio Industries Sdn Bhd as an Accounts Clerk where she was responsible for preparation of the accounts of the company. In 1995, she left Panaaudio Industries Sdn Bhd to set up Simple Software House, a sole proprietorship, to sell computers and computer parts to retail customers.

In 1996, Kwan Chian Poh and her husband, Lim Kok Eng incorporated Spring Art Marketing Sdn Bhd to pursue opportunities in the furniture business. In 1999, Spring Art Marketing Sdn Bhd's name was changed to Spring Art Industries Sdn Bhd to reflect its manufacturing activities.

Save for our Group, Kwan Chian Poh does not hold any directorships in any other public listed companies.

She presently holds directorship in a number of private limited companies.

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**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (Cont'd)****5.1.3 Changes in the Promoters' and substantial shareholders' shareholdings**

The changes in our Promoters and substantial shareholders' respective shareholdings since our incorporation on 25 April 2018 are as follows:

Promoters/ Substantial Shareholders	<sup>(1)</sup> As at incorporation				<sup>(2)</sup> After the Acquisition of Spring Art				<sup>(3)</sup> After IPO			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Lim Kok Eng	-	-	-	-	254,399,840	80.0	<sup>(4)</sup> 63,599,960	20.0	<sup>(3)</sup> 232,784,640	56.0	<sup>(4)</sup> 58,196,160	14.0
Kwan Chian Poh	-	-	-	-	63,599,960	20.0	<sup>(4)</sup> 254,399,840	80.0	<sup>(3)</sup> 58,196,160	14.0	<sup>(4)</sup> 232,784,640	56.0
Abdul Hadi Bin Nordin	100	50.0	-	-	100	-*	-	-	100	-*	-	-
Majelis Bin Majid	100	50.0	-	-	100	-*	-	-	100	-*	-	-

Notes:

\* Negligible.

(1) Comprising 200 subscriber shares.

(2) Based on the share capital of 318,000,000 Shares after the Acquisition of Spring Art.

(3) Based on the enlarged share capital of 415,687,000 Shares after the IPO.

(4) Deemed interested by virtue of his/her spouse's shareholdings in our Group.

**5.1.4 Persons exercising control over the corporation**

Save for our Promoters, namely Lim Kok Eng and Kwan Chian Poh, there is no other person who is able to, directly or indirectly, jointly or severally, exercise control over our Company.

**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (Cont'd)****5.1.5 Benefits paid or intended to be paid**

Save for the dividends paid to our Promoters as disclosed in Section 11.14 and our Directors' remuneration and benefits as disclosed in Section 5.2.4, there is no amount and benefit that has been or is intended to be paid or given to our Promoters, Directors and/or substantial shareholders within the 2 years preceding the date of this Prospectus.

**5.2 DIRECTORS****5.2.1 Directors' shareholdings**

The shareholdings of our Directors in our Company before and after our IPO assuming that our Directors will fully subscribe for their respective entitlements under the Pink Form Allocations are set out below:

Name	Designation/ Nationality	Before IPO <sup>(1)</sup>			After IPO <sup>(2)</sup>		
		Direct No. of Shares	%	No. of Shares	Direct No. of Shares	%	Indirect No. of Shares
Haji Ismail Bin Tunggak	Independent Non-Executive Chairman / Malaysian	-	-	-	300,000	0.07	-
Lim Kok Eng	Managing Director / Malaysian	254,399,840	80.00 <sup>(4)</sup>	63,599,960	20.00 <sup>(3)</sup>	232,784,640 <sup>(4)</sup>	58,196,160 <sup>(4)</sup>
Kwan Chian Poh	Executive Director / Malaysian	63,599,960	20.00 <sup>(4)</sup>	254,399,840	80.00 <sup>(3)</sup>	58,196,160 <sup>(4)</sup>	232,784,640 <sup>(4)</sup>
Law Sang Thiam	Independent Non-Executive Director / Malaysian	-	-	-	300,000	0.07	-

**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (Cont'd)**

Name	Designation/ Nationality	Before IPO <sup>(1)</sup>				After IPO <sup>(2)</sup>			
		Direct		Indirect		Direct		Indirect	
		No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Tan Meng Loon	Independent Non- Executive Director / Malaysian	-	-	-	-	300,000	0.07	-	-

## Notes:

(1) Based on the share capital of 318,000,000 Shares after the Acquisition of Spring Art.

(2) Based on the enlarged share capital of 415,687,000 Shares after the IPO.

(3) After the Offer for Sale.

(4) Deemed interested by virtue of his/her spouse's shareholdings in our Group.

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**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (*Cont'd*)**

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**5.2.2 Profiles of Directors**

The profiles of our Directors are as follows:

**(i) Haji Ismail Bin Tunggak**

Haji Ismail Bin Tunggak, a Malaysian, aged 69, is our Independent Non-Executive Chairman. He was appointed to our Board on 19 November 2018, and is also the chairman of our Remuneration Committee and member of our Audit Committee and Nomination Committee.

Haji Ismail Bin Tunggak completed High School Certificate in Sekolah Menengah Kebangsaan Tinggi Batu Pahat, Johor in 1970.

In 1970, he started working in his family's grocery business, where he worked as a helper. In 1972, he left his family's grocery business and joined the Johor Bahru branch of Postal Services Department (now known as POS Malaysia & Services Holdings Berhad) as a Cashier. In 1976, he was promoted to the Head of Branch in Bukit Tangkak. In 1976, he was transferred to Sungai Mati as Head of Branch. As Head of Branch, he was in-charge of overseeing the entire operations of these respective branches.

In 1987, he resigned from the Postal Services Department (now known as POS Malaysia & Services Holdings Berhad). He was subsequently appointed as the Penghulu of Mukim Sri Menanti from 1987 to 1997, the Penghulu of Mukim Tangkak from 1997 to 2000, and the Penghulu of Mukim Parit Bakar from 2000 to 2007. In addition, he was appointed as a committee member of the National Anti-Drug Agency from 2000 to 2005.

Haji Ismail Bin Tunggak sat on the Board of SWS Capital Berhad as an Independent Non-Executive Director from 2003 to 2016.

Haji Ismail Bin Tunggak sat on the Board of Muar Ban Lee Group Berhad, a company listed on the Main Market of Bursa Securities as an Independent Non-Executive Director from 2009 to February 2019.

He presently holds directorship in a number of private limited companies.

**(ii) Law Sang Thiam**

Law Sang Thiam, a Malaysian, aged 43, is our Independent Non-Executive Director. He was appointed to our Board on 19 November 2018, and is also the chairman of our Audit Committee and member of our Remuneration Committee and Nomination Committee.

Law Sang Thiam graduated with Bachelor of Accounting from the University of Malaya in 2000. He is a member of Malaysian Institute of Accountants since 2003 and Malaysian Institute of Certified Public Accountants since 2004. Law Sang Thiam has over 18 years of experience in audit and assurance, tax and advisory, as well as corporate advisory services.

Upon graduating, Law Sang Thiam joined Messrs Arthur Andersen & Co in 2000 as an Audit Assistant where he was responsible for audit assignments of the firm's clients. In 2002, he left Messrs Arthur Andersen & Co and joined Messrs Ernst & Young as an Audit Associate where he was involved in audit assignments of companies in various industries as well as facilitating clients in corporate exercises such as initial public offering, secondary listing and merger and acquisition in the capacity of reporting accountant for the aforementioned corporate exercises.

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**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (*Cont'd*)**

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In 2016, Law Sang Thiam left Messrs Ernst & Young and established an accounting firm, namely Messrs Ivan Law & Co where he is presently the Managing Partner. In 2017, he established a tax advisory firm, namely Messrs Taxavenue Advisory PLT where he is presently a Managing Partner.

**(iii) Tan Meng Loon**

Tan Meng Loon, a Malaysian, aged 34, is our Independent Non-Executive Director. He was appointed to our Board on 19 November 2018, and is also the chairman of our Nomination Committee and member of our Audit Committee and Remuneration Committee.

He graduated with Bachelor of Law (Hons) from University of Liverpool, United Kingdom in 2007. He was admitted as an Advocate and Solicitor of High Court of Malaya in 2009.

In 2008, Tan Meng Loon chambered under Messrs Gooi & Azura and was retained as a litigation lawyer in the areas of civil and criminal litigation as well as conveyancing matters. In 2011, he left Messrs Gooi & Azura and joined Messrs K.H. Tan & Co as a partner where he handled various litigation and conveyancing matters.

In 2012, Tan Meng Loon left Messrs K.H. Tan & Co and established Messrs Alan Tan & Associates where he is presently the Managing Partner. Since the establishment of Messrs Alan Tan & Associates, Tan Meng Loon has been representing individual and corporate clients in the areas of litigation, conveyancing, employment and corporate governance.

He presently holds directorship in a number of private limited companies.

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## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (Cont'd)

### 5.2.3 Principal business performed outside our Group

Save as disclosed below, none of our Directors has any other principal directorship and/or principal business activities performed outside our Group in the past 5 years up to the LPD:

#### (i) Haji Ismail Bin Tunggak

Company	Principal activities	Involvement / Position held	Date of appointment	Date of resignation	shareholdings held (Direct)	% of shareholdings held (indirect)
<b>Present involvement</b>						
1. Asas Tegap Development Sdn Bhd	Housing development and provision of construction works	Director	30 January 2017	-	50.0	-
2. Setia Mega Development Sdn Bhd	Housing development and provision of construction works	Director	13 December 2010	-	1.0	-
3. Junjung Bersatu Setia Sdn Bhd	Housing development and property investment	Director	7 April 2017	-	50.0	-
<b>Past Involvement</b>						
1. SWS Capital Berhad	Investment holding. Its subsidiaries are involved in the manufacturing and sale of furniture products; lamination of veneer and paper; trading of boards, polythylene, pneumatic fasteners, nails and others; manufacturing and trading of plasticwares, utensils and goods; marketing and distribution of plasticware and household products	Independent Non-Executive Director	30 November 2003	29 January 2016	-	-
2. Muar Ban Lee Group Berhad	Investment holding. Its subsidiaries are involved in the provision of engineering services for the palm oil industry	Independent Non-Executive Director	30 June 2009	1 March 2019	-	-



**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (Cont'd)****(ii) Lim Kok Eng**

<b>Company</b>	<b>Principal activities</b>	<b>Involvement/ Position held</b>	<b>Date of appointment</b>	<b>Date of resignation</b>	<b>% of shareholdings held (direct)</b>	<b>% of shareholdings held (indirect)</b>
<b><u>Present involvement</u></b>						
1. Kejora Bitara Sdn Bhd	Property investment holding and cultivation of agarwood	Director	12 September 2000	-	50.0	50.0 <sup>(1)</sup>
2. Senhucy Biological Technology (M) Sdn Bhd	Provision of research and development on biotechnology of agarwood	Director	9 February 2018	-	20.0	-

**Note:**

<sup>(1)</sup> Deemed interested by virtue of his spouse's shareholding in Kejora Bitara Sdn Bhd.

**(iii) Kwan Chian Poh**

<b>Company</b>	<b>Principal activities</b>	<b>Involvement / Position held</b>	<b>Date of appointment</b>	<b>Date of resignation</b>	<b>% of shareholdings held (direct)</b>	<b>% of shareholdings held (indirect)</b>
<b><u>Present involvement</u></b>						
1. Kejora Bitara Sdn Bhd	Property investment holding and cultivation of agarwood	Director	12 September 2000	-	50.0	50.0 <sup>(1)</sup>
2. Zillion Access Sdn Bhd	Cultivation of rubber trees	Director	26 July 2010	-	33.3	-

**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (Cont'd)**

Note:

(1) Deemed interested by virtue of her spouse's shareholding in Kejora Bitara Sdn Bhd.

**(iv) Law Sang Thiam**

<b>Partnership</b>	<b>Principal activities</b>	<b>Involvement / Position held</b>	<b>Date of appointment</b>	<b>Date of resignation</b>	<b>% of shareholdings held (direct)</b>	<b>% of shareholdings held (indirect)</b>
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**Present involvement**

1. Ivan Law & Co	Accounting firm	Managing Partner	19 February 2016	-	-	-
2. Taxavenue Advisory PLT	Tax advisory firm	Managing Partner	9 June 2017	-	-	-

**(v) Tan Meng Loon**

<b>Company / Partnership</b>	<b>Principal activities</b>	<b>Involvement / Position held</b>	<b>Date of appointment</b>	<b>Date of resignation</b>	<b>% of shareholdings held (direct)</b>	<b>% of shareholdings held (indirect)</b>
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**Present involvement**

1. Alan Tan & Associates	Legal firm	Managing Partner	9 July 2012	-	-	-
2. Music Concert Sdn Bhd	Management and operations of family entertainment karaoke centre	Director	20 June 2013	-	23.0	-
3. S H Tay Realty Sdn Bhd	Property investment holding and cultivation of tropical fruits	Director	26 November 2014	-	33.3	-

**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (Cont'd)**

Company/ Partnership	Principal activities	Involvement / Position held	Date of appointment	Date of resignation	shareholdings held (direct)	% of shareholdings held (indirect)
4. Brilliant World Ventures Sdn Bhd	Property investment holding and leasing of properties	Director	20 June 2018	-	20.0	-
5. Two Hills Sdn Bhd	Property investment holding and cultivation of tropical fruits	Director	26 November 2018	-	50.0	50.0 <sup>(1)</sup>
<b><u>Past involvement</u></b>						
1. Hexar Property Venture Berhad <sup>(2)</sup>	Dormant	Director	15 December 2016	1 April 2018	-	-

## Notes:

<sup>(1)</sup>

Deemed interested by virtue of his spouse's shareholding in Two Hills Sdn Bhd.

<sup>(2)</sup>

Non-listed company.

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**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (Cont'd)**

The involvement of our Directors in those business activities outside our Group does not give rise to any conflict of interest situation with our business. The involvement of our Executive Directors in those business activities does not require significant amount of time, and hence does not affect their ability to perform their executive roles and responsibilities to our Group.

In order to mitigate any possible conflict of interest situation in the future, our Directors will declare to our Nomination Committee and our Board, their interests in other companies at the onset and as and when there are changes in their respective interests in the companies outside our Group. Our Nomination Committee will first evaluate if such Director's involvement give rise to an actual or potential conflict of interest with our Group's business after the disclosure provided by such Director. After a determination has been made on whether there is an actual or potential conflict of interest, our Nomination Committee will then:

- (a) Immediately inform our Board of the conflict of interest situation;
- (b) Make recommendations to our Board to direct the conflicted Director to:
  - (i) Withdraw from all his executive involvement in our Group in relation to the matter that has given rise to the conflict of interest (in the case where the conflicted Director is an Executive Director); and
  - (ii) Abstain from all Board deliberation and voting in the matter that has given rise to the conflict of interest.

In relation to (b) above, the conflicted Director shall be absent from any Board discussion relating to the recommendation of our Nomination Committee and the conflicted Director shall not vote or in any way attempt to influence the discussion of, or voting on, the matter at issue. The conflicted Director, may however at the request of the Chairman of our Board, be present at our Board meeting for the purposes of answering any questions.

It is the Director's fiduciary duty to avoid conflict. Our Directors are required to attend courses which provide guidelines to them on their fiduciary duties.

In relation to matters or transactions requiring the approval of our Board, the relevant Directors who are deemed interested or conflicted in such matters or transactions shall be required to declare their interests and abstain from deliberations and voting on the resolutions relating to these matters or transactions.

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## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (Cont'd)

### 5.2.4 Directors' and key senior management's remuneration and benefits

The aggregate remuneration and material benefits-in-kind paid and proposed to be paid to our Directors for services rendered in all capacities to our Group for FYEs 2018 and 2019 are as follows:

<b>FYE 2018</b>	<b>Directors' fees</b>	<b>Salaries</b>	<b>Bonuses</b>	<b>Benefits-in-kind and allowance</b>	<b>Total</b>
<b>Director</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Non-Executive Directors</b>					
Haji Ismail Bin Tunggak	-	-	-	1	1
Law Sang Thiam	-	-	-	1	1
Tan Meng Loon	-	-	-	1	1
<b>Executive Directors</b>					
Lim Kok Eng	-	480	-	16	496
Kwan Chian Poh	-	420	-	17	437

<b>Proposed for FYE 2019</b>	<b>Directors' fees</b>	<b>Salaries</b>	<b>Bonuses <sup>(1)</sup></b>	<b>Benefits-in-kind and allowance</b>	<b>Total</b>	<b>Amount paid from 1 January 2019 to 30 June 2019</b>
<b>Director</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Non-Executive Directors</b>						
Haji Ismail Bin Tunggak	36	-	-	2	38	13
Law Sang Thiam	36	-	-	3	39	13
Tan Meng Loon	36	-	-	2	38	13
<b>Executive Directors</b>						
Lim Kok Eng	-	480	-	30	510	240
Kwan Chian Poh	-	420	-	20	440	215

Note:

- (1) The bonuses for FYE 2019 are not included. Such bonuses, if any, will be determined later depending on the performance of our Group, subject to the recommendation of the Remuneration Committee and approved by our Board.

## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (Cont'd)

The aggregate remuneration and material benefits-in-kind paid and proposed to be paid to our key senior management for services rendered in all capacities to our Group for FYEs 2018 and 2019 are as follows:

<b>FYE 2018</b>		<b>Remuneration band (in bands of RM50,000)</b>		
<b>Key senior management</b>		<b>Remuneration</b>	<b>Benefits-in-kind</b>	<b>Total</b>
		<b>RM</b>	<b>RM</b>	<b>RM</b>
	Teo Miow Loo*	200,000 – 250,000	-	200,000 – 250,000
	Peter Teo Swee Chyang	50,000 – 100,000	-	50,000 – 100,000
	Loo Soon Chuan	50,000 – 100,000	-	50,000 – 100,000
	Lim Vivian	1 - 50,000	-	1 - 50,000
	Ahmad Mahdzir Bin Joffri	1 - 50,000	-	1 - 50,000

<b>Proposed for FYE 2019</b>		<b>Remuneration band (in bands of RM50,000)</b>			<b>Amount paid from</b>
<b>Key senior management</b>		<b>Remuneration</b>	<b>Benefits-in-kind</b>	<b>Total</b>	<b>1 January 2019 to</b>
		<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>30 June 2019<sup>^</sup></b>
					<b>RM'000</b>
	Teo Miow Loo	200,000 – 250,000	-	200,000 – 250,000	142
	Peter Teo Swee Chyang	50,000 – 100,000	-	50,000 – 100,000	51
	Loo Soon Chuan	50,000 – 100,000	-	50,000 – 100,000	42
	Lim Vivian	1 - 50,000	-	1 - 50,000	29
	Ahmad Mahdzir Bin Joffri	1 - 50,000	-	1 - 50,000	28

Notes:

\* Teo Miow Loo was appointed as our Chief Financial Officer during FYE 2018.

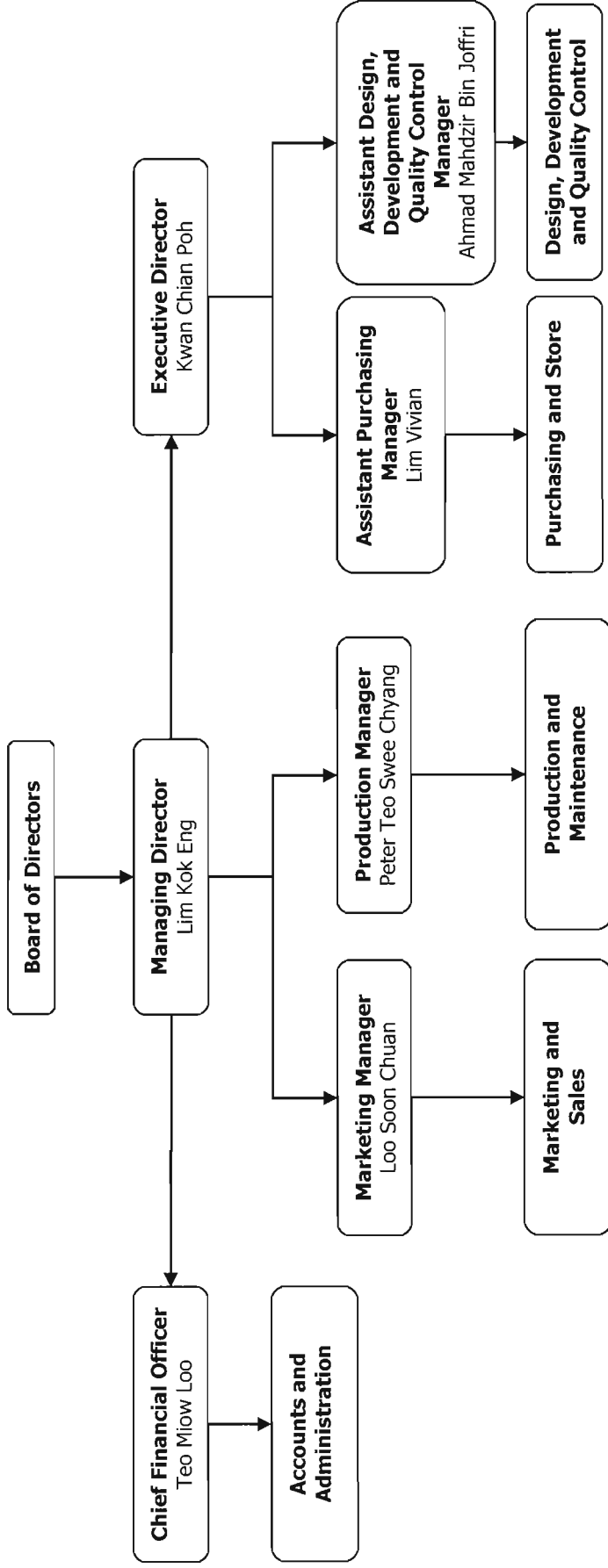
<sup>^</sup> Including bonus.

The remuneration which includes our Directors' salaries, bonus, fees and allowances as well as other benefits, must be reviewed and recommended by our Remuneration Committee and subsequently, be approved by our Board. Any change in Director's fees as set out in our Constitution must be approved by our shareholders pursuant to an ordinary resolution passed at a general meeting where appropriate notice of the proposed changes should be given. Please refer to Section 14.2 for further details.

**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (Cont'd)**

**5.3 KEY SENIOR MANAGEMENT**

**5.3.1 Management Structure**



**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (Cont'd)****5.3.2 Key senior management's shareholdings**

The shareholdings of our key senior management (other than Lim Kok Eng and Kwan Chian Poh) in our Company before and after our IPO assuming that our key senior management will fully subscribe for their respective entitlements under the Pink Form Allocations are set out below:

Name	Designation/ Nationality	Before IPO			After IPO <sup>(1)</sup>				
		Direct		Indirect		Direct		Indirect	
		No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Teo Miow Loo	Chief Financial Officer / Malaysian	-	-	-	-	300,000	0.07	-	-
Peter Teo Swee Chyang	Production Manager / Malaysian	-	-	-	-	260,000	0.06	-	-
Loo Soon Chuan	Marketing Manager / Malaysian	-	-	-	-	20,000	0.01	-	-
Lim Vivian	Assistant Purchasing Manager / Malaysian	-	-	-	-	89,000	0.02	-	-
Ahmad Mahdzir Bin Joffri	Assistant Design, Development and Quality Control Manager / Malaysian	-	-	-	-	22,000	0.01	-	-

Note:

<sup>(1)</sup> Based on the enlarged share capital of 415,687,000 Shares after the IPO.



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**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (Cont'd)**

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**5.3.3 Profiles of key senior management**

Save for the profiles of our Directors, which are disclosed in Section 5.1.2, the profiles of our other key senior management are as follows:

**(i) Teo Miow Loo**

Teo Miow Loo, Malaysian, aged 38, is our Chief Financial Officer. She is responsible for managing our Group's finances, including financial planning, financial reporting and administration.

She graduated with Bachelor of Accounting from the University of Malaya in 2006. She is a member of Malaysian Institute of Accountants since 2010. She has over 13 years of experience in internal control matters, cost management as well as financial reporting.

Upon graduation, Teo Miow Loo joined Messrs PricewaterhouseCoopers in 2006 as an Audit Associate. During her tenure in PricewaterhouseCoopers, she was involved in audit assignments of companies in various industries as well as assisting clients in corporate exercises such as initial public offering in the capacity of reporting accountant. In 2009, Teo Miow Loo left Messrs PricewaterhouseCoopers and joined Micron Semiconductor Malaysia Sdn Bhd as an Accountant where she was responsible for internal control matters and management costing.

In 2011, she left Micron Semiconductor Malaysia Sdn Bhd as Senior Accountant and joined SWS Capital Berhad as Group Financial Controller. In 2016, she was re-designated as Chief Financial Officer and was appointed as an Executive Director in 3 subsidiaries in SWS Capital Berhad, namely SWS Industries Sdn Bhd, U.D. Panelform Sdn Bhd and U.D. Wood Products Sdn Bhd. She was responsible for the overall operations in the finance department for all the subsidiaries of SWS Capital Berhad. In addition, she was involved in overseeing the manufacturing operations in the aforementioned 3 subsidiaries.

In January 2018, she left SWS Capital Berhad and its related companies and joined our Group as Chief Financial Officer in February 2018.

**(ii) Peter Teo Swee Chyang**

Peter Teo Swee Chyang, Malaysian, aged 44, is our Production Manager. He is responsible for managing the production and maintenance operations of our Group.

He finished his primary education in Sekolah Jenis Kebangsaan (C) Yu Jern in Muar, Johor, in 1987. He has over 31 years of experience in furniture manufacturing.

Between 1988 and 1997, he assisted in his family's furniture manufacturing business. In 1997, he joined Poh Huat Woodwork (M) Sdn Bhd as a Production Operator. He was promoted to Production Supervisor in 2000 where he was responsible for overseeing the cutting department.

In 2006, he left Poh Huat Woodwork (M) Sdn Bhd and worked as a freelance cabinet installer until 2008.

In 2008, he joined Spring Art as a Production Supervisor. He was promoted to Production Controller in 2009 and subsequently to Production Manager in 2018.

**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (Cont'd)**

**(iii) Loo Soon Chuan**

Loo Soon Chuan, Malaysian, aged 54, is our Marketing Manager. He is responsible for marketing and sales functions of our Group's furniture products.

He graduated with Bachelor of Management with Honours from Universiti Sains Malaysia in 1992.

Upon graduation, he joined D&C Bank in 1992 as a Credit Officer. He left D&C Bank in 1994 and subsequently joined Public Bank Berhad in 1995 as a Credit Officer. In 1996, he left Public Bank Berhad and joined T.A. Furniture Industries Sdn Bhd as a Human Resource Administrator. In 1998, he was then transferred to the Marketing Department and took on the role of Marketing Manager where he managed the marketing and sales activities of furniture products. In 2006, he left T.A. Furniture Industries Sdn Bhd and joined Mountrose (Malaysia) Sdn Bhd as Marketing Manager where he was responsible for managing the company's marketing and promotional activities.

In 2016, he left Mountrose (Malaysia) Sdn Bhd and joined Spring Art as a Marketing Manager.

**(iv) Lim Vivian**

Lim Vivian, Malaysian, aged 31, is our Assistant Purchasing Manager. She is responsible for the purchasing and storage of raw materials for our Group.

She graduated with an International Diploma in Business Management from Camford International College, Singapore in 2010.

Upon graduation, she joined Spring Art in 2010 as a Purchasing Assistant where she was involved in scheduling material purchases from suppliers. In 2014, she was promoted to Purchasing Executive. In January 2017, she was promoted to Assistant Purchasing Manager where her responsibilities include sourcing new suppliers and ensuring the preparation and processing of purchasing orders in accordance with Spring Art's policies and procedures.

**(v) Ahmad Mahdzir Bin Joffri**

Ahmad Mahdzir Bin Joffri, Malaysian, aged 40, is our Assistant Design, Development and Quality Control Manager. He is responsible for overseeing the design, development and QC activities of our Group's furniture products.

He completed his Sijil Pelajaran Malaysia in Sekolah Menengah Paduka Tuan, Segamat, Johor in 1996.

Upon completing secondary school, he took on several part time jobs between 1996 and 1999. In 1999, he joined Banhong Furniture Industries Sdn Bhd as a machine operator. In 2000, he decided to further his studies at Institut Kemahiran Belia Negara Jitra, Kedah. He completed the Latihan Kemahiran Jurusan Pembuat Perabot dan Hiasan Dalaman at Institut Kemahiran Belia Negara Jitra in 2001.

He then joined LY Furniture Sdn Bhd in 2002 as an Assembly Operator. In 2003, he resumed his studies at Majlis Latihan Vokasional Kebangsaan Malaysia and completed the Program Persijilan Kemahiran Kebangsaan (SKM) Dalam Bidang Pelukis Pelan Senibina in 2005. He subsequently joined Shantawood Manufacturing Sdn Bhd as Draughtsman where he was responsible for technical drawings of wooden furniture produced by the company.

**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL *(Cont'd)***

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In 2008, he left Shantawood Manufacturing Sdn Bhd and joined Spring Art as Draughtsman where he was responsible to produce design blueprints of wooden furniture. In 2016, he was promoted to the position of Design and Development Executive where he participated in Spring Art's design and development activities. In January 2017, he was promoted to Assistant Design, Development and Quality Control Manager.

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**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (Cont'd)****5.3.4 Principal business performed outside our Group**

Save as disclosed below, none of our key senior management (other than Lim Kok Eng and Kwan Chian Poh) has any other principal directorship and/or principal business activities performed outside our Group as at the LPD:

**(i) Teo Miow Loo**

<b>Company</b>	<b>Principal activities</b>	<b>Involvement / Position held</b>	<b>Date of appointment</b>	<b>Date of resignation</b>	<b>% of shareholdings held (direct)</b>	<b>% of shareholdings held (indirect)</b>
<b><u>Past involvement</u></b>						
1. Ee-Lian Industries Sdn Bhd (formerly known as SWS Industries Sdn Bhd) <sup>(1)</sup>	Trading of MDF boards	Director	16 November 2016	31 January 2018	-	-
2. U.D. Panelform Sdn Bhd <sup>(1)</sup>	Manufacturing and sale of laminated boards	Director	23 November 2016	31 January 2018	-	-
3. U.D. Wood Products Sdn Bhd <sup>(1)</sup>	Manufacturing and sale of veneered boards	Director	23 November 2016	31 January 2018	-	-
4. Heywood Marketing Sdn Bhd	Trading of laminated veneer plywood, veneer, hardware, equipment and furniture parts	Director	5 June 2015	28 April 2016	-	-

Note:

<sup>(1)</sup> Subsidiaries of SWS Capital Berhad.

**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (Cont'd)****(ii) Loo Soon Chuan**

<b>Company</b>	<b>Principal activities</b>	<b>Involvement / Position held</b>	<b>Date of appointment</b>	<b>Date of resignation</b>	<b>% of shareholdings held (direct)</b>	<b>% of shareholdings held (indirect)</b>
<b><u>Past involvement</u></b>						
1. Mountrose (Malaysia) Sdn Bhd	Dormant	Director	30 December 2005	The company was dissolved on 3 November 2017	10.0	-
2. Star Quality Furniture (M) Sdn Bhd	Dormant	Director	16 June 2006	The company was dissolved on 19 January 2018	-	-

**5.4 RELATIONSHIPS AND/OR ASSOCIATIONS**

Save as disclosed below, there are no family relationships or association between or amongst our Promoters, substantial shareholders, Directors and key senior management:

- (i) Lim Kok Eng and Kwan Chian Poh, both of whom are our Promoters, substantial shareholders and Executive Directors are husband and wife; and
- (ii) Lim Vivian, our Assistant Purchasing Manager, is the niece of Lim Kok Eng.

## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL *(Cont'd)*

### 5.5 BOARD PRACTICE

#### 5.5.1 Board

Our Board has adopted the following responsibilities for effective discharge of its functions:

- (a) To provide leadership and oversee the overall conduct of our Group's businesses to ensure that our businesses are being properly managed;
- (b) To review and adopt strategic plans for our Group and to ensure that such strategic plans and the risk, performance and sustainability thereon are effectively integrated and appropriately balanced;
- (c) To review and adopt corporate governance best practices in relation to risk management, legal and compliance management and internal control systems to safeguard our Group's reputation, and our employees and assets and to ensure compliance with applicable laws and regulations;
- (d) To ensure that our Group has effective Board committees as required by the applicable laws, regulations, rules, directives and guidelines and as recommended by the Malaysian Code of Corporate Governance 2017;
- (e) To review and approve our Group's annual business plans, financial statements and annual reports;
- (f) To monitor the relationship between our Group and our management, shareholders and stakeholders, and to develop and implement an investor relations programme or shareholders' communications policy for our Group; and
- (g) To appoint our Board committees, to delegate powers to such committees, to review the composition, performance and effectiveness of such committees, and to review the reports prepared by our Board committees and deliberate on the recommendations thereon.

As at the LPD, the details of the date of expiration of the current term of office for each of our Directors and the period that each of our Directors has served in office are as follows:

<b>Name</b>	<b>Date of appointment as Director</b>	<b>Date of expiration of the current term in office</b>	<b>Approximate no of years in office as at the LPD</b>
Haji Ismail Bin Tunggak	19 November 2018	At the first Annual General Meeting of our Company	Less than 1 year
Law Sang Thiam	19 November 2018	At the first Annual General Meeting of our Company	Less than 1 year
Tan Meng Loon	19 November 2018	At the first Annual General Meeting of our Company	Less than 1 year
Lim Kok Eng	19 November 2018	At the first Annual General Meeting of our Company	Less than 1 year
Kwan Chian Poh	19 November 2018	At the first Annual General Meeting of our Company	Less than 1 year

In accordance with our Constitution, at the first annual general meeting of our Company, all the Directors shall retire from office, and at the annual general meeting in every subsequent year, one-third (1/3) of the Directors for the time being or, if their number is not 3 or a multiple of 3, then the number nearest to one-third (1/3) shall retire from office and be

## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL *(Cont'd)*

eligible for re-election PROVIDED ALWAYS that all Directors shall retire from office at least once every 3 years but shall be eligible for re-election. A retiring Director shall retain office until the close of the meeting at which he retires. An election of directors shall take place each year.

The members of our Board are set out in Sections 1 and 5.2.

### 5.5.2 Audit Committee

The main function of our Audit Committee is to assist our Board in fulfilling its responsibility to oversee our Group's accounting and financial reporting matters. The Audit Committee's duties and responsibilities as stated in its terms of reference include, amongst others, the following:

- (a) To review the engagement, compensation, performance, qualifications and independence of our external auditors, its conduct of the annual statutory audit of our financial statements, and the engagement of external auditors for all other services;
- (b) To review and approve our quarterly and annual financial statements for recommendation to our Board, focusing in particular on any changes in or implementation of major accounting policies and practices, significant and unusual events, significant adjustments arising from the audit, going concern assumption and compliance with accounting standards and other regulatory or legal requirements;
- (c) To review any related party transactions entered into by our Group and any conflict of interest situations that may arise within our Group;
- (d) To consider the major findings of internal investigations and management's response; and
- (e) To perform such other functions as may be requested by our Board.

The recommendations of our Audit Committee are subject to the approval of our Board.

The members of our Audit Committee as at the LPD are as follows:

<b>Name</b>	<b>Designation</b>	<b>Directorship</b>
Law Sang Thiam	Chairman	Independent Non-Executive Director
Haji Ismail Bin Tunggak	Member	Independent Non-Executive Chairman
Tan Meng Loon	Member	Independent Non-Executive Director

Our Nomination Committee and Board will review the composition, performance and effectiveness of our Audit Committee annually.

### 5.5.3 Remuneration Committee

The main function of our Remuneration Committee is to assist our Board in fulfilling its responsibility on matters relating to our Group's compensation, bonuses, incentives and benefits. The Remuneration Committee's duties and responsibilities as stated in its terms of reference include, amongst others, the following:

## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL *(Cont'd)*

- (a) To establish and recommend to our Board, the remuneration package for Executive Directors such as the terms of employment or contract of employment/service, benefit, pension, incentive scheme, bonuses, fees, expenses, compensation payable on termination of the service contract by our Company and/or our Group;
- (b) To review and recommend to our Board the remuneration packages of Non-Executive Directors for shareholders' approval at the Annual General Meeting; and
- (c) To consider other remunerations or rewards to retain and attract Directors.

The recommendations of our Remuneration Committee are subject to the approval of our Board.

The members of our Remuneration Committee as at the LPD are as follows:

<b>Name</b>	<b>Designation</b>	<b>Directorship</b>
Haji Ismail Bin Tunggak	Chairman	Independent Non-Executive Chairman
Law Sang Thiam	Member	Independent Non-Executive Director
Tan Meng Loon	Member	Independent Non-Executive Director

### 5.5.4 Nomination Committee

The Nomination Committee's duties and responsibilities as stated in its terms of reference include, amongst others, the following:

- (a) To review the composition and size of our Board and determine the criteria for membership on our Board, which may include, among other criteria, issues of character, judgment, independence, diversity, age, expertise, corporate experience, length of service and other commitments;
- (b) To identify, consider and select, or recommend for the selection of our Board, candidates to fill new positions or vacancies on our Board, and review any candidates recommended by stockholders, provided that such recommendations are submitted in writing to the Secretary of our Company, and include, among other things, the recommended candidate's name, biographical data and qualifications, and that such recommendations are otherwise made in compliance with our Company's Constitution and its shareholder nominations and recommendations policy;
- (c) To identify and nominate for the approval of our Board, candidates to fill Board vacancies or strengthen our Board's composition as and when they arise. Before any appointment is made by our Board, evaluate the balance of skills, knowledge, experience and diversity on our Board, and, in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment;
- (d) To assist our Board to assess and evaluate circumstances where a Director involvement outside our Group may give rise to a potential conflict of interest with our Group's businesses, upon receiving the declaration of the same from our Director and thereafter, to inform the Audit Committee of the same. After deliberation with the Audit Committee, to recommend to our Board on the necessary actions to be taken in the circumstances where there is a conflict of interest;



## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL *(Cont'd)*

- (e) In identifying suitable candidates, the Nomination Committee shall:
- (i) consider open advertising or the services of external advisers to facilitate the search;
  - (ii) consider candidates from a wide range of backgrounds; and
  - (iii) consider candidates on merit and against objective criteria and with due regard for the benefits of diversity on our Board, including gender and availability of time to devote to the position.
- (f) To evaluate the performance of individual members of our Board eligible for re-election, and select, or recommend for the selection of our Board, the director nominees for election to our Board by the stockholders at the annual meeting;
- (g) To assess the independence of the Independent Directors annually, and when any new interest or relationship develops and confirm the conduct of this assessment in the annual report of our Company and in any notice convening a general meeting seeking approval for the appointment or re-appointment of Independent Directors;
- (h) To review the fulfilment of Directors' training and disclose details in the annual report as appropriate;
- (i) To review with the Managing Director and the Executive Director, their goals and objectives and to assess their performance against these objective as well as their contribution to the corporate strategy;
- (j) To give full consideration to succession planning for Directors and key senior management, taking into account the challenges and opportunities faced by our Company, and the required skills and expertise that are needed by our Board in future;
- (k) To review periodically the composition of each committee of our Board and make recommendations to our Board for the creation of additional committees or the change in mandate or dissolution of committees; and
- (l) To review the term of office and performance of all our Board Committees, particularly the Audit Committee and each of its members annually to determine whether such Audit Committee and members have carried out their duties in accordance with their terms of reference.

The recommendations of our Nomination Committee are subject to the approval of our Board.

The members of our Nomination Committee as at the LPD are as follows:

<b>Name</b>	<b>Designation</b>	<b>Directorship</b>
Tan Meng Loon	Chairman	Independent Non-Executive Director
Haji Ismail Bin Tunggak	Member	Independent Non-Executive Chairman
Law Sang Thiam	Member	Independent Non-Executive Director

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**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT PERSONNEL (Cont'd)**

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**5.6 EXISTING OR PROPOSED SERVICE AGREEMENTS**

As at the LPD, there are no existing or proposed service agreements (contracts for services) entered into between the companies within our Group, with our Directors or key senior management personnel.

**5.7 DECLARATION FROM PROMOTERS, DIRECTORS AND KEY SENIOR MANAGEMENT**

As at the LPD, none of our Promoters, Directors or key senior management is or has been involved in any of the following events (whether within or outside Malaysia):

- (a) In the last 10 years, a petition under any bankruptcy or insolvency law filed (and not struck out) against such person or any partnership in which he was a partner or any corporation of which he was a Director or a member of key senior management;
- (b) Disqualified from acting as a Director of any corporation, or from taking part directly or indirectly in the management of any corporation;
- (c) In the last 10 years, charged and/or convicted in a criminal proceeding or is a named subject of a pending criminal proceeding;
- (d) In the last 10 years, any judgment that was entered against him, or finding of fault, misrepresentation, dishonesty, incompetence or malpractice on his part, involving a breach of any law or regulatory requirement that relates to the capital market;
- (e) In the last 10 years, was the subject of any civil proceeding, involving an allegation of fraud, misrepresentation, dishonesty, incompetence or malpractice on his part that relates to the capital market;
- (f) Being the subject of any order, judgment or ruling of any court, government, or regulatory authority or body temporarily enjoining him from engaging in any type of business practice or activity;
- (g) Being the subject of any current investigation or disciplinary proceeding, or in the last 10 years has been reprimanded or issued any warning by any regulatory authority, securities or derivatives exchange, professional body or government agency; or
- (h) Has any unsatisfied judgment against such person.

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## **6. INFORMATION ON OUR GROUP**

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### **6.1 INCORPORATION AND HISTORY**

Our Company was incorporated in Malaysia on 25 April 2018 under the Act as a public limited company under the name Spring Art Holdings Berhad (Company No. 1278159-A). We were incorporated as a special purpose vehicle to facilitate the listing of our subsidiary, Spring Art, on the ACE Market.

We are an investment holding company. Through our subsidiary, we are involved in the manufacturing of ready-to-assemble furniture products, where we undertake 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.

We had undertaken the Acquisition of Spring Art prior to our Listing, details of which are as set out in Section 6.2. Pursuant to the Acquisition of Spring Art, Spring Art became our wholly-owned subsidiary.

On 28 December 1996, Spring Art Marketing Sdn Bhd was incorporated by Lim Kok Eng and Kwan Chian Poh. Prior to the incorporation of Spring Art Marketing Sdn Bhd, our Managing Director, Lim Kok Eng, had been involved in the business of selling personal computers to retail customers and computer trading businesses from 1992 to 1997. In addition to selling personal computers, he also sells computer desks. In 1996, Lim Kok Eng and Kwan Chian Poh incorporated Spring Art Marketing Sdn Bhd to trade and distribute ready-to-assemble computer desks to local computer trading businesses in Muar, Johor.

In 1997, we set up our initial factory with a built-up area of approximately 5,600 sq ft on a rented property located in Muar, Johor and commenced operations as a furniture manufacturer. We started to design, develop and manufacture our own ready-to-assemble computer desks, thus eliminating our dependency on our suppliers who had previously supplied us with computer desks.

In 1998, we participated in the Index Exhibition in Dubai, UAE to exhibit our self-designed computer desks. In the same trade fair, we secured orders for the supply of computer desks from customers in Middle East comprising trade buyers such as importers and traders. This marked our foray into the export market.

On 13 April 1999, we changed Spring Art Marketing Sdn Bhd's name to Spring Art Industries Sdn Bhd to reflect our manufacturing activities. In the same year, through the Malaysian Furniture Export Exhibition in Kuala Lumpur, we secured orders from chain store buyers and distributors in Japan, Europe and India for the supply of our computer desks.

On 28 July 2000, Lim Kok Eng and Kwan Chian Poh acquired Kejora Bitara Sdn Bhd which owns Land 1, measuring approximately 117,002 sq ft. Land 1 was then leased to Spring Art to set up 2 new production lines to expand our furniture manufacturing business. In 2003, we commenced the construction works for the new factory, namely Factory A1 with completion in 2004.

In 2004, we relocated our manufacturing facilities and office to Factory A1 upon its completion and commenced operations in Factory A1 with 2 production lines.

In 2005, we extended our product range to include office furniture comprising office workstations, filing cabinets and pedestals to complement our existing computer desk products.

We further expanded our manufacturing operations in 2006 by setting up our second factory, namely Factory A2, adjacent to Factory A1, to cater to the growing demand for office furniture and computer desks. The construction works for Factory A2 was completed in 2007.

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**6. INFORMATION ON OUR GROUP (Cont'd)**

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In 2007, Factory A2 commenced operations with 1 production line, thus increasing the manufacturing capacity of our existing products.

In 2008, in an effort to widen our customer and product base, we expanded the range of our furniture products to include bedroom and living room furniture, such as beds, night stands, wardrobes, dressing tables, dressing stools, television consoles, bookshelves and study desks.

On 10 November 2009, we purchased a parcel of land, namely Land 2 which is located next to Land 1, measuring approximately 122,646 sq ft, with the intention of setting up an additional manufacturing factory in line with the increase in our product range.

In 2010, we further diversified our geographical reach and made our foray into the furniture market in the USA and Canada through the Malaysian International Furniture Fair in Kuala Lumpur. We secured orders from an e-commerce company from the USA and a distributor from Canada to supply our computer desks and office furniture respectively.

In 2013, we set up an additional manufacturing factory on Land 2 to further increase our manufacturing capacity. The construction work for the new factory, namely Factory B, was completed in 2014.

In 2014, Factory B commenced operations with 2 production lines to cater for increase in demand for our products particularly due to the increase in orders from customers in India and Middle East markets for bedroom and living room furniture.

In June 2016, we added 1 production line which allowed us to increase our production.

On 6 February 2018, we completed the acquisition of Land 3 measuring approximately 217,800 sq ft, with the intention of setting up a new factory to undertake the manufacturing of office furniture, bedroom furniture, living room furniture and other furniture for export to North America and Europe.

On 13 March 2018, Spring Art acquired Land 1 from Kejora Bitara Sdn Bhd. The acquisition of Land 1 from Kejora Bitara Sdn Bhd allowed us to consolidate the properties and assets from which Spring Art operates, under our Group. Please refer to Sections 6.16(d) and 9.1(a) for further details on the acquisition of Land 1.

As at the LPD, we occupy 3 buildings (namely Factory A1, A2 and B) and operate 6 production lines with a total annual production capacity of 337,016 units of furniture.

## 6. INFORMATION ON OUR GROUP (Cont'd)

### 6.1.1 Major achievements, milestones and awards

Our key achievements and milestones since incorporation are as follows:

Year	Key milestones
1996	<ul style="list-style-type: none"> <li>Incorporated Spring Art Marketing Sdn Bhd</li> <li>Commenced trading and distributing ready-to-assemble computer desks</li> </ul>
1997	<ul style="list-style-type: none"> <li>Commenced design, develop and manufacture of ready-to-assemble computer desks</li> </ul>
1998	<ul style="list-style-type: none"> <li>Secured orders from customers in Middle East</li> </ul>
1999	<ul style="list-style-type: none"> <li>Adopted the name Spring Art Industries Sdn Bhd</li> <li>Secured orders from customers in Japan, Europe and India</li> </ul>
2005	<ul style="list-style-type: none"> <li>Extended product range to include office furniture</li> </ul>
2008	<ul style="list-style-type: none"> <li>Extended product range to include bedroom and living room furniture</li> </ul>
2010	<ul style="list-style-type: none"> <li>Secured orders from customers in USA and Canada</li> </ul>

### 6.1.2 Share capital

As at LPD, our share capital is RM31,800,000 comprising 318,000,000 Shares. The movements in our share capital since the date of our incorporation are set out below:

Date of allotment	No. of Shares allotted	Consideration	Cumulative share capital
		RM	RM
25 April 2018	200	20	20
19 June 2019	317,999,800	31,799,980	31,800,000

## 6.2 ACQUISITION OF SPRING ART

In preparation for our Listing, we have undertaken the Acquisition of Spring Art. On 16 November 2018, we entered into a conditional share sale agreement with the Vendors to acquire the entire equity interest in Spring Art comprising 500,000 ordinary shares for a total purchase consideration of RM31,799,980. The total purchase consideration of RM31,799,980 for the Acquisition of Spring Art was arrived after taking into consideration the audited NA of Spring Art as at 30 June 2018 of RM31,800,372.

The purchase consideration for the Acquisition of Spring Art was satisfied by the issuance of 317,999,800 new Shares to the Vendors at an issue price of RM0.10 each.

The details of the Vendors and the number of Shares issued to them pursuant to the Acquisition of Spring Art are as follows:

Vendors	No. of Spring Art shares acquired	% of share capital in Spring Art	Purchase consideration RM	No. of Shares issued
Lim Kok Eng	400,000	80.00	25,439,984	254,399,840
Kwan Chian Poh	100,000	20.00	6,359,996	63,599,960
	<b>500,000</b>	<b>100.00</b>	<b>31,799,980</b>	<b>317,999,800</b>

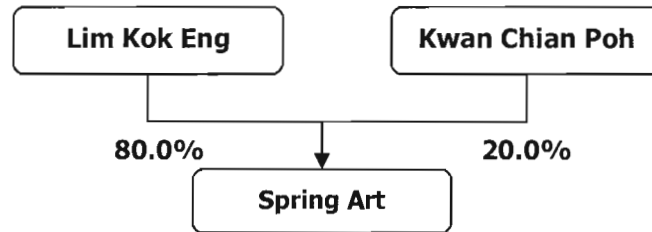
The Acquisition of Spring Art was completed on 31 July 2019. Thereafter, Spring Art became our wholly-owned subsidiary.

**6. INFORMATION ON OUR GROUP (Cont'd)**

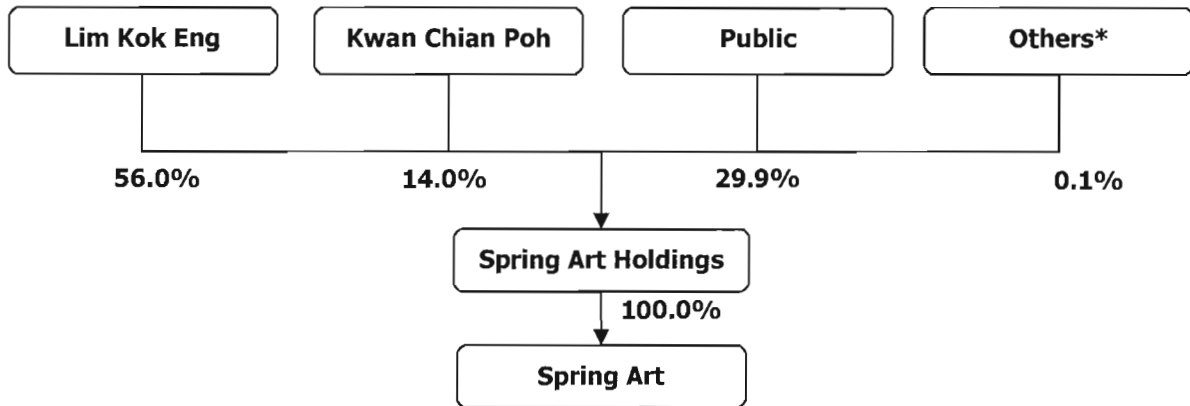
The new Shares issued pursuant to the Acquisition of Spring Art rank equally in all respects with our existing Shares.

Our Group structure before and after the Acquisition of Spring Art is as follows:

**Before the Acquisition of Spring Art**



**After the Acquisition of Spring Art, Public Issue and Offer for Sale**



Note:

\* Comprising shareholdings of our Independent Non-Executive Chairman and Independent Non-Executive Directors after the subscription of Issue Shares under the Pink Form Allocations.

**6.3 SUBSIDIARY**

As at the LPD, we only have 1 subsidiary, Spring Art and we do not have any associated companies. Details of our subsidiary are set out below:

Company	Company No.	Date / Place of incorporation	Principal place of business	Effective equity interest %	Principal activities
Spring Art	415155-P	28 December 1996/Malaysia	Malaysia	100.0	Manufacturing of ready-to-assemble furniture products

**6. INFORMATION ON OUR GROUP (Cont'd)****6.4 MATERIAL INVESTMENTS AND DIVESTITURES**

Save as disclosed below, there were no other material investment made by us for the past 4 FYEs 2015 to 2018, FPE 2019 and up to the LPD:

Description	FYE	FYE	FYE	FYE	FPE	Up to
	2015	2016	2017	2018	2019	the LPD
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment comprising:						
Freehold buildings	326	96	144	29	-	-
Leasehold buildings	-	-	-	1	-	-
Freehold land <sup>(1)</sup>	-	-	2,086	6,451	-	-
Leasehold land <sup>(2)</sup>	-	-	-	2,173	-	-
Furniture, fittings and office equipment	56	50	49	112	45	49
Motor vehicles	-	310	-	83	-	-
Plant and equipment <sup>(3)</sup>	1,143	1,425	1,380	412	415	3,573
Signboard	-	-	-	70	-	15
Renovation works	-	-	-	148	30	30
Building-in-progress <sup>(4)</sup>	-	-	-	16	328	329
	<b>1,525</b>	<b>1,881</b>	<b>3,659</b>	<b>9,495</b>	<b>818</b>	<b>3,996</b>

## Notes:

(1) For the purchase of the Investment Land in 2017 and Land 3 in 2018.

(2) For the purchase of Land 1 in 2018.

(3) For the purchase of:

- (i) 2 units of CNC woodworking machines with conveyor belt and the capability to process mortise and tenon joints in 2015;
- (ii) 2 units of CNC woodworking machines with the capability of double-sided processing of boards in 2016;
- (iii) 3 units of edge banding machines and 1 unit of CNC panel saw machine in 2017;
- (iv) 1 unit of air dryer machine, 3 units of boring machines and 1 unit of CNC panel saw machine in 2018; and
- (v) 8 units of boring machines, 3 units of CNC panel saw machine, 4 units of edge bending machines in 2019.

(4) Being consultant fees and application fees paid for the planning permit of Land 3.

The above material investments were primarily financed by a combination of hire purchase financing, term loans and internally generated funds.

**6. INFORMATION ON OUR GROUP (Cont'd)**

Save as disclosed below, there were no other material capital divestitures and write-offs (including interest in other corporations) made by our Group for the past FYEs 2015 to 2018, FPE 2019 and up to the LPD:

Description	FYE	FYE	FYE	FYE	FPE	Up to
	2015	2016	2017	2018	2019	the LPD
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment comprising:						
Freehold buildings	-	-	-	(2) 520	-	-
Freehold land	-	-	-	(2) 842	-	-
Motor vehicles	-	-	-	-	-	-
Plant and equipment	(1) 180	-	-	(3) 62	-	-
	<b>180</b>	<b>-</b>	<b>-</b>	<b>1,424</b>	<b>-</b>	<b>-</b>

Notes:

- (1) For the sale of 1 unit of edge banding machine.
- (2) For the sale of the hostel and land held under GM 1612 Lot 1849 situated in the Mukim of Sungai Raya, District of Muar, State of Johor.
- (3) For the sale of 1 unit of air compressor and 1 unit of air dryer machine.

Kindly refer to Section 11.6.1 for details of our material capital commitments as at the LPD.

**6.5 PUBLIC TAKE-OVERS**

Since our incorporation up to the LPD, there were:

- (a) no public take-over offers by third parties in respect of our Shares; and
- (b) no public take-over offers by our Company in respect of other companies' shares.

As at LPD, we have not identified any other companies' shares for acquisition.

**6.6 PRINCIPAL BUSINESS ACTIVITIES AND PRODUCTS**

Our Group is involved in the manufacturing of ready-to-assemble furniture products, where we undertake 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.

Our Group's ready-to-assemble furniture products comprise:

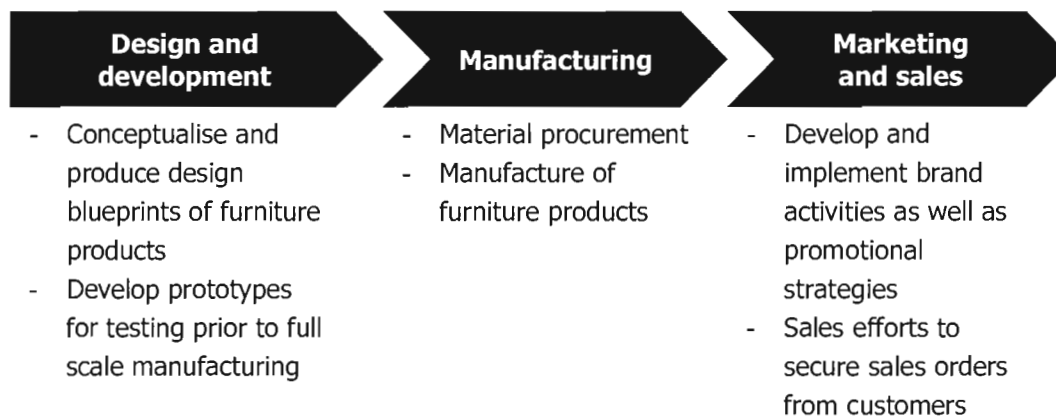
- (a) office furniture such as office workstations, filing cabinets and pedestals;
- (b) bedroom furniture such as beds, night stands, wardrobes, dressing tables, dressing stools and study desks;
- (c) living room furniture such as computer desks, television consoles, sideboards, shoe cabinets, bookshelves and drawer chests; and



## 6. INFORMATION ON OUR GROUP (Cont'd)

- (d) other furniture which includes customised complementary furniture products manufactured as and when ordered by customers, such as dining tables and kitchen cabinets.

Our business activities at each stage of the furniture industry value chain can broadly be described as below:



### 6.6.1 Design and development activities

Our design and development activities comprise the conceptualisation and prototyping phases as follows:

#### (a) Conceptualisation phase

The conceptualisation phase is initiated by our design and development team that works closely with our marketing and sales as well as production teams to produce the blueprints for new product designs and enhancements of existing designs. The ideas for new product designs and enhanced existing designs come from our management, customers as well as marketing and sales teams.

During this conceptualisation phase, our design and development team collects and analyses historical sales information as well as market intelligence such as market trends and customers' lifestyle requirements from various countries. We gather market information from our participation in furniture trade fairs which enable us to assess current trends and consumer preferences, thereby identifying designs with commercial appeal. All the information gathered will be used to generate new design ideas. Thereafter, our design and development team will incorporate these new ideas to produce design blueprints.

#### (b) Prototyping phase

During the prototyping phase, we assess the marketability of new designs based on factors such as functionality, aesthetic look and feel, practicability and safety. In addition, we also assess the production feasibility of new designs.

The prototype of new designs will be produced and reviewed by the relevant teams in our Group. We obtain feedback from our production department on these prototypes relating to its production feasibility, and our marketing and sales team relating to the marketability of these design prototypes.

The prototypes may then be re-designed and/or modified based on feedback from the relevant teams. Thereafter, a final sample is produced and tested again before the new designs are commercially launched.

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**6. INFORMATION ON OUR GROUP (Cont'd)**

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**6.6.2 Manufacturing of ready-to-assemble furniture products**

Our ready-to-assemble furniture products are made of particle boards and MDF boards. The production of our ready-to-assemble furniture products is an automation manufacturing process. Since assembly is not required and the machinery is automated, ready-to-assemble furniture is produced with less labour than conventional furniture.

Ready-to-assemble furniture is shipped unassembled to minimise shipping costs and total furniture costs. This saving and the assembly are passed on to consumers. We provide detailed instructions for assembly to the end consumer. Shipping losses are less with ready-to-assemble furniture as the flat packaged furniture is less vulnerable to damage during transportation.

Our furniture products are manufactured based on standard specifications and customised specifications. Standard specification furniture is manufactured based on designs generated by our design and development team in standard sizes and dimensions. Customised specification furniture is manufactured with adjustments and alterations in dimensions made according to customers' requirements.

We adopt stringent quality assurance and control practices to ensure the quality of the products that we manufacture. This ensures that we have greater control over the quality of our ready-to-assemble furniture products. The details on the manufacturing processes that we carry out are as set out in Section 6.7.1, while details of our quality assurance and control practices are as set out in Section 6.10.

For the past 4 FYEs 2015 to 2018 and FPE 2019, all manufacturing processes, excluding lamination, are carried out at our own manufacturing factories located in Muar, Johor.

As at the LPD, our total annual production capacity is 337,016 units. For the past 4 FYEs 2015 to 2018 and FPE 2019, the utilisation rates for our manufacturing factories were between 91.8% to 94.9%. As such, we have been limited by our annual production capacity in increasing our annual production volume.

While we intend to set up a new manufacturing factory to expand our current manufacturing capacity, we only expect to commence operations in this new manufacturing factory in July 2022.

We have in May 2019 appointed Bright Showcase Sdn Bhd ("Bright Showcase") a subcontractor to undertake the manufacturing of our furniture products ("manufacturing arrangement"). The manufacturing arrangement is an interim measure to supplement our current production volume to fulfil the sales orders from existing and potential customers while we await the completion of Factory C.

Under the terms of the manufacturing arrangement, we purchased a total of 6 units of boring machines, 3 units of CNC panel saw machine and 4 units of edge bending machines in 2019 for a total cost of RM1.9 million. These machines shall form 1 production line and has been placed at our subcontractor's factory.

Under the manufacturing arrangement, we shall pay a pre-agreed manufacturing fee to our subcontractor for each piece of furniture produced by them on our behalf. The manufacturing fee is negotiated between us and the subcontractor and the fee is dependent on the size and complexity of the furniture to be manufactured. Once the fee and number of pieces to be manufactured is agreed, we shall purchase and deliver the required raw materials to our subcontractor's factory.

Our subcontractor shall then manufacture the furniture products as per our specifications, package it and the products shall be delivered directly to our customers.

## 6. INFORMATION ON OUR GROUP (Cont'd)

The manufacturing arrangement shall be for a term of 3 years and the production of furniture has commenced in June 2019. Upon the expiry of the 3 years term, it is our intention to renew the subcontractor agreement. However, if the manufacturing arrangement is not renewed, the machinery currently placed at our subcontractor's factory shall be relocated to Factory C to supplement our future production.

The manufacturing arrangement does not affect us operationally as the subcontractor is responsible for its own factory operations without our involvement. Financially, the manufacturing arrangement is expected to impact us in the following manner:

- (i) allow us to increase the volumes of furniture products that we can supply to our customers by 49,158 units per annum. Hence, our combined sales volume is expected to increase to 386,174 units per annum which is expected to increase our revenue; and
- (ii) the GP margin for furniture products manufactured our subcontractor is expected to be similar to the GP margin for furniture products manufactured by us. As such, our overall GP margin is expected to be maintained. However, our GP is expected to improve due to the increase in total sales volumes.

The purchase order (in terms of volume by units) that has been sub-contracted since the commencement of the manufacturing arrangement up to the LPD is as follows:

<u>Purchase order (month)</u>	<u>No. of units</u>
June 2019	940
July 2019	2,670
August 2019	3,770
September 2019	3,541
<b>Total</b>	<b>10,921</b>

Bright Showcase is incorporated on 12 September 2018 under the Act as a shelf company. It commenced its operation on 20 June 2019 to undertake the manufacturing of our furniture products for sales orders that we are unable to manufacture at our manufacturing factories. Bright Showcase is principally involved in the manufacturing of ready-to-assemble furniture products.

As at the LPD, Bright Showcase has an issued share capital of RM100,000 comprising 100,000 ordinary shares. The Directors and shareholders of Bright Showcase are Chong Wen Li (holding 66,667 ordinary shares) and Gan Ka Choon (holding 33,333 ordinary shares).

Kindly refer to Section 6.16(b) for details of the subcontractor agreement.

### 6.6.3 Marketing and sales of ready-to-assemble furniture products

We undertake marketing and sales activities for all of our ready-to-assemble furniture products. Our marketing process entails the development and implementation of branding strategies as well as marketing and promotional activities. We market our furniture products to distributors, furniture showroom retailers, home furnishing chain stores and e-commerce companies in foreign markets who generally resell our products to consumers through their respective retail networks.

Trade fairs are an important medium for our Group to market our ready-to-assemble furniture products. We participate in the Malaysian International Furniture Fair and selected international trade fairs. We also advertised our furniture products in trade fair magazines to showcase our furniture products. These international trade fairs and advertisements further

**6. INFORMATION ON OUR GROUP (Cont'd)**

provide us with a platform to meet with potential customers. The details of the trade fairs we have participated are as set out in Section 6.12(i).

Our sales process entails securing sales orders with distributors, furniture showroom retailers, home furnishing chain stores and e-commerce companies to strengthen our global presence. Our marketing and sales staffs are responsible for liaising with customers, providing customers with information on our furniture products, taking sales orders and addressing customer enquiries on sales and delivery logistics. In addition, they also gather feedback from customers on our furniture products to keep us abreast with market trends and consumer preferences. Such feedback will be conveyed to our design and development team.

The details on the breakdown of our Group's revenue by our principal markets for the past 4 FYEs and FPE are as set out in Section 6.6.5.

**6.6.4 Our products**

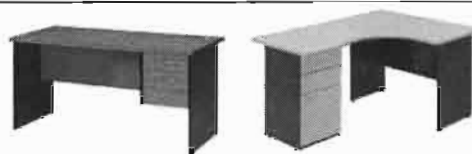
Our ready-to-assemble furniture products include the following:

<b>Furniture product category</b>	<b>Description</b>
Office furniture	Furniture for office use such as office workstations, filing cabinets and pedestals.
Bedroom furniture	Furniture for bedroom use such as beds, night stands, wardrobes, dressing tables, dressing stools and study desks.
Living room furniture	Furniture for living room use such as computer desks, television consoles, sideboards, shoe cabinets, bookshelves and drawer chests.
Other furniture	Customised complementary furniture products manufactured as and when ordered by customers, such as dining tables and kitchen cabinets.

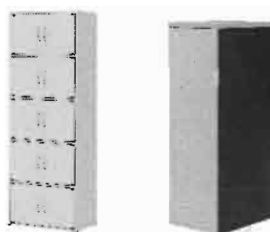
The types of furniture products that we produce under each category are as follows:

**Office furniture**

Office workstations



Filing cabinets



Pedestals



**6. INFORMATION ON OUR GROUP (Cont'd)**

**Bedroom furniture**

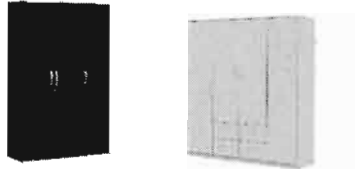
Beds



Night stands



Wardrobes



Dressing tables



Dressing stools



Study desks



**Living room furniture**

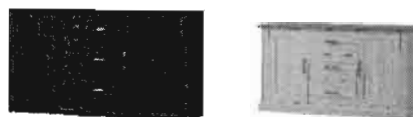
Computer desks



Television consoles



Sideboards



**6. INFORMATION ON OUR GROUP (Cont'd)**

Shoe cabinets



Bookshelves

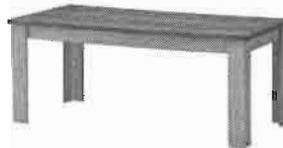


Drawer chests



**Other furniture**

Dining tables



Kitchen cabinets



**6.6.5 Principal markets for our products**

For the past 4 FYEs 2015 to 2018 and FPE 2019, all our sales were all derived from overseas markets/region as follows:

Countries	Region	Audited							
		FYE 2015		FYE 2016		FYE 2017		FYE 2018	
		RM'000	%	RM'000	%	RM'000	%	RM'000	%
India	Asia Pacific	9,464	26.0	11,792	28.6	15,716	32.6	17,520	34.8
Japan	Asia Pacific	7,013	19.3	5,802	14.1	4,368	9.0	3,164	6.3
UAE	Middle East	5,969	16.4	15,535	37.6	18,473	38.3	13,622	27.0
Saudi Arabia	Middle East	4,136	11.4	475	1.2	1,801	3.7	8,059	16.0
Canada	North America and Latin America	2,256	6.2	1,570	3.8	2,738	5.7	2,308	4.6
Bahrain	Middle East	2,124	5.8	1,737	4.2	2,983	6.2	3,708	7.4
Others	-	5,463	14.9	4,376	10.5	2,197	4.5	2,001	3.9
		<b>36,425</b>	<b>100.0</b>	<b>41,287</b>	<b>100.0</b>	<b>48,276</b>	<b>100.0</b>	<b>50,382</b>	<b>100.0</b>

**6. INFORMATION ON OUR GROUP (Cont'd)**

Countries	Region	Unaudited		Audited	
		FPE 2018		FPE 2019	
		RM'000	%	RM'000	%
India	Asia Pacific	5,604	35.9	5,042	27.5
Japan	Asia Pacific	1,559	10.0	982	5.4
UAE	Middle East	2,617	16.7	4,248	23.2
Saudi Arabia	Middle East	3,388	21.7	6,049	33.1
Canada	North America and Latin America	740	4.7	392	2.1
Bahrain	Middle East	1,051	6.7	1,348	7.4
Others	-	667	4.3	236	1.3
		<b>15,626</b>	<b>100.0</b>	<b>18,297</b>	<b>100.0</b>

Other countries include:

Region	Countries
Asia Pacific	Singapore, Hong Kong, Taiwan, Vietnam, and Philippines, Australia and New Zealand
North America and Latin America	USA and Panama
Africa	Algeria, Ethiopia, Tanzania, Benin, Kenya, Malawi, Uganda, Ghana, Zambia, Rwanda and Nigeria
Europe	Republic of Ireland, United Kingdom and Greece

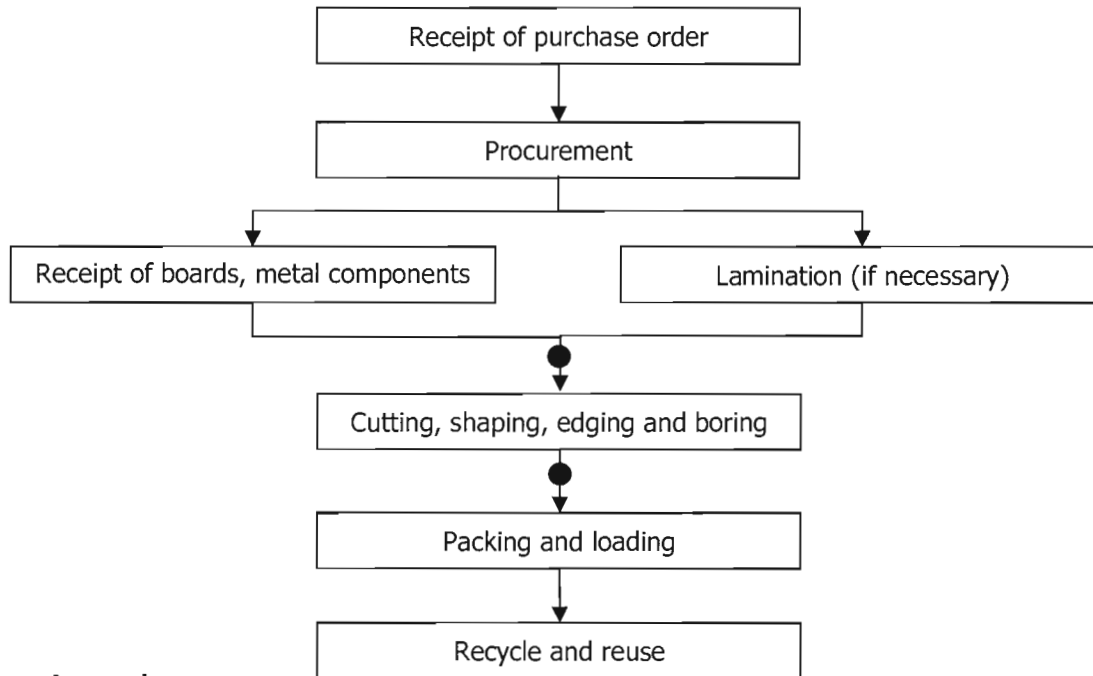
**6.7 DESCRIPTION OF OUR BUSINESS****6.7.1 Our production processes**

Currently, our manufacturing processes, save for lamination activities, are carried out at our manufacturing factories which are located in Muar, Johor.

The following flow chart illustrates the principal steps involved in the production processes of our furniture products:

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**6. INFORMATION ON OUR GROUP (Cont'd)**



**Legend**

● QC inspection

**(a) Receipt of purchase order**

Our marketing and sales team secures purchase orders with distributors, furniture showroom retailers, home furnishing chain stores and e-commerce companies.

**(b) Procurement**

Upon receiving purchase orders from our marketing and sales team, we proceed to procure the necessary raw materials for subsequent manufacturing processes.

**(c) Receipts of boards, metal components and PVC edges**

Upon receiving supply of boards and PVC edges from our suppliers, we conduct visual inspection to assess factors such as surface defects and colour; and measurement inspection to assess factors such as dimensions and thickness. This ensures that the boards and PVC edges supplied meet our specifications.

We further source metal components which are necessary in the assembly of our furniture components, such as screws, nuts and mounting brackets. We conduct measurement inspection on the metal components to ensure that the dimensions comply to specifications.

If any defects are found, we will return the defective boards, metal components and PVC edges to our suppliers for replacement or rework.

**(d) Lamination**

Lamination is the process of bonding adhesive decorative paper foils or melamine tops onto boards. Melamine tops are used for the study desk tops.



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**6. INFORMATION ON OUR GROUP (Cont'd)**

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This process is sub-contracted to an external party located in the same vicinity of our manufacturing factories. Depending on our requirements for a specific appearance in the final furniture product in terms of desired colour and woodgrain, these boards are sent to an external party for lamination. Upon receiving the laminated boards, we will conduct a visual inspection and if any defects are detected, we will return defective laminated boards for replacement or rework.

**(e) Cutting, shaping, edging and boring**

A visual and measurement inspection is conducted again when the boards are received from the previous production stage. If any defect is found or any specifications are not met, such defective boards will be returned to the previous production stage for rework.

Subsequent to the inspection, the boards are then sent for cutting, shaping, edging and boring processes, where:

- (i) Cutting involves the use of CNC panel saw machines to cut boards into desired sizes based on specifications;
- (ii) Shaping involves the use of CNC woodworking machines to shape boards into desired shapes based on specifications;
- (iii) Edging involves the process of bonding PVC edges on the exposed sides of boards; and
- (iv) Boring involves the drilling of holes to facilitate the insertion of screws and the boring of holes for panels, bed posts and table legs with the purpose of enabling the assembly of various furniture parts.

A visual and measurement inspection is conducted on these processed furniture parts before they are sent to next stage for packing.

**(f) Packing and loading**

The ready-to-assemble furniture parts are flat packed individually by product type along with the necessary metal components and assembly instructions. Prior to delivery for shipment and loading into containers, our in-house QC team performs a final round of inspection on our furniture products.

**(g) Recycle and reuse**

We strive to reduce the environmental impact of our production processes. We recycle excess board materials from our production activities. These excess boards will be converted into pallets for use in our factories and also used as packaging materials to protect furniture components during transportation. We also engage third party waste companies for the disposal of sawdust, which is a by-product of our production processes.

## 6. INFORMATION ON OUR GROUP (Cont'd)

### 6.7.2 Operating capacities and output

Our annual capacity, actual production volumes and utilisation rates for the past 4 FYEs 2015 to 2018 and FPE 2019 are as depicted below:

	<b>Available annual capacity units</b>	<b>Actual production units</b>	<b>Utilisation rate %</b>
FYE 2015	280,734 <sup>(a)</sup>	258,174	92.0
FYE 2016	313,565 <sup>(b)</sup>	292,771	93.4
FYE 2017	337,016 <sup>(c)</sup>	309,546	91.8
FYE 2018	337,016 <sup>(c)</sup>	311,894	92.5
FPE 2019	112,339 <sup>(d)</sup>	106,567	94.9

Notes:

Assumptions based on:

- (a) Available machinery operating hours for 5 furniture manufacturing lines operating on 16-hour shifts daily over 26 working days a month annually in FYE 2015.
- (b) Available machinery operating hours for 5 furniture manufacturing lines operating on 16-hour shifts daily over 26 working days a month for the period of January - May and 6 furniture manufacturing lines operating on 16-hour shifts daily over 26 working days a month for the period of June - December in FYE 2016.
- (c) Available machinery operating hours for 6 furniture manufacturing lines operating on 16-hour shifts daily over 26 working days a month annually in FYE 2017 and FYE 2018.
- (d) Available machinery operating hours for 6 furniture manufacturing lines operating on 16-hour shifts daily over 26 working days a month for the first 4 months in FPE 2019.

### 6.7.3 Key machinery and equipment

A summary of the key machinery and equipment owned and used by us are set out below:

<b>Machinery and equipment</b>	<b>Function</b>	<b>No of units</b>	<b>Average lifespan<sup>(1)</sup> (years)</b>	<b>Average age<sup>(2)</sup> (years)</b>	<b>NBV as at 30 April 2019 RM'000</b>
Boring machines	Drilling of holes to facilitate the insertion of screws and the boring of holes for panels, bed posts and table legs with the purpose of enabling the assembly of various furniture parts	29	20	8.8	512
CNC woodworking machines	Shaping boards into desired shapes based on specifications	18	20	10.4	455
Edge banding machines	Bonding PVC edges on the exposed sides of boards	24	20	10.5	291
CNC panel saw machines	Cutting boards into desired sizes based on specifications	8	20	7.9	290
					<b>1,548</b>

## **6. INFORMATION ON OUR GROUP (Cont'd)**

Notes:

- (1) Average lifespan of machinery and equipment is computed based on the average economic useful life of all machinery. New machineries purchased by our Group are given a life span of 20 years.
- (2) Average age of machinery and equipment is computed based on the average age of all our machinery. The age is computed based on the year of purchase.

### **6.7.4 Interruptions to business and operations**

Our Group has not experienced any interruption in our operations which had a significant effect on our operations during the past 12 months preceding the LPD.

## **6.8 COMPETITIVE STRENGTHS**

### **6.8.1 We automate our manufacturing processes**

In the furniture industry, flexibility in the manufacturing process coupled with low production costs are important factors for sustainable operations.

Automation allows us to produce standard specification furniture based on designs generated by our design and development team in standard sizes and dimensions. Nonetheless, our automated production line is flexible and thus, also able to produce customised furniture with adjustments and alterations in dimensions made according to customers' requirements.

We achieve consistent product quality by maintaining the quality of materials used and adopting QC inspections throughout production to maintain close tolerances in the manufacturing process. This is made possible through the use of automated machinery that is configured to ensure the accuracy of the dimension of boards, drilling of holes for the insertion of screws and boring of holes for panels, bed posts and table legs.

Since assembly is not required and the machinery is automated, ready-to-assemble furniture is produced with less labour than conventional furniture. Our initial investment in machinery is recovered through reduced production and labour costs.

### **6.8.2 We are able to design and develop our own products**

We commenced operations in 1996 by way of trading and distributing ready-to-assemble computer desks to local computer trading businesses in Muar, Johor. Over the years, we have evolved to undertake the design and development, manufacturing as well as marketing and sales of office furniture, bedroom furniture, living room furniture and other furniture. Details on the design and development as well as production processes that we adopt are as set out in Sections 6.6.1 and 6.7.1 respectively.

We collect and analyse historical sales information as well as market data such as market trends and consumer lifestyle requirements from various countries. The gathered information is conveyed to our design and development team as part of our design and development process. In addition, this information allows us to better understand consumer preferences and keep up with current trends, thus allowing us to be responsive towards changing market trends and the evolving needs of consumers. As a result, we are able to incorporate elements of design and functionality in our furniture products, based on market trends and consumer lifestyles.

Our Group's emphasis on design and development has contributed to our revenue growth and expansion to-date. Our design and development efforts will allow us to widen our range of furniture products as we seek to further expand our global presence.

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**6. INFORMATION ON OUR GROUP (Cont'd)**

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**6.8.3 We manufacture ready-to-assemble furniture product in flat pack format**

Our ready-to-assemble furniture is sold unassembled in flat pack format that include assembly instructions for the end consumer.

We have been able to market and ship our furniture products to export markets due to the inherent benefit of the flat pack format. By shipping our furniture products unassembled in flat packs, we are able to reduce the volume and cost of shipping, thereby making our furniture products cost competitive. Further, shipping losses are less with ready-to-assemble furniture as the flat packaged furniture is less vulnerable to damage during transportation.

By adopting the flat pack format, we have been able to target different categories of customers, comprising distributors, furniture showroom retailers, home furnishing chain stores in our export markets, who resell our products to consumers through their respective retail networks. Our customers also include e-commerce companies in foreign markets who resell our products to consumers through their respective e-commerce platforms. The flat pack format further makes it easier for e-commerce companies to manage the storage and subsequently, delivery of our furniture products to consumers, as the furniture has been prepacked in easy to transport boxes.

**6.8.4 We place emphasis on our QC processes to ensure consistent quality of furniture products**

We implement stringent QC processes throughout the design and development as well as manufacturing processes in order to ensure that our furniture products meet predefined quality standards, thereby meeting the demands and expectations of our customers.

Should there be any defects in our products, we have a replacement policy to replace these defected products at no cost to our customers. Further, with the key manufacturing processes being carried out at our own manufacturing factories, we are able to have better control over the quality of furniture products that we produce. Further details on the QC processes that we adopt are as set out in Section 6.10.

We have implemented the following QC measures to maintain consistent quality of the furniture products that we supply; ensure that our furniture products meet customer specifications; and minimise incidents of rejects, reworks, defects and wastage arising from the various production processes. QC is carried out at several stages in our manufacturing process, namely on:

- (a) incoming raw materials and components from suppliers are subject to inspection for, among others, colour consistency and board defect checks before they are despatched for manufacturing;
- (b) the quality of work-in-progress is monitored and examined at each stage of the manufacturing process to ensure quality consistency of the final output; and
- (c) finished goods are inspected for defects and quality inconsistency before final packaging. Defective products or furniture parts identified are separated for remedial works.

Our QC processes have contributed to our Group's ability to secure repeat orders from our customers.

Furniture products manufactured at the manufacturing premise of our subcontractor undergo similar stringent QC inspections. Our QC team conducts a visual and measurement inspection on the finished furniture products at the manufacturing premise of our subcontractor prior to the packing of the furniture products. Once the QC inspection is completed, the furniture

## 6. INFORMATION ON OUR GROUP (Cont'd)

products are flat packed individually by product type along with the necessary metal components and assembly instructions. Prior to delivery for shipment and loading into containers, our QC team performs a final round of inspection on these furniture products.

### 6.8.5 We have a diversified revenue base

Our diversified base consists of customers from 35 countries comprising distributors, furniture showroom retailers, home furnishing chain stores and e-commerce companies. Combining our understanding of region-specific market trends and our expertise in manufacturing furniture products, we are able to design our products to cater to varied consumer preferences, thus enabling us to expand our revenue over a wide geographical area.

By diversifying our revenue base across several regions globally, we are able to capture growth opportunities in various overseas markets while at the same time reducing our business concentration risk from unanticipated downturn in a particular overseas market.

Our revenue base by region is set out in Section 6.6.5.

### 6.8.6 We maintain long-term business relationships with our customers and suppliers

With our presence in the furniture business for over 23 years, we have developed our customer and supplier base. These business relationships that we have established with our customers and suppliers play a pivotal role in supporting our business growth.

The long-term business relationships that we have established with our existing customers have allowed us to sustain our business growth. Over the years, our established track record in maintaining consistent product quality has enabled us to retain our existing customers, thereby securing repeat orders and developing our reputation in the furniture manufacturing industry.

As at the FYE 2018, the duration of business relationships with our customers are classified as follows:

Business relationship years <sup>(1)</sup>	Number of customers	Percentage of customers %	Revenue contribution for FYE 2018	
			RM'000	%
Less than 2 years	2	6.5	178	0.4
2 – 5	10	32.3	5,259	10.4
6 – 10	9	29.0	28,515	56.6
11 – 15	5	16.1	9,274	18.4
> 16	5	16.1	7,156	14.2
	<sup>(2)</sup> 31	100.0	50,382	100.0

Notes:

<sup>(1)</sup> The duration of business relationship with our customers is computed starting from the year in which these customers first purchased furniture products from our Group.

<sup>(2)</sup> Based on the number of customers who purchased from our Group in the FYE 2018. We sold our products to 31 customers in the FYE 2018.

Further, we recognise the importance of maintaining long-term business relationships with our suppliers. The business relationships cultivated with our suppliers ensure stable supply of our raw materials in a timely manner.

**6. INFORMATION ON OUR GROUP (Cont'd)**

In the FYE 2018, the duration of business relationships with our suppliers are classified as follows:

Business relationship years <sup>(1)</sup>	Number of suppliers	Percentage of suppliers	Purchases contribution for FYE 2018	
		%	RM'000	%
Less than 2 years	5	9.1	482	1.8
2 – 5	16	29.1	12,964	47.5
6 – 10	11	20.0	3,545	13.0
11 – 15	11	20.0	5,788	21.2
> 16	12	21.8	4,505	16.5
	<sup>(2)</sup> <b>55</b>	<b>100.0</b>	<b>27,284</b>	<b>100.0</b>

Notes:

- (1) The duration of business relationship with our suppliers is computed starting from the year in which our Group first purchased raw materials from these suppliers.
- (2) Based on the number of suppliers from whom we purchased in the FYE 2018. We purchased raw materials from 55 suppliers in the FYE 2018.

**6.8.7 We have an experienced key senior management team**

We have an experienced key senior management team with operational expertise and in-depth knowledge of the furniture manufacturing industry. Our Managing Director, Lim Kok Eng and Executive Director, Kwan Chian Poh have played a pivotal role in establishing and growing our business over the years. They are responsible for determining the overall strategic direction and management of our Group.

Lim Kok Eng together with Kwan Chian Poh incorporated Spring Art (then known as Spring Art Marketing Sdn Bhd) in 1996. They started this business by way of trading and distributing ready-to-assemble computer desks to local computer trading businesses in Muar, Johor. Under their leadership, Spring Art has become an export-oriented furniture manufacturer.

Lim Kok Eng and Kwan Chian Poh are supported by a qualified key senior management team comprising:

Name	Designation	Years of relevant working experience
Teo Miow Loo	Chief Financial Officer	13 years
Peter Teo Swee Chyang	Production Manager	31 years
Loo Soon Chuan	Marketing Manager	21 years
Lim Vivian	Assistant Purchasing Manager	9 years
Ahmad Mahdzir Bin Joffri	Assistant Design, Development and Quality Control Manager	20 years

Their collective experience and knowledge in the furniture manufacturing industry have enabled our Group to develop sustainable business strategies as well as implement risk management strategies to ensure the continued growth of our Group.

In addition, our Directors and key senior management have enhanced our Group's growth opportunities with their combined experience and knowledge.

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**6. INFORMATION ON OUR GROUP (Cont'd)**


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**6.9 SEASONAL OR CYCLICAL EFFECTS**

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.

**6.10 QUALITY CONTROL PROCESSES**

We have established QC procedures to perform quality checks at all stages of our production processes to ensure our furniture products satisfy our customers' requirements. Quality checks are carried out, and monitored by every employee involved in all stages of production and our in-house QC team.

Workers in every stage of the production process will perform quality checks on boards / furniture parts that they process. Each production stage is led by a supervisor responsible for overseeing the quality of the boards / furniture parts processed before these boards / furniture parts are sent to the next production stage.

As at the LPD, we have a QC team consisting of 4 staffs that are led by Ahmad Mahdzir Bin Joffri. Our QC team is tasked to perform final quality checks before the furniture products are delivered for shipment.

The QC processes that we adopt throughout our manufacturing process are as follows:

<b>Stage</b>	<b>QC processes</b>
Pre-manufacturing	<ul style="list-style-type: none"> <li>• Visual inspection on boards to ensure no appearance of surface defects such as dents and scratches; and the colour of boards meets our specification.</li> <li>• Measurement inspection on boards to ensure the dimension of boards meets our specification.</li> <li>• Measurement inspection on metal components to ensure the correct length of screw and mounting brackets; and no shortfall in volume of screw accessories.</li> </ul>
Manufacturing	<ul style="list-style-type: none"> <li>• Inspection during the production process to ensure no appearance of surface defects such as dents and scratches.</li> <li>• Technical specifications such as hole positioning, length, thickness and width of boards / furniture parts meet specification.</li> </ul>
Post manufacturing	<ul style="list-style-type: none"> <li>• Inspection on the end products to ensure that all end products meet the required standards such as shape, width, length, thickness as well as number and position of drilled holes.</li> <li>• Inspection during the packaging process to ensure the quantity and weight meets the requirements; necessary metal components and assembly instructions are attached and in good condition; and products are packed well and labelled correctly.</li> <li>• Inspection during the delivery stage to ensure that products are packed and stacked properly.</li> </ul>

## 6. INFORMATION ON OUR GROUP (Cont'd)

### 6.11 TYPES, SOURCES AND AVAILABILITY OF MATERIALS

The main raw materials used in the manufacturing of our furniture products and the principal sources of these raw materials are as set out below:

- (i) Boards comprising:
  - (a) Particle boards which are sourced from Malaysia and Thailand; and
  - (b) MDF which is sourced from Malaysia.
- (ii) Metal components such as screws, nuts and mounting brackets which are sourced from Malaysia.
- (iii) PVC edges which are sourced from Malaysia.
- (iv) Packaging materials comprising corrugated cartons and packing tapes which are sourced from Malaysia.

The prices of our boards are subject to price fluctuations as a result of demand and supply conditions. The boards and metal components that we use in our manufacturing processes are generally widely available.

We have developed policies and procedures that guide our selection of suppliers. All selected suppliers are evaluated in terms of pricing, production capacities, range and technical specifications of raw materials, ability to meet our quality requirements, and ability to deliver in a timely manner.

The breakdown of the raw materials purchased by our Group for the past 4 FYEs 2015 to 2018 and FPE 2019 is as follows:

Raw materials	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Boards	13,364	65.5	13,405	63.3	16,800	63.3	16,120	59.1
Metal components	3,400	16.7	2,815	13.3	3,494	13.2	4,093	15.0
Packaging materials	2,247	11.0	2,711	12.8	3,242	12.2	3,824	14.0
PVC edges	930	4.6	898	4.2	1,171	4.4	1,309	4.8
Others <sup>(1)</sup>	452	2.2	1,339	6.4	1,844	6.9	1,938	7.1
	<b>20,393</b>	<b>100.0</b>	<b>21,168</b>	<b>100.0</b>	<b>26,551</b>	<b>100.0</b>	<b>27,284</b>	<b>100.0</b>

Raw materials	Unaudited		Audited	
	FPE 2018		FPE 2019	
	RM'000	%	RM'000	%
Boards	4,464	56.3	6,724	58.4
Metal components	1,258	15.9	1,816	15.8
Packaging materials	1,235	15.6	1,466	12.7
PVC edges	377	4.7	408	3.5
Others <sup>(1)</sup>	601	7.5	1,102	9.6
	<b>7,935</b>	<b>100.0</b>	<b>11,516</b>	<b>100.0</b>

Note:

- (1) Others comprise cushions and glass panels.



## 6. INFORMATION ON OUR GROUP (Cont'd)

### 6.12 MARKETING AND DISTRIBUTION CHANNELS

Our Group's marketing and sales team is led by Loo Soon Chuan. Our marketing and sales efforts serve to expand our distribution network to new geographical regions and to increase market penetration in our existing geographical regions.

Our sales process entails sales efforts by securing sales orders with our customers to strengthen our global presence. Our marketing and sales staffs are responsible for liaising with customers, providing customers with information on our furniture products, taking sales orders and addressing customer enquiries on sales and delivery logistics. In addition, they also gather feedback from customers on our furniture products to keep us abreast with market trends and consumer preferences. Such feedback will be conveyed to our design and development team.

We adopt the following marketing methods:

#### (i) Participation in trade fairs

Over the years, we have participated in various international furniture trade fairs to showcase our furniture products. These international trade fairs provide us a platform to meet with potential customers and keep us abreast with market trends and consumer preferences.

The major trade fairs that we participated in the past are as follows:

<u>Year</u>	<u>Trade fairs</u>	<u>Organiser</u>	<u>Location</u>
2016	Furniture China	Shanghai UBM Sinoexpo Int'l Exhibition Co Ltd	Shanghai, China
	Malaysian International Furniture Fair	Malaysian International Furniture Fair and United Business Media plc ("UBM plc")	Putra World Trade Centre, Kuala Lumpur
2017	Malaysian International Furniture Fair	Malaysian International Furniture Fair and UBM plc	Putra World Trade Centre, Kuala Lumpur
2018	Malaysian International Furniture Fair	Malaysian International Furniture Fair and UBM plc	Putra World Trade Centre, Kuala Lumpur
2019	Malaysian International Furniture Fair	Malaysian International Furniture Fair and United Business Media (M) Sdn Bhd	Putra World Trade Centre, Kuala Lumpur

#### (ii) Advertisement in trade directory

We advertise our furniture products in the Malaysia Furniture Manufacturers and Exporters Directory annually to create awareness of our products. We believe that these advertisements will allow us to reach our target customers and assist us to secure orders from potential customers.

## 6. INFORMATION ON OUR GROUP (Cont'd)

### (iii) Publication of product catalogues / brochures

We prepare product catalogues / brochures featuring our furniture products. These product catalogues / brochures are distributed to our existing and potential customers at trade fairs and when they visit our manufacturing factories in order to generate their interest and awareness in our furniture products.

### (iv) Corporate website

We have established a corporate website at <http://www.springart.com> which provides immediate searchable information on our Group, including our range of furniture products.

## 6.13 DESIGN AND DEVELOPMENT

Our Group's design and development team consists of 2 staffs that are led by Ahmad Mahdzir Bin Joffri. Our design and development activities focus on new product designs or enhancements of existing designs. Under our current design and development portfolio, we adopt contemporary designs for our range of furniture products to cater to the demands of our foreign customers. Our design and development capabilities have been proven successful as evidenced by the growth in the demand for our furniture products in the past financial years/period under review.

We aim to achieve the following with our design and development activities:

- (i) to create new product designs with the introduction of new range of furniture products; and
- (ii) to enhance and modify our existing furniture products.

## 6.14 INTELLECTUAL PROPERTIES

Save for the industrial design disclosed below, we have not registered any brand names, patents, trademarks or other intellectual property rights with the Intellectual Property Corporation of Malaysia:

Registration no. / Class	Design	Registered owner	Description/ Product name	Issuance date/ Expiry date
97006450 / 20		Spring Art Industries Sdn Bhd	Furniture and its parts and fittings; all included in Class 20.	26 March 2014 /16 May 2024

## 6. INFORMATION ON OUR GROUP (Cont'd)

### 6.15 LICENCES AND PERMITS

Save as disclosed below, there are no other licences and permits which our Group is materially dependent on for our business or profitability as at the LPD:

Licence Issuing authority Registration no.	/	Date of issue Date expiry	/	Nature of approval of licences	Material conditions imposed	Compliance status
(a) Spring MITI 019642	Art / A	12 June 2014 / -		Manufacturing License pursuant to Industrial Co-ordination Act 1975	(i) Any sale of shares of the company shall be notified to MITI and MIDA. (ii) The company shall train Malaysian employees so that the technology and expertise can be transferred across all levels of positions.  (iii) The company shall implement its project as approved and in accordance with the relevant laws and regulations of Malaysia.	Complied
(b) Spring Malaysian Timber Industry Board / Exporter: T/E – 2757/06/2006 / Supplier: T/S – 2665/06/2014	Art /	9 July 2019 / 30 June 2020		Certificate of Registration with Malaysian Timber Industry Board pursuant to Section 14 of Malaysian Timber Industry Board (Incorporation) Act 1973	-	-
(c) Spring Johor Forestry Department (downstream processing)	Art / State	1 January 2018 / 31 December 2019		Wood-Based Industry License pursuant to Rule 6(1) of Wood-Based Industries Enactment 1986	(i) License holder shall not: (a) transfer this license; (b) rent, lease, lend, operate or sell the entire factory or any part thereof or any equipment thereof or any part and any equipment in the factory; or (c) make any changes in the shareholdings of the entire factory or any part thereof;  without written approval from the state authority.  (ii) The license shall at all times subject to a valid Inspection Report/Certificate of Competency prescribed under the Factories and Machinery Act 1967 ("the FMA") or written approval by the inspectors of the factories and machinery	Complied

**6. INFORMATION ON OUR GROUP (Cont'd)**

<b>Licencee Issuing authority / Registration no.</b>	<b>Date of issue / Date expiry</b>	<b>Nature of approval licences</b>	<b>of or Material conditions imposed</b>	<b>Compliance status</b>
			<p>under the FMA which is enforceable in respect of the wood-based / furniture factory.</p> <p>(iii) The wood-based / furniture factory shall consist of the machineries stated in Annexure B of the license and no machinery can be added or to be removed from the factory without the written approval by State Director of Forestry.</p> <p>(iv) The wood-based / furniture factory shall be erected in accordance with the floor plan, site plan, layout plan and building plan approved by the State Director of Forestry and no changes shall be made without the written approval by the State Director of Forestry.</p> <p>(v) This licence together with the approved plans shall be displayed at conspicuous place of the factory premises.</p> <p>(vi) Every forest officer shall at all times be accessible to all parts of the building and factory and for the inspection purpose, any operating machineries shall be ceased when requested by the forestry officer.</p> <p>(vii) The wood-based / furniture factory shall be operated to manufacture finished or semi-finished timber products from sawn wood, rattan wood, reed wood and other forest products. It is not permissible to log from any kind, including logs that have been split into four or two, brought into or processed in the factory area.</p> <p>(viii) Rough saws are not permissible to be sold either directly or indirectly in the export or local market.</p> <p>(ix) License holder shall maintain a record showing that the timber and other forest products that brought</p>	

**6. INFORMATION ON OUR GROUP (Cont'd)**

<b>Licencee Issuing authority / Registration no.</b>	<b>Date of issue / Date expiry</b>	<b>Nature of approval licences</b>	<b>of or</b>	<b>Material conditions imposed</b>	<b>Compliance status</b>
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into the factory for processing, and the production of finished or semi-finished products from the factory every day.

- (x) The wood-based / furniture factory shall be kept clean at all times and all the emission, discharge, deposit or disposal or noise pollution and odour release shall conform to the standards prescribed under the Environmental Quality Act 1974.

**6.16 MATERIAL CONTRACTS**

Save as disclosed below, there are no contracts which are or may be material (not being contracts entered into in the ordinary course of business) which have been entered into by our Company or our subsidiary during the past financial years/period under review and up to the date of this Prospectus:

- (a) The underwriting agreement dated 4 September 2019 entered into between our Company and M&A Securities for an underwriting of 24,941,200 Issue Shares for an underwriting commission of 3.0% of the IPO Price multiplied by the number of Issue Shares being underwritten.
- (b) The subcontractor agreement dated 16 May 2019 entered into between Spring Art and Bright Showcase, whereby Bright Showcase is appointed as a subcontractor to manufacture and complete products in accordance to the design and specifications as required by Spring Art for a term of 3 years from the date of the agreement and subject to extension and further terms to be mutually agreed by Spring Art and Bright Showcase.

Under the subcontractor agreement, Spring Art shall:

- (i) invest in 1 production line for the manufacturing of our furniture products by Bright Showcase. The said production line will be placed at the manufacturing factory of Bright Showcase;
- (ii) furnish our design blueprints as well as production volume requirements to Bright Showcase; and
- (iii) supply raw materials to Bright Showcase for the production of our furniture products.

## 6. INFORMATION ON OUR GROUP (Cont'd)

Under the subcontractor agreement, Bright Showcase shall:

- (i) serve Spring Art as its sole customer; and
  - (ii) undertake the manufacturing of furniture products for Spring Art based on the design blueprints, production volume requirements and quality standards required by Spring Art; and
  - (iii) deliver the finished products within the agreed delivery period.
- (c) The share sale agreement dated 16 November 2018 ("SSA") entered into between our Company (as purchaser) and Lim Kok Eng and Kwan Chian Poh (the Vendors) for the Acquisition of Spring Art. On 21 June 2019, the parties have mutually agreed to an extension of 6 months from 24 May 2019, being the unconditional date for the SSA, to enable the parties to complete the SSA. The Acquisition of Spring Art was completed on 31 July 2019.
- (d) Spring Art and Kejora Bitara Sdn Bhd entered into the following agreements to implement a land swap arrangement:
- (i) The sale and purchase agreement dated 13 March 2018 between Spring Art (as vendor) and Kejora Bitara Sdn Bhd (as purchaser) for a hostel and land held under GM 1612 Lot 1849 situated in the Mukim of Sungai Raya, District of Muar, State of Johor ("Hostel Land") measuring approximately 0.9308 hectares at the consideration price of RM2,100,000 ("Hostel SPA"). This agreement was completed on 30 May 2018;
  - (ii) Supplemental Agreement in relation to the Hostel SPA dated 27 June 2018 whereby Kejora Bitara Sdn Bhd has irrevocably and unconditionally undertaken to reimburse Spring Art all the costs and expenses incurred for the application of an access road leading to the Hostel Land, as well as the consultation fees and processing fees incurred. This agreement is not completed as at the LPD. Further details are set out in Section 9.1 Note (b).

In addition, Kejora Bitara Sdn Bhd had vide its letter dated 25 January 2019 irrevocably and unconditionally granted the following to Spring Art:

- (a) an easement to Spring Art to access the Investment Land via the Hostel Land in perpetuity at no costs\*;
- (b) the first right of refusal for Spring Art to acquire the Hostel Land at the prevailing market value as determined by an independent valuer. In the event Spring Art does not exercise the first right of refusal, the Hostel Land shall only be sold on the condition that the purchaser agrees to grant a perpetual easement to Spring Art to access the Investment Land via the Hostel Land at no cost.

Note:

- \* In the event that Kejora Bitara Sdn Bhd refuses to grant an easement to Spring Art, Spring Art may apply to the Malaysian courts to seek the legal remedy of specific performance provided under Specific Relief Act 1950 to compel Kejora Bitara Sdn Bhd to grant an easement over the Investment Land.

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**6. INFORMATION ON OUR GROUP (Cont'd)**

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- (iii) The sale and purchase agreement dated 13 March 2018 between Kejora Bitara Sdn Bhd (as vendor) and Spring Art (as purchaser) to purchase Land 1 at the consideration price of RM2,100,000 ("Land 1 SPA"). This agreement was completed on 20 June 2018; and
- (iv) The set-off agreement dated 13 March 2018 between Kejora Bitara Sdn Bhd and Spring Art to contra the sum of RM2,100,000 being the purchase consideration for the Hostel SPA and Land 1 SPA. This agreement was completed on 20 June 2018.

Further details on the abovementioned agreements are set out in Section 9.1.

- (e) The sale and purchase agreement dated 23 October 2017 between Tee Her Choon (as vendor) and Spring Art (as purchaser) to purchase Land 3 at the consideration price of RM6,098,400. This agreement was completed on 6 February 2018.
- (f) The sale and purchase agreement dated 16 January 2017 between Lim Lian Huat (as vendor) and Spring Art (as purchaser) to purchase the Investment Land at the consideration price of RM2,000,000. This agreement was completed on 27 April 2017.

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**6. INFORMATION ON OUR GROUP (Cont'd)****6.17 MATERIAL PROPERTIES OF OUR GROUP****6.17.1 Properties owned by our Group**

Details of the properties owned by us as at the LPD are as follows:

**(i) Land 1, Factory A1 and Factory A2**

Particulars of title	:	PTD 1553, Mukim of Sungai Raya, District of Muar, Johor Darul Takzim held under Title No. HSD 23831
Registered proprietor	:	Spring Art
Land area based on titles	:	2.686 acres (117,002 sq ft)
Tenure / land use	:	Leasehold for 60 years expiring on 16 September 2059 with a remaining leasehold period of approximately 41 years / Industrial
Description, existing use and age of building	:	The property comprises 3 units of detached factory/office identified as Factory A1 and Factory A2, a pump house, a Tenaga National Berhad substation and a guard house. <b>Factory A1</b> Factory A1 is a single storey factory with a single storey integral office building. The age of Factory A1 is approximately 15 years old and the main floor area of approximately 36,980 sq ft and ancillary floor area of 4,320 sq ft. As at the LPD, it is used as furniture manufacturing factory. <b>Factory A2</b> Factory A2 is an extended single storey factory with an annexed 3 storey office building. The age of Factory A2 is approximately 12 years old and it has total main floor area of 43,018 sq ft and total ancillary floor area of 10,856 sq ft. As at the LPD, it is used as furniture manufacturing factory and office building.
Net book value	:	RM8,819,473 as at 30 April 2019
Building compliance	:	(i) Approved building plans by the Muar Municipal Council, Reference Number MPM(PB)119/2000/C dated 21 November 2003; (ii) Approved building plans by the Muar Municipal Council, Reference Number (1A)MPM(PBT)2/06/SGR dated 25 September 2007; (iii) Certificate of Fitness for Occupation by the Muar Municipal Council, Certificate Number 2/04/SGR bearing File Reference Number MPM(PB) 119/2000/C dated 12 April 2004; and



**6. INFORMATION ON OUR GROUP (Cont'd)**

	(iv) Certificate of Practical Completion by Perunding Kejuruteraan Mahir dated 8 October 2007.
Encumbrances	: Charged to Hong Leong Bank Berhad

**(ii) Land 2, Factory B**

Particulars of title	: PTD 2626, Mukim of Sungai Raya, District of Muar, Johor Darul Takzim held under Title No. HSM 1587
Registered proprietor	: Spring Art
Land area based on titles	: 2.8156 acres (122,646 sq ft)
Tenure / land use	: Freehold / Industrial
Description, existing use and age of building	: The property comprises a single storey detached factory identified as Factory B and a guard house. <b>Factory B</b> Factory B is an extended single storey detached factory. The age of Factory B is approximately 5 years old and the main floor area of approximately 85,017 sq ft and ancillary floor area of 25,909 sq ft. As at the LPD, it is used as furniture manufacturing factory.
Net book value	: RM11,849,123 as at 30 April 2019
Building compliance	: (i) Approved building plans by the Muar Municipal Council, Reference Number MPM(PB)4/2010/SGR dated 16 March 2014; (ii) Approved building plans by the Muar Municipal Council, Reference Number MPM(PBT)3/2018/SGR dated 3 April 2018; (iii) Certificate of Completion and Compliance by Ir Tee Swee Hock, Certificate No. LJM/J/0914 dated 12 November 2014; and (iv) Certificate of Practical Completion by Ir Tee Swee Hock dated 30 April 2018.
Encumbrances	: Charged to HSBC Amanah Malaysia Berhad and HSBC Bank Malaysia Berhad

**6. INFORMATION ON OUR GROUP (Cont'd)****(iii) Land 3**

Particulars of title	:	Lot 343, Mukim of Sungai Raya, District of Muar, Johor Darul Takzim held under Title No. GM 231
Registered proprietor	:	Spring Art
Land area based on titles	:	5 acres (217,800 sq ft)
Tenure / land use	:	Freehold / Agriculture <sup>(1)</sup>
Description and intended use	:	A parcel of land planted with mature oil palm. This land is intended for the construction of Factory C.
Net book value	:	RM5,018,119 as at 30 April 2019
Building compliance	:	Not applicable
Encumbrances	:	Charged to AmBank Islamic Bank Berhad

Note:

<sup>(1)</sup> The express condition set out in the issue document of title states that the land shall be used for cultivation of oil palm. We had on 17 January 2018 submitted an application to convert the land use of Land 3 to industrial.

**(iv) Investment Land**

Particulars of title	:	Lot 1850, Mukim of Sungai Raya, District of Muar, Johor Darul Takzim held under Title No. GM 1527
Registered proprietor	:	Spring Art
Land area based on titles	:	2.5375 acres (110,534 sq ft)
Tenure / land use	:	Freehold / Agriculture <sup>(1)</sup>
Description and intended use	:	A parcel of land planted with mature oil palm. The land is held for investment purposes. <sup>(2)</sup>
Net book value	:	RM2,000,000 as at 30 April 2019
Building compliance	:	Not applicable
Encumbrances	:	Not applicable

**6. INFORMATION ON OUR GROUP (Cont'd)**

## Notes:

- (1) The express condition set out in the issue document of title states that the land shall be used for cultivation of rubber whereas the land is currently planted with mature oil palm and as such is not in compliance with the land use condition. Additional information on risks associated with this non-compliance is set out in Section 8.1.5(ii).
- (2) Currently, the Investment Land does not have any access road. However, the Investment Land may be accessed via the Hostel Land. Kejora Bitara Sdn Bhd had vide its letter dated 25 January 2019 irrevocably and unconditionally granted the following to Spring Art:
- (i) an easement to Spring Art to access the Investment Land via the Hostel Land in perpetuity at no costs; and
  - (ii) the first right of refusal for Spring Art to acquire the Hostel Land at the prevailing market value as determined by an independent valuer. In the event Spring Art does not exercise the first right of refusal, the Hostel Land shall only be sold on the condition that the purchaser agrees to grant a perpetual easement to Spring Art to access the Investment Land via the Hostel Land at no cost.

Save for the Investment Land, none of the above properties has breached any land use condition or permissible land use.

**6.17.2 Properties rented by our Group**

Details of properties rented by us as at the LPD are set out below:

<b>No.</b>	<b>Description</b>	<b>Owner / Tenant</b>	<b>Existing Use</b>	<b>Built-up area</b>	<b>Period of tenancy / Rental per annum</b>
1.	24 units of 2-bedroom hostel located at Block A1, Lot 1647, Jalan Parit Karang, Kesang Laut, 84000 Muar, Johor	Teh Ah Kow and Ku Swi Chu / Spring Art	Workers' hostel	13,356.06 sq ft	1 April 2019 to 31 March 2020 / RM80,640
2.	2 units of 2-bedroom hostel at Block A2, Lot 1647, Jalan Parit Karang, Kesang Laut, 84000 Muar, Johor	Teh Ah Kow and Ku Swi Chu / Spring Art	Workers' hostel	1,113.00 sq ft	1 April 2019 to 31 March 2020 / RM6,720

The properties rented by our Group are not in breach of any land use or regulatory requirements.

## 6. INFORMATION ON OUR GROUP (Cont'd)

### 6.18 REGULATORY REQUIREMENTS AND ENVIRONMENTAL ISSUES

Save as disclosed in Section 6.15, there are no other regulatory requirements and/or major environmental issues which may materially affect our operations and utilisation of our property, plant and equipment.

### 6.19 BUSINESS STRATEGIES AND PROSPECTS

#### 6.19.1 We intend to set up a new manufacturing factory to expand our current manufacturing capacity

On 6 February 2018, we completed a sale and purchase agreement for the acquisition of a parcel of land, namely Land 3 which is located in close proximity to our existing factories. We intend to set up a new manufacturing factory to increase our manufacturing capacity.

We plan to construct the new factory, namely Factory C, with a total estimated factory built-up area of approximately 103,926 sq ft to undertake the manufacturing of office furniture, bedroom furniture, living room furniture and other furniture for export to North America and Europe and for our existing customers. Factory C shall also include 2-storey office and a 2-storey hostel.

The construction cost of Factory C is estimated at RM7.0 million of which RM5.8 million shall be funded via bank borrowings and the remaining RM1.2 million shall be funded via internally generated funds. We have received an indicative loan offer letter from AmBank Islamic Berhad for RM5.8 million.

The detailed breakdown of our allocation for the construction of Factory C is as follows:

Description	Built-up area sq ft	Total estimated cost RM'000
Civil works:		
(i) Single-storey factory	103,926	3,741
(ii) 2-storey office	4,801	264
(iii) 2-storey hostel	8,331	458
Infrastructural works		700
Mechanical and electrical works		1,300
Other expenses <sup>(1)</sup>		500
		<b>6,963</b>

Note:

<sup>(1)</sup> Other expenses comprise payments to the authorities (including land conversion premium of RM200,000), legal fees and construction project management consulting fees.

## 6. INFORMATION ON OUR GROUP (Cont'd)

The approvals required to be obtained from the authorities for the construction of Factory C are as follows:

- (a) The conversion of the land use of Land 3 from agriculture to industrial from Pejabat Pengarah Tanah Dan Galian Johor. The application was submitted on 17 January 2018;
- (b) The planning permit was obtained from the Majlis Perbandaran Muar on 8 August 2019; and
- (c) The approval for our building plan to be obtained from Majlis Perbandaran Muar. Our appointed consultant is in the midst of preparing the building plan submission. We target to submit the application in December 2019.

We target to receive the conversion of the land use and approval for building plan in July 2020 and thereafter commence the construction of Factory C. We target to commence operations in this new manufacturing factory in July 2022.

Further, we have allocated RM17.6 million from the proceeds of the IPO to acquire new machinery to set up 2 additional production lines in Factory C. We intend to acquire the following machinery to set up Factory C:

	Units	<b>Total estimated cost</b> RM'000
CNC panel saw machines	2	2,164
Edge banding machines	6	6,998
CNC woodworking machines <sup>(1)</sup>	9	8,388
		<b>17,550</b>

Note:

- (1) CNC woodworking machines to be purchased have the capability to automatically load and unload boards.

As at the LPD, our total annual production capacity is 337,016 units. Factory C is expected to increase our annual capacity to reach a combined manufacturing capacity of approximately 674,000 units per annum.

The indicative timeline for the setting up of Factory C is targeted to be as follows:

Timeframe	Details
T	<ol style="list-style-type: none"> <li>(i) Conversion of land use of Land 3 and receipt of approved building plan</li> <li>(ii) Commence the construction of Factory C</li> <li>(iii) Commence procurement of equipment and machinery</li> </ol>
T + 12 months	(i) Completion of factory construction
T + 14 months	(i) To obtain approval from the state government
T + 15 months	(ii) To obtain approval from MITI/MIDA for manufacturing licence

**6. INFORMATION ON OUR GROUP (Cont'd)**

<b>Timeframe</b>	<b>Details</b>
T + 22 months	(i) To obtain approval from Department of Occupational Safety and Health (ii) To obtain approval from Department of Environment
T + 23 months	(i) To obtain CCC for the factory (ii) Installation of equipment and machinery
T + 24 months	(i) Commissioning of factory

**6.19.2 We aim to further increase the sales of our furniture products to the North America and European markets**

Our Group has been focusing on export markets since 1998. Over the past FYEs/FPE, we exported our furniture products to 35 countries. Given our track record in penetrating these foreign markets, we will continue to focus on export markets to grow our business.

We plan to further increase the sales of our furniture products to North America and Europe. Our revenue contribution from the North America and European markets for the past FYEs/FPE are as shown below:

<b>Regions</b>	<b>Audited</b>							
	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
North America	2,760	7.6	1,658	4.0	2,816	5.8	2,408	4.8
European countries	578	1.6	651	1.6	310	0.6	401	0.8
Others	33,087	90.8	38,978	94.4	45,150	93.6	47,573	94.4
	<b>36,425</b>	<b>100.0</b>	<b>41,287</b>	<b>100.0</b>	<b>48,276</b>	<b>100.0</b>	<b>50,382</b>	<b>100.0</b>
<b>Regions</b>	<b>Unaudited</b>				<b>Audited</b>			
	<b>FPE 2018</b>		<b>FPE 2019</b>		<b>FPE 2018</b>		<b>FPE 2019</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
North America	740	4.7	392	2.1				
European countries	311	2.0	-	-				
Others	14,575	93.3	17,905	97.9				
	<b>15,626</b>	<b>100.0</b>	<b>18,297</b>	<b>100.0</b>				

We aim to further increase our presence in the North America and European markets. To achieve this, we intend to attend trade fairs in North America and Europe to increase the awareness of our products and to better understand the current market trends and developments in these regions.

## 6. INFORMATION ON OUR GROUP (Cont'd)

USA's furniture consumption in 2018 stood at USD90.9 billion, making USA the largest consumer in North America. Canada was the 2nd largest furniture consumer in the region in 2018, with consumption at USD11.5 billion in 2018.

Furniture consumption in Europe was largely driven by the top furniture consuming nations in the region, namely Germany, United Kingdom, and France. Germany was the largest consumer of furniture in Europe, with USD24.1 billion in furniture consumption in 2018. The United Kingdom was the second largest furniture consumer in the region with USD14.6 billion, followed by France with USD13.8 billion.

Source: Providence

### 6.19.3 We aim to expand our product range

We recognise that innovation and continuous improvement are pivotal to remain competitive in the furniture business. Thus, we aim to expand our product range by releasing 4 new collections annually, with a focus on living room furniture and bedroom furniture every year, to appeal to changing consumer preferences.

With our design and development capabilities, we believe that our variety of choice in product range will contribute to increased sales for our Group.

## 6.20 EMPLOYEES

As at the LPD, we have a total workforce of 284 employees, of which 31 are permanent employees and 253 are contractual workers, which are all based in our existing factories in Muar, Johor. The following depicts the breakdown of our employees in our Group as at the LPD:

Department/Division	Number of employees
Executive Directors / Key senior management	7
Accounts	4
Administration	4
Maintenance	3
Marketing	3
Production	252
Purchasing	4
Store	2
Design, development and quality control	5
<b>TOTAL</b>	<b>284</b>

As at the LPD, local employees accounted for approximately 10.9% of total workforce while the remaining 89.1% were foreign workers.

As at the LPD, we have 253 foreign workers, and all our foreign workers have valid working permits. Our Group's foreign workers have been individually issued with temporary employment visit passes (Pas Lawatan Kerja Sementara, "PLKS") with a condition stated

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**6. INFORMATION ON OUR GROUP (Cont'd)**

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therein that the holder of the pass must not remain in West Malaysia longer than the period stipulated therein. Such period usually does not exceed 1 year.

Each PLKS issued is in the form of a sticker and stuck onto the respective foreign workers' passports. Our Group constantly monitors the validity period of the PLKS to ensure that our foreign workers' permit is valid. It is also stated in the PLKS that such workers are employed as factory workers with our Group.

None of our employees belong to any labour union. During the past FYEs 2015 to 2018, FPE 2019 and up to the LPD, there is no industrial dispute pertaining to our employees.

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**6. INFORMATION ON OUR GROUP (Cont'd)****6.21 MAJOR CUSTOMERS**

Our top 5 major customers for each of the past 4 FYEs 2015 to 2018 and FPE 2019 are as follows:

**FYE 2015**

No	Customers	Country of export/ Region	Business activities	Category of products sold*	Revenue contribution in FYE 2015		Length of relationship as at the LPD Years
					RM'000	%	
1	Nitori Co Ltd	Japan / Asia Pacific	Furniture and home furnishing chain store operator	(a) and (c)	6,999	19.2	20
2	RNA Resources Group Ltd	UAE and Saudi Arabia / Middle East	Home furnishing chain store operator	(b) and (c)	5,679	15.6	7
3	Godrej & Boyce Mfg Co	India / Asia Pacific	Retail chain operator	(a) and (c)	3,215	8.8	19
4	House Full International Ltd	India / Asia Pacific	Home furnishing e-commerce platform operator	(b) and (c)	3,129	8.6	10
5	Landamarh Arabia	Saudi Arabia / Middle East	Retail chain operator	(b) and (c)	2,226	6.1	6
					<b>21,248</b>	<b>58.3</b>	

**FYE 2016**

No	Customers	Country of export/ Region	Business activities	Category of products sold*	Revenue contribution in FYE 2016		Length of relationship as at the LPD Years
					RM'000	%	
1	RNA Resources Group Ltd	UAE and Saudi Arabia / Middle East	Home furnishing chain store operator	(b) and (c)	15,240	36.9	7
2	Nitori Co Ltd	Japan / Asia Pacific	Furniture and home furnishing chain store operator	(a) and (c)	5,681	13.8	20
3	Future Retail Limited	India / Asia Pacific	Retail stores operator	(b) and (c)	3,828	9.3	14
4	Godrej & Boyce Mfg Co	India / Asia Pacific	Retail chain operator	(a) and (c)	3,277	7.9	19
5	Al Rashid Group	Bahrain / Middle East	Retail stores operator	(b) and (c)	2,580	6.3	7
					<b>30,606</b>	<b>74.2</b>	

**6. INFORMATION ON OUR GROUP (Cont'd)****FYE 2017**

No	Customers	Country of export/ Region	Business activities	Category of products sold*	Revenue contribution in FYE 2017		Length of relationship as at the LPD Years
					RM'000	%	
1	RNA Resources Group Ltd	UAE and Saudi Arabia / Middle East	Home furnishing chain store operator	(b) and (c)	20,104	41.6	7
2	Future Retail Limited	India / Asia Pacific	Retail stores operator	(b) and (c)	8,469	17.5	14
3	Nitori Co Ltd	Japan / Asia Pacific	Furniture and home furnishing chain store operator	(a) and (c)	4,211	8.7	20
4	Al Rashid Group	Bahrain / Middle East	Retail stores operator	(b) and (c)	3,071	6.4	7
5	Godrej & Boyce Mfg Co	India / Asia Pacific	Retail chain operator	(a) and (c)	2,059	4.3	19
					<b>37,914</b>	<b>78.5</b>	

**FYE 2018**

No	Customers	Country of export/ Region	Business activities	Category of products sold*	Revenue contribution in FYE 2018		Length of relationship as at the LPD Years
					RM'000	%	
1	RNA Resources Group Ltd	UAE and Saudi Arabia / Middle East	Home furnishing chain store operator	(b) and (c)	21,236	42.1	7
2	Praxis Home Retail Limited	India / Asia Pacific	Furniture and home furnishing chain store operator	(b) and (c)	3,997	7.9	2
3	Al Rashid Group	Bahrain / Middle East	Retail stores operator	(b) and (c)	3,859	7.7	7
4	Future Retail Limited	India / Asia Pacific	Retail stores operator	(b) and (c)	3,842	7.6	14
5	Godrej & Boyce Mfg Co	India / Asia Pacific	Retail chain operator	(a) and (c)	3,254	6.5	19
					<b>36,188</b>	<b>71.8</b>	

**6. INFORMATION ON OUR GROUP (Cont'd)****FPE 2019**

No	Customers	Country of export/ Region	Business activities	Category of products sold*	Revenue contribution in FPE 2019		Length of relationship as at the LPD Years
					RM'000	%	
1	RNA Resources Group Ltd	UAE and Saudi Arabia / Middle East	Home furnishing chain store operator	(b) and (c)	11,646	63.7	7
2	Praxis Home Retail Limited	India / Asia Pacific	Furniture and home furnishing chain store operator	(b) and (c)	2,089	11.4	2
3	Nitori Co Ltd	Japan / Asia Pacific	Furniture and home furnishing chain store operator	(a) and (c)	982	5.4	20
4	Godrej & Boyce Mfg Co	India / Asia Pacific	Retail chain operator	(a) and (c)	932	5.1	19
5	Seamless Venture	India / Asia Pacific	Furniture retailer	(a), (b) and (c)	866	4.7	1
					<b>16,515</b>	<b>90.3</b>	

Note:

\* Categories of products sold:

- (a) Office furniture
- (b) Bedroom furniture
- (c) Living room furniture

For the past 4 FYEs 2015 to 2018 and FPE 2019, our top 5 customers of each FYEs/FPE contributed the majority of our revenue, representing 58.3% to 90.3% of our total sales. Although the majority of our revenue is contributed by our major customers, we have a total of 31 customers for FYE 2018.

Our Group has direct business relationship with all our major customers. All sales orders from our major customers, and ultimately payments for orders from our major customers, are made directly to our Group. We do not have any long-term agreements or arrangements with any of our major customers and our furniture products are manufactured based on purchase orders. While we are not dependent on any single customer, we may be materially and adversely affected if we were to lose one of more of our major customers without securing new customers in a timely manner to replace the loss of business, or if we were to encounter difficulties in collecting payment from these major customers.

In addition, we have established long term relationships with some of our major customers. For FPE 2019, 3 of our top 5 customers have been buying from us for the past 7 years. We have good business relationships with our major customers and we have not encountered any major problems in our past dealings with them.

**6. INFORMATION ON OUR GROUP (Cont'd)**

If we cease to secure sales from any one of our major customers, we believe we will be able to secure additional sales from other customers to compensate from the loss of sales. We have a diversified customer base comprising distributors, furniture showroom retailers, home furnishing chain stores and e-commerce companies from 35 countries.

For the past 4 FYEs 2015 to 2018 and FPE 2019, our utilisation rate is between 91.8% to 94.9% and as such, we were not able to increase our customer base due to our limited annual production capacity. For FPE 2019, our sales to RNA Resources Group Ltd increased to 63.7% of our total sales as RNA Resources Group Ltd had increased the number of its retail stores from 22 to 26 during 2018 with the opening of 3 new stores in Saudi Arabia and 1 new store in UAE. In addition, we are able to achieve higher GP margins by selling large quantities of the same product to RNA Resources Group Ltd. In order to increase our annual production capacity, we intend to construct the new factory, namely Factory C which will increase our total annual production capacity from 337,016 units to 674,000 units. With the additional production capacity, we will be able to increase our exports to North America and Europe as well as to our existing customers and hence, increasing our customer base. We plan to increase our presence in the North America and Europe by attending trade fairs in North America and Europe to increase the awareness of our products.

Based on the above, the contribution of the existing top 5 customers for future FYEs is expected to reduce.

**6.22 MAJOR SUPPLIERS**

Our top 5 major suppliers for each of the 4 FYEs 2015 to 2018 and FPE 2019 are as follows:

**FYE 2015**

No	Suppliers	Country of origin	Products sourced	Value of purchases in FYE 2015		Length of relationship as at the LPD
				RM'000	%	
1	Imax Resources Sdn Bhd	Malaysia	Particle and MDF boards	7,622	37.4	16
2	Jawah Trading Company Sdn Bhd	Malaysia	Particle and MDF boards	2,705	13.3	6
3	Jacksing Deco-Board Sdn Bhd	Malaysia	Board laminating service	1,961	9.6	15
4	SJ Polyplas Marketing Sdn Bhd	Malaysia	Metal components	1,018	5.0	19
5	Naga Kirana Packaging Sdn Bhd	Malaysia	Packaging materials	831	4.0	23
				<b>14,137</b>	<b>69.3</b>	

**6. INFORMATION ON OUR GROUP (Cont'd)****FYE 2016**

No	Suppliers	Country of origin	Products sourced	Value of purchases in FYE 2016		Length of relationship as at the LPD	
				RM'000	%	Years	Years
1	Mieco Manufacturing Sdn Bhd	Malaysia	Particle boards	6,341	30.0	4	4
2	Jacksing Deco-Board Sdn Bhd	Malaysia	Board laminating service	2,451	11.6	15	15
3	Hua Joo Success Industry Sdn Bhd	Malaysia	Laminated, particle and MDF boards	1,994	9.4	7	7
4	Green River Panels (Thailand) Co Ltd	Thailand	Particle boards	1,366	6.4	4	4
5	Tyonn Industries Sdn Bhd	Malaysia	Packaging materials	958	4.5	19	19
				<b>13,110</b>	<b>61.9</b>		

**FYE 2017**

No	Suppliers	Country of origin	Products sourced	Value of purchases in FYE 2017		Length of relationship as at the LPD	
				RM'000	%	Years	Years
1	Mieco Manufacturing Sdn Bhd	Malaysia	Particle boards	6,312	23.8	4	4
2	Green River Panels (Thailand) Co Ltd	Thailand	Particle boards	5,972	22.5	4	4
3	Jacksing Deco-Board Sdn Bhd	Malaysia	Board laminating service	3,059	11.5	15	15
4	Naga Kirana Packaging Sdn Bhd	Malaysia	Packaging materials	1,298	4.9	23	23
5	Tyonn Industries Sdn Bhd	Malaysia	Packaging materials	1,049	3.9	19	19
				<b>17,690</b>	<b>66.6</b>		

**FYE 2018**

No	Suppliers	Country of origin	Products sourced	Value of purchases in FYE 2018		Length of relationship as at the LPD	
				RM'000	%	Years	Years
1	Green River Panels (Thailand) Co Ltd	Thailand	Particle boards	6,611	24.2	4	4
2	Mieco Manufacturing Sdn Bhd	Malaysia	Particle boards	4,753	17.4	4	4
3	Jacksing Deco-Board Sdn Bhd	Malaysia	Board laminating service	3,559	13.1	15	15
4	Naga Kirana Packaging Sdn Bhd	Malaysia	Packaging materials	1,538	5.7	23	23
5	SJ Global Marketing Sdn Bhd	Malaysia	Metal components	1,398	5.1	12	12
				<b>17,859</b>	<b>65.5</b>		

**6. INFORMATION ON OUR GROUP (Cont'd)****FPE 2019**

No	Suppliers	Country of origin	Products sourced	Value of purchases in FPE 2019		Length of relationship as at the LPD	
				RM'000	%	Years	Years
1	Green River Panels (Thailand) Co Ltd	Thailand	Particle boards	3,262	28.3		4
2	Jacksing Deco-Board Sdn Bhd	Malaysia	Board laminating service	1,353	11.8		15
3	Mieco Manufacturing Sdn Bhd	Malaysia	Particle boards	1,099	9.5		4
4	Naga Kirana Packaging Sdn Bhd	Malaysia	Packaging materials	599	5.2		23
5	Tyonn Industries Sdn Bhd	Malaysia	Packaging materials	426	3.7		19
				<b>6,739</b>	<b>58.5</b>		

Our raw materials are sourced from local and overseas manufacturers, selected based on the availability of raw material, the pricing and lead time for delivery. Our main raw materials include MDF, particle boards, screws, nuts, mounting brackets, corrugated cartons and packing tapes. We do not have any long-term agreements or arrangements with any of our major suppliers. During the financial years/period under review, we have not faced any material supply disruptions or delays by our major suppliers.

We are not dependent on any single major supplier. Materials such as boards and metal components are readily available from various local and foreign suppliers and there is no major difference in its selling price. If we were to purchase boards and metal components from another supplier, our profitability will not be materially affected.

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## 7. INDEPENDENT MARKET RESEARCH REPORT

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PROVIDENCE STRATEGIC PARTNERS SDN BHD  
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**25 SEP 2019**

The Board of Directors  
**SPRING ART HOLDINGS BERHAD**  
Lot Plo 49 Jalan Rami 4  
Kawasan Perindustrian Bukit Pasir  
84600 Bukit Pasir  
Muar, Johor Darul Takzim  
Malaysia.

Dear Sirs,

**Independent Market Research Report on the Outlook of Malaysia's Furniture Industry and the Global Furniture Market in conjunction with the Listing of SPRING ART HOLDINGS BERHAD on the ACE Market of Bursa Malaysia Securities Berhad**

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PROVIDENCE STRATEGIC PARTNERS SDN BHD ("PROVIDENCE") has prepared this independent market research report on the Outlook of Malaysia's Furniture Industry and the Global Furniture Market for inclusion in the Prospectus of SPRING ART HOLDINGS BERHAD.

PROVIDENCE has taken prudent measures to ensure reporting accuracy and completeness by adopting an independent and objective view of these industries within the confines of secondary statistics, primary research and evolving industry dynamics.

For and on behalf of PROVIDENCE:

ELIZABETH DHOSS  
EXECUTIVE DIRECTOR

**About PROVIDENCE STRATEGIC PARTNERS SDN BHD:**

*PROVIDENCE is an independent research and consulting firm based in Petaling Jaya, Selangor, Malaysia. Since our inception in 2017, PROVIDENCE has been involved in the preparation of independent market research reports for capital market exercises. Our reports aim to provide an independent assessment of industry dynamics, encompassing aspects such as industry performance, demand and supply conditions, competitive landscape and government regulations.*

**About ELIZABETH DHOSS:**

*Elizabeth Dhoss is the Executive Director of PROVIDENCE. She has more than 10 years of experience in market research for capital market exercises. Elizabeth Dhoss holds a Bachelor of Business Administration from the University of Malaya, Malaysia.*

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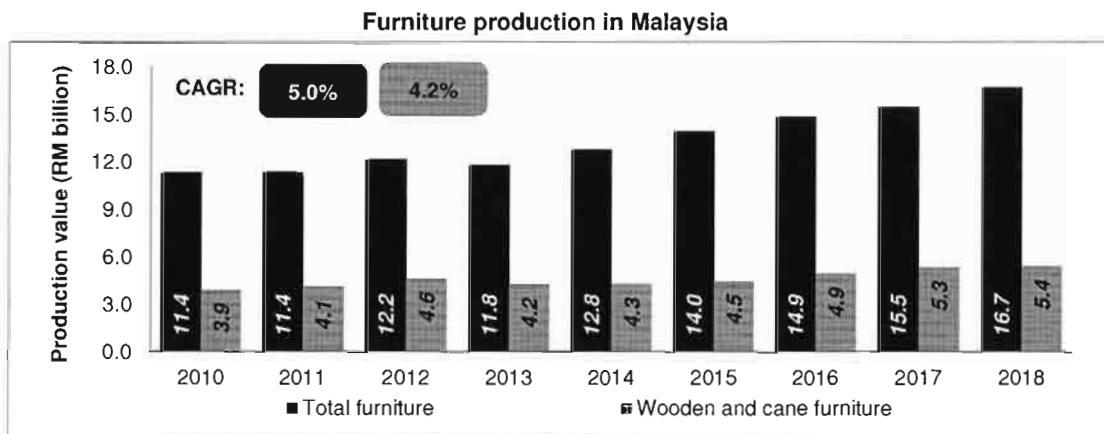


### 1 FURNITURE INDUSTRY IN MALAYSIA

#### 1.1 INDUSTRY SIZE AND GROWTH POTENTIAL

Malaysia's furniture industry, based on the furniture industry gross domestic product ("GDP"), grew from RM2.6 billion in 2010 to RM4.8 billion in 2018 at a compound annual growth rate ("CAGR") of 8.0%. Over the same period, the furniture industry consistently contributed to 0.3% to 0.4% of the country's GDP. Malaysia manufactures several types of furniture products, including but not limited to, wooden and cane furniture as well as metal furniture. However, in terms of value of the gross output of the furniture industry, the manufacture of wooden and cane furniture is the largest segment. This is due to the abundance of tropical wood found in Malaysia, where approximately 80.0% of furniture exports are manufactured from rubberwood.<sup>1</sup> Between 2010 and 2018, the production of furniture in Malaysia grew from RM11.4 billion to RM16.7 billion at a CAGR of 5.0%. Over the same period, the production of wooden and cane furniture, as indicated by the manufacturing sales value of wooden and cane furniture, grew from RM3.9 billion to RM5.4 billion at a CAGR of 4.2%.

Malaysia's furniture manufacturers are primarily located in the states of Johor and Selangor,<sup>2</sup> with the Muar district considered to be the country's major production base, producing about two-thirds of Malaysia's furniture exports.<sup>3</sup> Muar's proximity to rubberwood resources (such as the districts of Segamat and Batu Pahat, and the states of Melaka and Negeri Sembilan), as well as its proximity to the Johor Port and Singapore has contributed to the growth and expansion of the furniture industry in the district.



Source: Centre for Industrial Studies ("CSIL"), Department of Statistics Malaysia, PROVIDENCE analysis

Between 2010 and 2018, Malaysia's furniture exports increased from RM8.0 billion to RM9.8 billion at a CAGR of 2.7%. Malaysia's furniture imports also witnessed growth over the same period, increasing from RM1.3 billion to RM2.8 billion at a CAGR of 9.9%. Despite the higher growth rate in Malaysia's furniture imports, Malaysia is still a net exporter of furniture. Further, a significant volume of Malaysia's locally manufactured furniture is exported. Furniture exports constituted between 62.0% and 70.5% of manufactured furniture between 2010 and 2017. In 2018, Malaysia was ranked the 11<sup>th</sup> largest furniture exporter globally. Malaysia's home and office furniture exports accounted for approximately 44.4% of total furniture exports in 2018. Between 2010 and 2018, Malaysia's home and office furniture exports increased from RM2.8 billion to RM4.4 billion at a CAGR of 5.5%.

Laws and regulations imposed by other countries may also have an effect on Malaysia's furniture exports. In July 2018, the United States of America ("USA") begin imposing tariffs on the People's Republic of China ("China") for the latter's alleged unfair trade practices, thus sparking the ongoing USA-China trade war. As a result of the imposed tariffs by the USA, China has also imposed its own tariffs on the USA. With the USA-China trade war dispute being in motion, export-oriented furniture manufacturers have the potential to benefit from the 10% tariff imposed by the USA on more than 5,000 new Chinese imports worth USD200.0 billion, which includes furniture. While it is unclear how long the USA-China trade war is going to last, and the extent of its implications, the trade war may result in increased demand for Malaysian

<sup>1</sup> Malaysian Investment Development Authority ("MIDA")

<sup>2</sup> MIDA

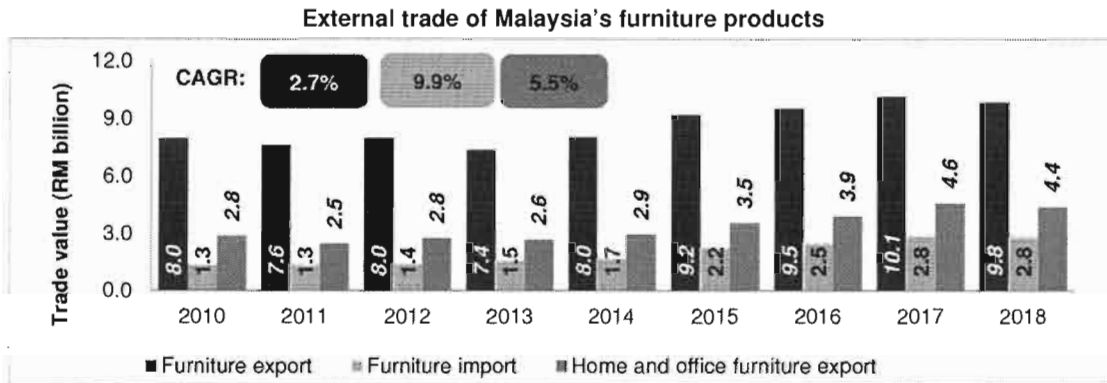
<sup>3</sup> Furniture manufacturers target RM12b exports by 2020, 4 August 2017, The Malaysian Reserve



## 7. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



furniture as furniture manufactured in China becomes more expensive, and thus less competitive due to the tariffs, which may then have an adverse impact on imports of furniture from China.



The Malaysia External Trade Development Corporation (“**MATRADE**”) estimates that the furniture industry in Malaysia is expected to generate RM12.0 billion in revenue by 2020, and continue contributing to the nation’s exports earning. While the Sales and Service Tax (“**SST**”) was re-introduced in Malaysia on 1 September 2018, this is not expected to affect the country’s furniture exports as SST is not imposed on export items.

### 1.2 DEMAND CONDITIONS: KEY GROWTH DRIVERS

#### Rising demand for Malaysian furniture products globally will boost the furniture industry in Malaysia

Global consumption of furniture increased from USD340.2 billion in 2010 to USD453.0 billion in 2018 at a CAGR of 2.9%. Demand for furniture is expected to further grow on the back of a global growth in population, urbanisation, disposable incomes, and real estate. 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%. Malaysia primarily exported its furniture to the USA in 2018, where Malaysia’s furniture exports to the USA formed approximately 35.4% (RM3.5 billion) of Malaysia’s total furniture exports in that year. This was followed by Singapore (8.1%, RM797.5 million), Japan (7.6%, RM742.8 million), Australia (6.5%, RM641.5 million), and the United Kingdom (4.5%, RM443.9 million). The rising demand for Malaysian furniture products globally will continue to boost the furniture industry in Malaysia.

#### 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**

A free course launched by the Malaysian Furniture Council (“**MFC**”) in collaboration with VTAR Institute which aims to produce skilled manpower for the furniture industry. The Furniture Technology Certification Course provides graduates with employment opportunities in the furniture industry, where potential roles include furniture production technician, production supervisor, and quality control / quality analysis roles.

## 7. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



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### ▪ Wood Industry Skills Development Centre ("WISDEC")

Under the Sixth Malaysia Plan (1991 – 1995), the Government established WISDEC as a centre to hold programmes and courses to train skilled workers in the wood-based industry. Furniture-related courses offered at WISDEC include 'Wood-based Industry Apprentice Scheme', Certificate in Furniture Design and Making', 'Basic Furniture Making', 'Furniture Making (Build-in Furniture)', 'Furniture Quality Control', 'Furniture Entrepreneur Business Coaching', and 'Furniture Making – Display Cabinet'.

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")

The EFE, which was first launched in 2005, is an annual furniture trade exhibition that is organised by the MFC. Beginning from 2018, the Malaysian Furniture Creativity Award will be awarded at the EFE. The Malaysian Furniture Creativity Award was initiated by the MFC to recognise product innovation and quality to encourage furniture designers to move towards original design manufacturers, thereby gaining recognition in terms of product design and branding.

#### • Professional Designers Programme ("PDP")

The PDP, which was launched by the Malaysian Timber Industry Board ("MTIB"), is aimed at showcasing furniture designs by Malaysian and international designers, where the prototypes are manufactured by selected Malaysian furniture factories. As such, the PDP helps boost the reputation of Malaysia as a manufacturer as well as a designer of furniture.

#### • Malaysian Furniture & Furnishings Fair

The Malaysian Furniture & Furnishings Fair which was first launched in 2008 and organised by the Kuala Lumpur and Selangor Furniture Industry Association, is a home furniture fair that enables furniture industry players in Malaysia to showcase their products and services to consumers, thus boosting the country's furniture industry.

#### • Malaysian International Furniture Fair

First launched in 1995, the Malaysian International Furniture Fair is an annual furniture fair that attracts local and international furniture exhibitors and buyers. The Malaysian International Furniture Fair helps to create business and networking opportunities for local and international furniture industry players.

Further, in 2016, the then Chief Minister of Johor, Datuk Seri Mohamed Khaled Nordin, launched the Roadmap for the Development of Johor's Wood Furniture Industry (2015 – 2020). The roadmap was developed by the MTIB in collaboration with the Johor State Government and Muar Furniture Association to ensure that the Johor furniture industry continues to play an active role in helping the Government achieve its target of increasing Malaysia's timber exports to RM53.0 billion (under the National Industry Timber Policy) by 2020. There are five strategic thrusts under the roadmap, namely, the relocation of the furniture industry, solution to the labour shortage in Johor's furniture industry, the development of entrepreneurs, branding and promotion for the furniture industry, and the supply of raw materials. The state of Johor is a key contributor to Malaysia's furniture exports, and thus, the Roadmap for the Development of Johor's Wood Furniture Industry (2015 – 2020) will help boost the country's furniture industry.

These initiatives, which are aimed at increasing the labour supply of Malaysia's furniture industry, providing branding and promotion as well as developing entrepreneurs in the industry, will help propel the furniture industry in Malaysia.

### **Malaysia's favourable foreign currency exchange rates will facilitate the growth of the country's furniture exports**

In 2018, Malaysia's furniture exports stood at RM9.8 billion, with the USA being Malaysia's top export destination. Malaysia's furniture exports to the USA in 2018 was approximately 35.4% (RM3.5 billion) of total furniture exports. This was followed by Singapore (8.1%, RM797.5 million), Japan (7.6%, RM742.8 million), Australia (6.5%, RM641.5 million), and the United Kingdom (4.5%, RM443.9 million).

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. However, it is important to note that China has a lower exchange rate compared to Malaysia, and this has contributed to its position as the largest furniture exporter globally. Nevertheless, Malaysia is still a large furniture exporter, and was ranked the 11<sup>th</sup> largest furniture exporter globally in 2018. A

## 7. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



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significant portion of Malaysia's locally manufactured furniture is exported, where between 2010 and 2018, Malaysia exported between 58.0% and 70.5% of its locally manufactured furniture.

### **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. To date, Malaysia has implemented seven FTAs and six regional FTAs. The seven bilateral FTAs are the Malaysia-Japan Economic Partnership Agreement, Malaysia-Pakistan Closer Economic Partnership Agreement, Malaysia-New Zealand Free Trade Agreement, Malaysia-India Comprehensive Economic Cooperation Agreement, Malaysia-Chile Free Trade Agreement, Malaysia-Australia Free Trade Agreement, and the Malaysia-Turkey Free Trade Agreement. The six regional FTAs that have been implemented are the ASEAN-China FTA, ASEAN-Korea FTA, ASEAN-Japan Comprehensive Economic Partnership, ASEAN-Australia-New Zealand FTA, ASEAN-India FTA, and the ASEAN Trade in Goods Agreement. Malaysia's total export value stood at RM998.0 billion in 2018, where FTA partner countries contributed to 61.7% (RM615.3 billion) of Malaysia's total exports.<sup>4</sup>

Malaysia is still continuing efforts to increase trade through the implementation of additional FTAs. Currently, Malaysia has two FTAs which have been signed but are pending ratification and entry into force. These two FTAs are the ASEAN-Hong Kong FTA which was signed on 12 November 2017 with a target entry into force in 2019, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("CPTPP") that was signed on 8 March 2018. The CPTPP is a renegotiated trade deal that resulted from the USA pulling out of the Trans-Pacific Partnership Agreement. However, the Government is currently reviewing the CPTPP as it believes the terms need to be renegotiated so that smaller countries are given due consideration to compete against more developed nations.<sup>5</sup>

Further, Malaysia is also currently undertaking four FTA negotiations, namely the Regional Comprehensive Economic Partnership, Malaysia-Iran Preferential Trade Agreement, Malaysia-European Free Trade Area Economic Partnership Agreement, and the Malaysia-European Union 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.

### 1.3 INDUSTRY DYNAMICS

#### 1.3.1 Supply conditions

The furniture industry is dependent on the availability of labour and raw materials used in the production of furniture. As a low technology, labour-intensive industry, it is important for furniture manufacturers to be able to attract and retain talent to ensure that the manufacturing of furniture is completed in a timely manner.

Between 2010 and 2018, the production of wooden and cane furniture in Malaysia, measured by manufacturing sales value, increased from RM3.9 billion to RM5.4 billion at a CAGR of 4.2%. Despite the growth in Malaysia's furniture industry, the number of employees in the country's furniture industry decreased by 1.8% from 33,305 employees in 2010 to 28,713 employees in 2018. This has resulted in labour shortage which has hampered the growth of the country's furniture industry.

According to the Roadmap for the Development of Johor's Wood Furniture Industry (2015 – 2020), the local workforce prefers to work in the retail and services sectors in Malaysia rather than the country's furniture industry. As such, Malaysia's furniture industry has a certain degree of dependency on foreign labour,<sup>6</sup> and the freeze on the hiring of foreign workers imposed by the Government in February 2016 has further exacerbated the labour shortage faced by the industry.<sup>7, 8</sup> However, the freeze was then lifted for the manufacturing, construction, plantation and furniture-making industries<sup>9</sup> on the condition that the employers are required to prove that they were unable to find suitable candidates from the local population.<sup>10</sup> To help

<sup>4</sup> Ministry of International Trade and Industry ("MITI")

<sup>5</sup> Malaysia still weighing pros and cons of trade pact, says Dr M, 27 September 2018, Free Malaysia Today

<sup>6</sup> Malaysia labour shortage needs fixing, 11 September 2017, Furniture Today

<sup>7</sup> Malaysia freezes recruitment of all foreign workers including those from Bangladesh, 19 February 2016, The Straits Times

<sup>8</sup> Four sectors allowed to hire foreign workers, 12 May 2016, The Star

<sup>9</sup> Four sectors allowed to hire foreign workers, 12 May 2016, The Star

<sup>10</sup> Malaysia to partially lift ban on hiring foreigners, 10 May 2016, The Straits Times

## 7. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



mitigate the labour shortage in Malaysia, the Government launched the Temporary Enforcement Card (“e-card”) for Foreign Workers Programme from 15 February 2017 to 30 June 2017. The e-card functions as a temporary confirmation of employment for illegal foreign workers, which replaces valid travel documents from their respective countries.

According to the MFC, the furniture industry in Malaysia is still short of foreign workers.<sup>11</sup> This labour shortage has not only resulted in longer lead time, but has also caused furniture manufacturers to be unable to expand their manufacturing facilities in a timely manner to meet growing furniture demand. While furniture manufacturers have moved towards adopting automation in their manufacturing process to reduce dependency on labour, automated production lines require high investments and do not completely eliminate the use of labour. Further, Malaysian furniture has the potential to fetch premium prices if the furniture is handmade.<sup>12</sup> As such, the furniture industry in Malaysia continues to be reliant on labour, thus making it crucial for furniture industry players to have sufficient labour supply.

In September 2018, the Government announced that a standardised minimum wage of RM1,050 a month, or RM5.05 an hour, which was implemented throughout the country from January 2019. The decision was based on recommendations from the National Wage Consultative Council following its review of the 2016 Minimum Wage Order. The Minimum Wage Order 2016 had provided for minimum wage rates of RM1,000 a month for Peninsular Malaysia and RM920 a month for Sabah, Sarawak and Labuan. This increase in minimum wages will result in higher operating costs for furniture industry players.

The availability of raw materials is also critical in the production of furniture. Manufacturers that are able to secure a steady and reliable supply of raw materials that meet the required quality standards in a cost effective and timely manner will be able to remain sustainable and competitive in the long term. Raw materials for furniture manufacturing include, but are not limited to, wood, plastic, and metal. As Malaysia primarily manufactures wooden and cane furniture, a large proportion of Malaysia’s furniture is made from rubberwood<sup>13</sup>, with the country’s furniture manufacturers requiring high volumes of rubberwood at competitive prices in order to meet furniture demand. However, local sawmillers typically export rubberwood due to the higher price of rubberwood in the export market.<sup>14</sup> Between 2010 and 2017, Malaysia’s export value of rubberwood increased from RM66.6 million to RM310.9 million at a CAGR of 24.6%. The export of rubberwood to countries such as China, Japan, Vietnam, and the Republic of China, has resulted in a shortage of rubberwood locally. In order to ensure that there is an adequate supply of raw materials for the furniture industry in Malaysia, the Government imposed a ban of rubberwood exports in July 2017,<sup>15</sup> and is also conducting research to look into alternative materials such as oil palm trees as a long-term solution.<sup>16</sup>

### 1.3.2 Product / service substitution and reliance and vulnerability to imports

There are no direct substitutes for furniture. In addition, as the furniture manufacturing industry in Malaysia is mainly for exports, it is therefore not vulnerable to foreign imports.

### 1.3.3 Relevant policies, laws and regulations

Relevant policies, laws and regulations pertaining to the furniture industry in Malaysia include the following:

- **Wood-Based Industries (State Legislatures Competency) Act 1984**

Under the Wood-Based Industries (State Legislatures Competency) Act 1984 which came into force upon the adoption of the National Forestry Act 1984, State Governments have the authority to pass laws with respect to the establishment and operation of wood-based industries. In Johor, according to the Johor Wood-Based Industries Enactment 1986, no person shall site, construct, erect, establish, operate or maintain a wood-based industry, except under and in accordance with a licence issued to him by the State Authority and signed by the State Director of Forestry.

- **Malaysian Timber Certification Scheme**

The Malaysian Timber Certification Scheme was developed by the Malaysian Timber Certification Council. It is a voluntary scheme that aims to fulfil the demand for certified timber products as well as to ensure the long-term sustainability of Malaysia’s forest resources. This is done by providing independent

<sup>11</sup> Furniture industry lacks 35,000 foreign workers, 14 operators forced to cease operation, says Cai Chun Cai, 11 April 2016, Malaysian Chinese News

<sup>12</sup> Muar furniture sector short of 10,000 workers, 17 August 2017, The Sun Daily

<sup>13</sup> MIDA

<sup>14</sup> Rubberwood export ban: RM12b target for furniture makers by 2020, 3 July 2017, New Straits Times

<sup>15</sup> Govt steps in to address shortage of rubber wood, 29 June 2017, The Sun Daily

<sup>16</sup> Oil palm trunks can be an alternative to rubberwood, 7 April 2017, The Malaysian Reserve

## 7. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



PROVIDENCE  
STRATEGIC PARTNERS

assessment for forest management and chain of custody certification to ensure the sustainable management of Malaysia's Permanent Reserved Forests.

- **Industrial Co-ordination Act 1975**

The Industrial Co-ordination Act 1975 aims to provide for the co-ordination and orderly development of manufacturing activities in Malaysia. It requires manufacturing companies with shareholders' funds of RM2.5 million and above or companies with 75 full-time employees and above to apply for a manufacturing licence for approval by MITI. Applications for the manufacturing licence are submitted to MIDA, and subsequently approved and issued by MITI.

- **Employment Act 1955**

The Employment Act 1955 stipulates employee rights and welfare benefits which are to be complied by employers. The Ministry of Human Resource is responsible for monitoring and ensuring compliance. Under the Employment Act 1955, an employer is required to obtain a licence to import legal foreign workers under the contract of services, and ensure that their welfare and rights such as their wages, hours of work, rest days, and sick and annual leaves, are fulfilled.

- **Occupational Safety and Health Act 1994**

The Occupational Safety and Health Act 1994 aims to provide for employee health and safety while at work. As such, employers are required to ensure that work site facilities and systems are practicable, safe and without risks or hazard to employees' health and safety. In addition, employers are also required to provide employees with the training, knowledge, information and supervision, in providing a safe working environment without risks to their health, safety and welfare. The Department of Occupational Safety and Health is authorised to ensure that companies have taken proper steps to ensure a safe working environment for their employees.

- **Sales Tax Act 2018**

The Sales Tax Act 2018 provides for the charging, levying and collecting of sales tax. A sales tax is charged and levied on all taxable goods manufactured in Malaysia by a registered manufacturer and sold, used or disposed by him; or imported in Malaysia by any person.

- **Service Tax Act 2018**

The Service Tax Act 2018 provides for the charging, levying and collecting of service tax. A service tax is charged and levied on any taxable services provided in Malaysia by a registered person in carrying on his business. Under the Service Tax Act 2018, the Minister of Finance may prescribe any service to be a taxable service.

### 1.4 COMPETITIVE LANDSCAPE

The furniture industry in Malaysia is fragmented, and predominantly consists of small and medium enterprises.<sup>17</sup> Spring Art Holdings Berhad is involved in the manufacturing of ready-to-assemble furniture products through its wholly-owned subsidiary, Spring Art Industries Sdn Bhd, which undertakes 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. In 2018, Malaysia's home and office furniture exports stood at RM4.4 billion. In the same year, Spring Art Holdings Berhad recorded RM50.4 million in revenue for its furniture products. Based on Spring Art Holdings Berhad's revenue relative to Malaysia's home and office furniture exports, Spring Art Holdings Berhad registered a market share of 1.1% in 2018.

<sup>17</sup> Technological innovations in Malaysia's wooden furniture industry: Knowledge and linkages, 2011, Ng Boon-Kwee and K. Thiruchelvam

## 7. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



### Financial performance of selected furniture manufacturers

The following sets out the latest available revenues of private and public listed furniture industry players that are involved in the manufacturing and export of home and / or office furniture, with segmental revenues for furniture between RM50.0 million and RM120.0 million. The private and public listed furniture industry players listed below are ranked based on Group revenue.

Industry player	Latest available financial year ended	Segmental revenue for furniture <sup>e</sup> (RM)	Group revenue (RM)	Profit before tax (RM)	Profit after tax (RM)	Gearing ratio (times)	Current ratio (times)	Return on asset (%)	Return on equity (%)
Sern Kou Resources Berhad <sup>a</sup>	30 June 2018	57,785,169	172,995,568	11,824,316	9,119,320	0.84	1.65	6.00	11.93
Seng Yip Furniture Sdn Bhd	31 July 2018		148,817,483	2,745,097	1,909,677	0.94	1.41	0.92	1.79
SWS Capital Berhad <sup>a</sup>	31 August 2018	52,286,788	130,666,305	647,237	-923,205	0.99	1.27	-0.49	-0.93
Technental Sdn Bhd <sup>b</sup>	31 December 2018		127,513,318	8,564,289	6,878,216	0.58	1.84	8.66	16.24
SHH Resources Holdings Berhad <sup>a</sup>	30 June 2018	119,082,113	119,082,113	-12,133,250	-10,340,315	0.38	2.70	-10.75	-13.85
Samling Housing Products Sdn Bhd	30 June 2018		97,824,671	7,984,427	6,037,040	0.34	4.36	8.90	11.94
Wegmans Holdings Berhad <sup>c</sup>	31 December 2018	94,984,839	94,984,839	11,605,237	12,476,952	0.94	1.65	10.22	17.10
Green River Wood & Lumber MFG Sdn Bhd	31 December 2018		93,093,324	29,062,097	23,610,821	0.63	1.77	1.13	1.45
AX Furniture Sdn Bhd <sup>d</sup>	30 April 2018		69,405,665	1,051,332	929,205	1.56	0.90	1.74	4.97
Eurospan Holdings Berhad <sup>a</sup>	31 May 2018	60,241,427	60,241,427	-1,676,079	-1,382,637	0.23	3.22	-2.40	-2.96
Value Plus Industries Sdn Bhd	31 December 2018		58,191,756	765,610	588,411	1.55	0.82	1.35	5.46
Spring Art Industries Sdn Bhd	31 December 2018	50,381,862	50,381,862	8,474,103	6,270,106	0.74	3.61	12.50	17.37

Notes:

<sup>a</sup> Listed on the Main Market of Bursa Malaysia Securities Berhad

<sup>b</sup> Subsidiary of Technental International Ltd, a company listed on Taipei Exchange

<sup>c</sup> Listed on the ACE Market of Bursa Malaysia Securities Berhad

<sup>d</sup> Audited financial statement for the financial year ended 30 April 2019 is not publicly available from the Companies Commission of Malaysia as at 17 September 2019

<sup>e</sup> Save for Spring Art Industries Sdn Bhd, the segmental revenue for furniture is disclosed for public listed companies as the segmental revenues for private companies are not publicly available from the Companies Commission of Malaysia

Latest available as at 17 September 2019

Source: Various annual reports, MATRADE, Companies Commission of Malaysia, PROVIDENCE

## 7. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



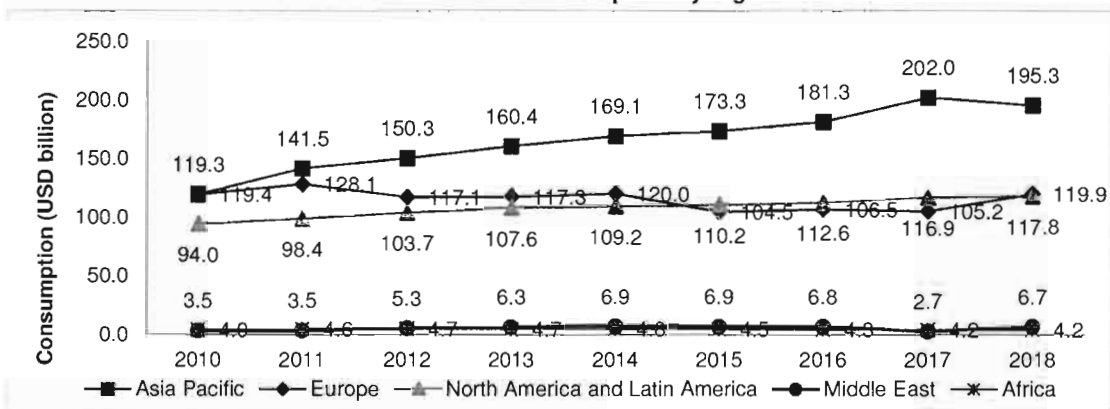
### 2 GLOBAL FURNITURE MARKET

#### 2.1 INDUSTRY SIZE AND GROWTH POTENTIAL

Between 2010 and 2018, global exports of furniture decreased from USD111.5 billion to USD107.3 billion at a rate of 0.5%. While exports declined, the global import of furniture witnessed growth over the same period, increasing from USD113.0 billion to USD162.4 billion at a CAGR of 4.6%. In 2018, China was the largest furniture exporter, accounting for approximately 34.5% of furniture exports globally. While Germany was the 2<sup>nd</sup> largest furniture exporter globally at 7.6%, China has a significant lead on Germany and the other major furniture exporting countries. With regards to global furniture imports, the USA was the largest furniture importer in 2018, with the country's furniture imports comprising approximately 26.7% of global furniture imports. The USA's furniture import is significantly greater than that of Germany (9.6%), which was the 2<sup>nd</sup> largest furniture importer globally in 2018. Malaysia, a net exporter of furniture, was the 11<sup>th</sup> largest furniture exporter globally. The global furniture market is expected to further grow on the back of an increasing population, growing urbanisation, rising disposable incomes, and a growing real estate industry globally.

Global consumption of furniture increased from USD340.2 billion in 2010 to USD453.0 billion in 2018 at a CAGR of 2.9%. Globally, China was the largest consumer of furniture in 2018, recording USD130.1 billion in terms of furniture consumption, and comprising 28.7% of global furniture consumption. This was followed by the USA (USD90.9 billion, 20.1%) and Germany (USD24.1 billion, 5.3%). On a regional basis, the Asia Pacific region was the top consuming region in 2018, recording USD195.3 billion in consumption, and forming approximately 43.1% of global furniture consumption in the same year. Between 2010 and 2018, the regions of Middle East and Asia Pacific recorded furniture consumption growth rates that were higher than the global growth rate of 2.9%. The Middle East region witnessed the highest growth, with furniture consumption increasing from USD3.5 billion to USD6.7 billion at a rate of 8.6%. This was followed by Asia Pacific (6.3%), North America and Latin America (2.9%), Africa (0.6%) and Europe (0.1%).

Global furniture consumption by region



Source: CSIL, United Nations Commodity Trade Statistics Database, PROVIDENCE

Furniture consumption in Asia Pacific was primarily driven by China, which was the largest furniture consuming nation in the region in 2018. India was the 2<sup>nd</sup> largest furniture consumer in the region in 2018, with USD14.9 billion, followed by Japan with USD14.7 billion. The economic growth, increasing disposable income, population growth, and increased urbanisation rates recorded by the top furniture consuming nations in the Asia Pacific have contributed to the growth in furniture consumption in the region. Based on furniture import value, Malaysia was ranked the 14<sup>th</sup> largest furniture importer to China with USD53.2 million.

The USA's furniture consumption in 2018 stood at USD90.9 billion, and thus, the USA represented the largest consumer in the North America and Latin America region. Canada was the 2<sup>nd</sup> largest furniture consumer in the region in 2018 at USD11.5 billion, followed by Brazil at USD7.5 billion. Furniture consumption in the North America and Latin America region is primarily driven by the USA, whose furniture consumption comprised 75.8% of regional furniture consumption.

In 2018, the USA primarily imported furniture from China, Canada and Vietnam, while Canada primarily imported furniture from China, the USA and Mexico, and Brazil primarily imported furniture from China Mexico and Italy. Based on furniture import value, Malaysia was ranked the 6<sup>th</sup> largest furniture importer to

## 7. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



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the USA with USD0.9 billion in 2018, and the 8<sup>th</sup> largest furniture importer to Canada with USD87.8 million. The close ties between the USA and Malaysia on trade and investment issues as well as the favourable exchange rates have had a positive effect on the USA's import of furniture from Malaysia.

Furniture consumption in Europe was largely driven by the top furniture consuming nations in the region, namely Germany, the United Kingdom, and France. Germany was the largest consumer of furniture in Europe, with USD24.1 billion in furniture consumption in 2018. The United Kingdom was the 2<sup>nd</sup> largest furniture consumer in the region with USD14.6 billion, followed by France with USD13.8 billion. The economic growth, increasing disposable income, population growth, and increased urbanisation rates recorded by the top furniture consuming nations in Europe have contributed to the growth in furniture consumption in the Europe region. In 2018, Germany primarily imported furniture from Poland, China, and the Czech Republic, while France primarily imported furniture from China, Italy and Germany, and the United Kingdom primarily imported furniture from China, Italy and Poland. Based on furniture import value, Malaysia was ranked the 36<sup>th</sup> largest furniture importer to Germany with USD26.7 million, and the 28<sup>th</sup> largest furniture importer to France with USD17.5 million. In comparison, Malaysia was the 9<sup>th</sup> largest furniture importer (USD136.9 million) to the United Kingdom.

### 2.2 FURNITURE ELECTRONIC COMMERCE MARKET

Furniture can be purchased via offline sales channels such as traditional brick-and-mortar stores, or through online sales channels such as electronic commerce ("e-commerce") websites. E-commerce refers to the buying and selling of goods and services, or the transmitting of funds or data, over an electronic network, primarily the Internet. E-commerce transactions may take place between enterprises, households, individuals, governments, and other public or private organisations. The method of payment and delivery of the e-commerce goods or services may be done through a computer network / internet or traditionally through the exchange of payment at the point of delivery.

Retail businesses (e-commerce businesses and traditional retail stores) today, including furniture businesses, are increasingly adopting omni-channel retailing. Omni-channel retailing involves the convergence of e-commerce businesses and traditional retail stores (brick-and-mortar stores) as merchants aim to provide customers with a seamless experience whether shopping online via a desktop or mobile device or at a traditional retail store. This has resulted in e-commerce businesses opening brick-and-mortar extensions to establish a physical presence, while businesses with brick-and-mortar stores have started adopting electronic channels to market and sell their products. Businesses who have adopted this convergence of brick-and-mortar stores and online businesses to create a physical and digital presence are commonly referred to as bricks-and clicks.

Between 2012 and 2016, global furniture e-commerce sales registered an average annual growth rate of 15.0%. Furniture e-commerce sales in China and India were higher than the global average growth of 15.0%, recording average annual growth rates of 22.0% and 17.0% respectively over the same period.<sup>18</sup> In 2016, global furniture e-commerce sales stood at USD28.6 billion, and accounted for 4.0% of global furniture sales. Global furniture e-commerce sales then increased to USD32.8 billion in 2017, and is expected to further grow to USD50.0 billion in 2020 at a CAGR of 15.1%. The furniture e-commerce industry is a growing industry due to the rapid growth in the number of Internet users and the corresponding rise in Internet usage as consumers are increasingly leveraging on the Internet to shop. This is evidenced by the growing number of individuals using the Internet worldwide, which increased from 34.3% in 2012 to 45.9% in 2016, before further increasing to 48.0% in 2017 and subsequently 51.2% in 2018. The increased accessibility and connectivity provided by the Internet is expected to continue having a positive effect on global furniture e-commerce sales, as consumers opt to shop online. The percentage of consumers which prefer to purchase furniture online rather than in-store increased from 27.0% in 2016 to 30.0% in 2017.

Further, Asia is expected to be a major region for online retail sales, with India, China, and Malaysia ranking in the top three positions in A.T. Kearney's 2017 Global Retail Development Index. Online retail in India is projected to grow by approximately 30.0% annually and reach USD48.0 billion by 2020, while the integration of online and offline shopping remains as a core theme of China's retail market today as it shifts towards adopting omni-channel retailing. This has resulted in retail businesses adopting business models such as click-and-collect where orders made online are collected from a collection point. Online retail in Malaysia is also expected to witness positive growth, where with government intervention, Malaysia's e-commerce industry is projected to grow at a CAGR of 20.8% between 2015 and 2020.

<sup>18</sup> CSIL



## 8. RISK FACTORS

**NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS THAT MAY HAVE A SIGNIFICANT IMPACT ON OUR FUTURE PERFORMANCE, IN ADDITION TO ALL OTHER RELEVANT INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS, BEFORE MAKING AN APPLICATION FOR OUR IPO SHARES.**

### 8.1 RISKS RELATING TO OUR BUSINESS AND OUR OPERATIONS

#### 8.1.1 Fluctuations in foreign exchange rates

Our revenue is denominated in USD and SGD as all of our furniture products are exported to foreign markets. Our export market comprises among others, UAE, India, Japan, Bahrain, Canada, Saudi Arabia and Singapore. Any significant change in foreign exchange rates may affect our Group's financial results. For the past financial years/period under review, the currency breakdown of our revenue is as follows:

	<b>Audited</b>							
	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Sales transacted in USD	35,794	98.3	40,853	98.9	47,792	99.0	49,822	98.9
Sales transacted in SGD	631	1.7	434	1.1	484	1.0	560	1.1
	<b>36,425</b>	<b>100.0</b>	<b>41,287</b>	<b>100.0</b>	<b>48,276</b>	<b>100.0</b>	<b>50,382</b>	<b>100.0</b>

	<b>Unaudited</b>		<b>Audited</b>	
	<b>FPE 2018</b>		<b>FPE 2019</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Sales transacted in USD	15,522	99.3	18,180	99.4
Sales transacted in SGD	104	0.7	117	0.6
	<b>15,626</b>	<b>100.0</b>	<b>18,297</b>	<b>100.0</b>

Further, we have been purchasing particle boards from a supplier based in Thailand, Green River Panels (Thailand) Co Ltd since FYE 2016. Particle board purchases from the aforesaid supplier amounted to USD0.3 million, USD1.4 million, USD1.6 million and USD0.6 million for FYE 2016, FYE 2017, FYE 2018 and FPE 2019 respectively, which represented 6.4%, 22.5%, 24.2% and 28.3% of total purchases for those respective FYEs/FPE. Apart from purchases from Green River Panels (Thailand) Co Ltd, all our other purchases are transacted in RM.

For illustrative purpose, if the exchange rate between USD against RM in FYE 2018 increased by 5%, this would result in particle board purchases to increase by approximately RM0.3 million. Similarly, if the exchange rate between USD against RM in FPE 2019 increased by 5%, this would result in particle board purchases to increase by approximately RM0.2 million.

We maintain foreign currency accounts arising from our sales to settle our purchases in foreign currency. Additionally, we also enter into foreign currency forward exchange contracts with banking institutions to sell the USD received from our customers at agreed exchange rates for fixed periods of time to reduce the exposure of our receivables.

**8. RISK FACTORS (Cont'd)**

With the use of foreign currency forward exchange contracts, the foreign exchange gain/(loss) recorded is as follows:

**Based on audited financial statements**

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Foreign exchange gain/(loss)	(106)	301	(234)	(233)	(56)

For illustrative purposes, the foreign exchange gain/(loss) recorded without the use of foreign currency forward exchange contracts is as follows:

**For illustration only**

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Foreign exchange gain/(loss)	(498)	(522)	(466)	(420)	(104)

Any adverse fluctuation in foreign exchange rates will have a negative impact on our financial performance.

Kindly refer to Section 11.10.1 for further details relating to impact of foreign exchange rates.

**8.1.2 Customer concentration risk**

Our major customers who have contributed significantly to our revenue for the past financial years/period under review are as follows:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>	<b>Length of business relationship years</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	
RNA Resources Group Ltd	15.6	36.9	41.6	42.1	63.7	7
Praxis Home Retail Limited	-	-	-	7.9	11.4	2
Nitori Co Ltd	19.2	13.8	8.7	6.0	5.4	20
Godrej & Boyce Mfg Co	8.8	7.9	4.3	6.5	5.1	19
<b>Total</b>	<b>43.6</b>	<b>58.6</b>	<b>54.6</b>	<b>62.5</b>	<b>85.6</b>	

For the past FYEs and FPE, the major customers above contributed between 43.6% to 85.6% of our total revenue. Our single largest customer for FPE 2019 is RNA Resources Group Ltd, who contributed 63.7% of our total revenue.

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**8. RISK FACTORS (Cont'd)**

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Our Group has not entered into any long term contract with any of our customers and it is not our business practice to do so. While we are not dependent on any single customer, we may be materially and adversely affected if we were to lose one of more of our major customers without securing new customers in a timely manner to replace the loss of business, or if we were to encounter difficulties in collecting payment from these major customers.

Further details of our major customers and their respective revenue contribution are set out in Section 6.21.

**8.1.3 Dependence on foreign production workers**

We rely on foreign workers in our operations. Our foreign workers are primarily from Bangladesh and Nepal. As at the LPD, we have 252 foreign workers, representing 89.1% of our employees.

As the standard of living in Malaysia improves over time, we have found it increasingly difficult to hire local production workers for our manufacturing operations. In addition, the costs of foreign labour may continue to increase in the future. A new levy rate for foreign workers was also implemented effective 18 March 2016 for Peninsular Malaysia only, where the levy rate for the manufacturing, construction and services sectors increased by RM600 to RM1,850.

Currently, we obtain 1-year working permit for our foreign workers, which are renewed annually. If visa policies on foreign workers in Malaysia were to change in any way resulting in difficulties for our Group to maintain a sufficient foreign labour workforce, our business, financial condition and results of operations could be materially and adversely affected. In addition, our Group's business strategies which will involve expansion in our manufacturing operations, would require a corresponding increase in labour to meet increased manufacturing activities.

**8.1.4 Volatility in prices of raw materials**

The main raw materials used in our furniture products are particle boards and MDF which collectively comprised approximately 65.5%, 63.3%, 63.3%, 59.1% and 58.4% respectively of our purchases in RM for the last 4 FYEs and FPE 2019.

The prices of certain raw materials used in our manufacturing processes such as particle boards and MDF may fluctuate due to demand and supply conditions. As such, any shortage or disruption in the supply of raw materials which results in fluctuation in the prices of raw materials may adversely affect both our Group's operations and financial performance.

**8.1.5 Compliance with land use conditions****(i) Land 3**

On 6 February 2018, we completed the acquisition of Land 3. We plan to set up our new factory, namely Factory C, on this parcel of land.

The land use for Land 3 as set out in the land title is agriculture with the express condition that the land shall be used for cultivation of oil palm. We had, on 17 January 2018, submitted an application to convert the land use of Land 3 to industrial. The application is currently pending approval from Pejabat Pengarah Tanah Dan Galian Johor.

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**8. RISK FACTORS (Cont'd)**

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We may face delays in obtaining the land use conversion approval or even fail to obtain such approval. In such event, we will not be able to commence the construction of our new factory and increase our manufacturing capacity in the manner and timing that we have disclosed in Section 6.19.1 of this Prospectus.

In addition, we will have to source for alternative sites to set up our new factory thereby incurring additional land acquisition or rental costs. If we are unable to do so, we will not be able to increase our manufacturing capacity and increase our revenue.

**(ii) Investment Land**

On 27 April 2017, we completed the acquisition of the Investment Land. At the point of acquisition, the said land was planted with mature oil palms. The express condition set out in the land title states that the land shall be used for cultivation of rubber. As such, the current land use is in breach of the land use condition.

In view of the breach, the State Authority may serve us a notice requiring us to show cause why a fine should not be imposed. If the State Authority is not satisfied with the reply for the show cause given by us, the State Authority may impose a fine of not less than RM500, and in the case of a continuing breach, a further fine of not less than RM100 for each day during which the breach continues.

If such breach continues, the State Authority may then issue a notice to specify the remedial actions (i.e. to clear the mature oil palms) and timeframe. The State Authority shall then endorse on the register document of title that the land is subject to an action for breach of condition.

When the breach has been remedied, the State Authority shall cancel any note endorsed on the register document of title that the land is subject to an action for breach of condition.

If we fail to carry out remedial actions within the specified timeframe, the State Authority shall take temporary possession of the land or in the absence of such direction, the State Authority may make an order declaring the land forfeited. In such event, our Group will record a loss of RM2.0 million, being the net book value of the Investment Land as at 30 April 2019.

We have no immediate plans to develop or utilise this land and it is currently held for investment purposes. If a notice is served onto us requiring us to undertake remedial actions (i.e. to clear the mature oil palms), we will proceed to undertake the specified remedial actions within the stipulated timeframe.

**8.1.6 Dependence on key senior management**

Our present success and achievements are largely attributable to, amongst others, the capability and continued efforts of our key senior management. Our Directors, namely Lim Kok Eng and Kwan Chian Poh, have been instrumental in the development our corporate strategy and the establishment of business relationships with our Group's customers and suppliers. Combining the concerted efforts with our key senior management team, they collectively form the foundation to enable us to remain competitive in the furniture industry in the markets that we participate, thereby ensuring the continued success of our Group.

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## **8. RISK FACTORS (Cont'd)**

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As such, our continued success and growth is dependent on the retention of the aforesaid Directors and our ability to continue to attract, retain and motivate other key management personnel. Thus, any loss of the services of one or more of these individuals without suitable and timely replacement may have a material adverse impact on our business operations and competitiveness.

### **8.1.7 Inability to keep abreast with changes in the sentiments of the furniture industry, consumer preference and spending trends in export markets**

The demand for our furniture products is largely dependent on consumer preferences and spending trends. Consumer preferences and spending trends are influenced by various factors including, amongst others, the state of the economy and market demographic profiles. These changes could have a significant impact on the sales of our furniture products. A weak economy would, in general, lead to poor market sentiment, resulting in lower consumer spending. This may, in turn, lead to lower demand for our furniture products from our customers, thereby adversely affecting our financial performance.

Our prospects and financial performance may be materially and adversely affected if we are unable to respond promptly to the changing preferences of end consumers or if we do not respond appropriately to changing consumer preferences.

### **8.1.8 Disruption in the operations of our manufacturing facilities**

Our manufacturing flow could be disrupted or delayed due to unforeseeable circumstances. Such risks which are inherent in furniture manufacturing include, amongst others, fire hazards and power shortage.

Any disruption at our manufacturing facilities will result in longer lead time for the production of our furniture products. Consequently, this may lead to a delay in delivery to our customers. Such failure to meet delivery deadlines may result in the loss of business or claims against us, thereby affecting our financial performance and reputation.

### **8.1.9 Product liability claims**

The nature of our Group's business exposes us to the risk of product liability claims that is inherent in the manufacturing of our furniture products. We may be subject to product liability claims due to product defects. A substantial claim or a substantial number of claims relating to our furniture products could have a material and adverse impact on our business, operating results and financial position.

If our products prove to be defective and consequently our customers suffer loss or damages, we may be liable to product liability claims under Malaysian law or the laws of other jurisdictions which we may be subject to. As a result, we may have to incur significant legal costs and divert our administrative resources regardless of the outcome of the claims. Any successful product liability claim against our Group will adversely affect our Group's business and reputation. Even if our Group is able to successfully defend such claim, there can be no assurance that customers will not lose confidence in our products.

### **8.1.10 Delay in the construction of Factory C**

We plan to construct a new factory, namely Factory C, on Land 3 which is located in close proximity to our existing factories. This will allow us to undertake the manufacturing of office furniture, bedroom furniture, living room furniture and other furniture at Factory C for export to North America and Europe and for our existing customers.

## **8. RISK FACTORS (Cont'd)**

Our ability to implement our future plan for increasing production capacity within time and budget is subject to the following risks and uncertainties:

- (a) our ability to obtain the requisite approvals, licenses and/or permits for us to operate a new manufacturing facility, namely:
  - (i) The conversion of the land use of Land 3 from agriculture to industrial from Pejabat Pengarah Tanah Dan Galian Johor. The application was submitted on 17 January 2018; and
  - (ii) The approval for our building plan to be obtained from Majlis Perbandaran Muar. Our appointed consultant is in the midst of preparing the building plan submission. We target to submit the application in December 2019.
- (b) the risk of construction delays and delays in machinery and equipment procurement; and
- (c) our ability to timely recruit sufficient staff to support the increase in our production capacity.

Delays in the construction of Factory C may lead to higher than anticipated construction costs. In such event, we may be required to utilise our internally generally funds which will reduce our available working capital or utilise additional bank borrowings which will increase our interest cost to fund the increase in construction costs.

### **8.2 RISKS RELATING TO OUR INDUSTRY**

#### **8.2.1 We are subject to competition from local and foreign manufacturers**

Our Group faces competition from both existing and new players in local and foreign countries with lower cost of production and labour cost, such as Indonesia, Vietnam, Thailand and China. Some of our competitors may have longer operating histories, more customers, greater brand name recognition and greater financial, technical, marketing and public relations resources than we do. As a result, our competitors may be in a better position to respond more quickly to the changing demands of the furniture industry or offer a range of products at lower prices.

Any increase in competition from these countries could exert a negative impact on our pricing, thereby resulting in lower sales and profit margins for our Group. If we are unable to compete effectively with our existing and future competitors and adapt quickly to changing market trends and consumer preferences, our business and financial performance will be adversely affected.

#### **8.2.2 Political, economic, legal or social conditions of the countries where we transact business**

While our sales are derived from export sales, we operate in Malaysia and thus are subject to political and economic developments that occur in Malaysia. In 2018, the Government of Malaysia announced that Malaysia would revert from GST to SST, with sales tax of 5% and 10% being imposed on the manufacturing sector as governed by the Sales Tax Act 2018 while service tax is imposed on selected service sectors. The SST is not imposed on exports and as such, our revenue is not subject to SST. Nonetheless, our Group incurs SST for our purchases from our local suppliers. While our Group has accounted for SST in the selling price of our furniture products, there can be no assurance that we will be continuously be able to pass on the impact of SST on our production cost to our customers.

**8. RISK FACTORS (Cont'd)**

In September 2018, the Government of Malaysia announced an implementation of standardisation of minimum wage to RM1,050 per month or RM5.05 per hour nationwide commencing 1 January 2019. This is an increase from the RM1,000 a month minimum wage that has been implemented in Peninsular Malaysia under the Minimum Wage Order 2016. The impending increase in minimum wage will result in an increase in our cost of sales which may adversely affect our financial performance if we are unable to factor this increase in the pricing of our furniture products.

We derive a significant portion of our revenue from our export markets including, amongst others, India, Japan, UAE, Saudi Arabia, Canada and Bahrain, that collectively contributed between 85.1% to 95.9% of our revenue for the past 4 FYEs and FPE 2019.

Our sales for the past 4 FYEs 2015 to 2018, FPE 2019 to overseas markets/region are as follows:

		<b>Audited</b>							
<b>Countries</b>	<b>Region</b>	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>	
		<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
India	Asia Pacific	9,464	26.0	11,792	28.6	15,716	32.6	17,520	34.8
Japan	Asia Pacific	7,013	19.3	5,802	14.1	4,368	9.0	3,164	6.3
UAE	Middle East	5,969	16.4	15,535	37.6	18,473	38.3	13,622	27.0
Saudi Arabia	Middle East	4,136	11.4	475	1.2	1,801	3.7	8,059	16.0
Canada	North America and Latin America	2,256	6.2	1,570	3.8	2,738	5.7	2,308	4.6
Bahrain	Middle East	2,124	5.8	1,737	4.2	2,983	6.2	3,708	7.4
Others	-	5,463	14.9	4,376	10.5	2,197	4.5	2,001	3.9
		<b>36,425</b>	<b>100.0</b>	<b>41,287</b>	<b>100.0</b>	<b>48,276</b>	<b>100.0</b>	<b>50,382</b>	<b>100.0</b>

		<b>Unaudited</b>		<b>Audited</b>	
<b>Countries</b>	<b>Region</b>	<b>FPE 2018</b>		<b>FPE 2019</b>	
		<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
India	Asia Pacific	5,604	35.9	5,042	27.5
Japan	Asia Pacific	1,559	10.0	982	5.4
UAE	Middle East	2,617	16.7	4,248	23.2
Saudi Arabia	Middle East	3,388	21.7	6,049	33.1
Canada	North America and Latin America	740	4.7	392	2.1
Bahrain	Middle East	1,051	6.7	1,348	7.4
Others	-	667	4.3	236	1.3
		<b>15,626</b>	<b>100.0</b>	<b>18,297</b>	<b>100.0</b>

Other countries include:

<b>Region</b>	<b>Countries</b>
Asia Pacific	Singapore, Hong Kong, Taiwan, Vietnam, and Philippines, Australia and New Zealand
North America and Latin America	USA and Panama
Africa	Algeria, Ethiopia, Tanzania, Benin, Kenya, Malawi, Uganda, Ghana, Zambia, Rwanda and Nigeria
Europe	Republic of Ireland, United Kingdom and Greece

**8. RISK FACTORS (Cont'd)**

We export our furniture products mainly to 6 countries, namely India, Japan, UAE, Saudi Arabia, Canada and Bahrain. The political, legal or social risks of these countries are as follows:

- (a) In India, higher oil prices and the rupee depreciation are putting pressure on demand, inflation, the current account and public finances. India's inflation rose to a seven-month high of 3.05% in May 2019 (from 2.92% in April 2019) on rising food prices. The Reserve Bank of India cut interest rates for a third time in a row, bringing the borrowing rate to a nine-year low of 5.75%. Food prices have steadily risen since March after contracting from October 2018-February 2019. Food prices constitute nearly half of India's inflation basket. But core inflation, which excludes volatile components like food and energy, has been on a downward trajectory since February 2019, suggesting weakness in economic activity. In the January - March quarter, India's economic growth slowed more sharply than expected to 5.8% raising the prospect of fiscal stimulus and further policy easing.
- (b) Japan's economy experienced periods of recession alongside the slowdown in the global economy. Natural disasters have furthered the recessionary trend in the country. The average annual economic growth of Japan since 2012 has been around 1%. Further, Japan also faces an ageing and declining population, indicating that demand and consumption of selected discretionary items may be affected over the long term. The Government of Japan has announced plans to increase consumption tax from the current 8% to 10% in October 2019.
- (c) The UAE has been experiencing slow growth in the private sector, due to rising interest rates following the tightening of USA monetary policy and has also been affected by slumping property prices. Situated in the Middle East, the UAE is also exposed to the unrest that affects its neighbours in the region. Political tensions have affected ties between UAE and Iran following the move by USA to renew its sanctions on Iran in a bid to limit its oil and shipping industries. Since 2017, the UAE has been involved in a diplomatic crisis with Qatar that has led to the severance of ties between these 2 countries. Over the long term, the geopolitical climate in the Middle East could potentially impact foreign investments in this region and bilateral trade flows, thereby affecting economic performance and disposable income of the population.
- (d) In Saudi Arabia, businesses have been affected by higher electricity and fuel prices and a 5% value-added tax ("VAT") introduced in 2018. Unemployment in Saudi Arabia remained at a high of 12.5% in the first quarter of 2019. Saudi Arabia introduced new quotas and fees on foreign workers which triggered a departure of more than 900,000 expatriates from the country between 2017 and 2018. This caused the labour market to contract, leaving gaps that the local population is unable to fill due to a mismatch in skills and training. Saudi Arabia is also exposed to regional unrests affecting its neighbours, as well as economic fallout following the assassination of an American journalist at the Saudi consulate in Turkey.
- (e) Rising costs of living and interest rates in Canada have affected the disposable income and spending power of the population. Rising interest rates coupled with high levels of indebtedness indicates a challenging socioeconomic period for Canada in 2019.
- (f) Bahrain's economy is vulnerable to oil price volatility given that it has less oil reserves compared to its neighbours in the Middle East. A VAT which was implemented commencing 1 January 2019 and the elimination or reduction of subsidies will also increase inflation. Presently, Bahrain faces rising levels of public debt, growing fiscal



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## **8. RISK FACTORS (Cont'd)**

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deficits, and declining reserve levels. Further, there are tensions domestically between the ruling family and the general population which increases the likelihood of civil unrest. Bahrain is also exposed to the geopolitical unrests affecting other nations in the Middle East.

A significant drop in the demand for our furniture products arising from periods of economic recession, geopolitical unrests, natural disasters, declining population and rise in taxes in any one or more of the abovementioned countries that impact the discretionary spending power of the population will impact our sales and financial performance.

### **8.3 RISK RELATING TO THE INVESTMENT IN OUR SHARES**

#### **8.3.1 There has been no prior market for our Shares**

Prior to our Listing, there was no public trading for our Shares. Accordingly, there can be no assurance that an active market for our Shares will develop upon our Listing or, if developed, that such market will be sustained. Our IPO Price was determined after taking into consideration a number of factors including but not limited to our historical earnings, our competitive strengths, our business strategies and prospects as well as our financial and operating history. There can be no assurance that our IPO Price will correspond to the price at which our Shares will be traded on the ACE Market upon or subsequent to our Listing or that an active market for our Shares will develop and continue upon or subsequent to our Listing.

The price at which our Shares will trade on the ACE Market may be influenced by a number of factors including, amongst others, the depth and liquidity of the market for our Shares, investors' individual perceptions of our Group, market and economic conditions.

#### **8.3.2 Our Listing is exposed to the risk that it may be aborted or delayed**

Our Listing is exposed to the risk that it may be aborted or delayed on the occurrence of any one or more of the following events:

- (a) The selected investors fail to subscribe for the IPO Shares;
- (b) Our Underwriter in exercising its rights pursuant to the Underwriting Agreement discharges itself from its obligations therein; and
- (c) We are unable to meet the public shareholding spread requirement as determined by Bursa Securities, whereby at least 25.00% of our total number of Shares for which listing is sought must be held by a minimum number of 200 public shareholders each holding not less than 100 Shares upon the completion of our IPO and at the point of our Listing.

In this respect, we will exercise our best endeavours to comply with the various regulatory requirements, including, amongst others the public shareholding spread requirement in paragraph (c) above for our successful Listing. However, there can be no assurance that the abovementioned factors/events will not cause a delay in or non-implementation of our Listing.

Upon the occurrence of any of these events, investors will not receive any Shares and we will return in full without interest, all monies paid in respect of any application for our Shares within 14 days, failing which the provisions of sub-sections 243(2) and 243(6) of the CMSA will apply accordingly and we will be liable to repay the monies with interest at the rate of

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## **8. RISK FACTORS (Cont'd)**

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10.00% per annum or such other rate as may be prescribed by the SC upon expiration of that period until full refund is made.

In the event our Listing is aborted and/or terminated, and our Shares have been allotted to the shareholders, a return of monies to all holders of our Shares can only be achieved by way of cancellation of share capital as provided under the Act and its related rules. Such cancellation requires, among others, the sanction of our shareholders by special resolution in a general meeting and consent of our creditors (if required). There can be no assurance that such monies can be recovered within a short period of time in such circumstances.

### **8.3.3 The trading price of our Shares following our Listing may be volatile**

The trading price of our Shares could be subject to fluctuations in response to various factors, some of which are not within our control and may be unrelated or disproportionate to our operating results. These factors may include variations in the results of our operations, changes in analysts' recommendations or projections, changes in general market conditions and broad market fluctuations.

In addition, the performance of Bursa Securities is very much dependent on external factors such as the performance of the regional and world bourses and the inflow or outflow of foreign funds. Sentiments are also largely driven by internal factors such as economic and political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility witnessed on Bursa Securities, thus adding risks to the market price of our listed shares.

## **8.4 OTHER RISKS**

### **8.4.1 Our Promoters will be able to exert significant influence over our Company**

Our Promoters will collectively hold 70% of our enlarged share capital upon Listing. Because of the size of their shareholdings, our Promoters will have significant influence on the outcome of certain matters requiring the vote of our shareholders unless they are required to abstain from voting by law and/or as required by the relevant authorities.

### **8.4.2 Forward-looking/prospective statements in this Prospectus may not be achievable**

Certain statements in this Prospectus are based on historical data which may not be reflective of future results. Forward-looking statements in this Prospectus are based on assumptions and subject to uncertainties.

There can be no assurance such prospective statements will materialise and actual results may deviate significantly and have a material and adverse effect on our business and financial performance.

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**9. RELATED PARTY TRANSACTIONS****9.1 RELATED PARTY TRANSACTIONS**

Save as disclosed below, we have not entered into any related party transactions with our Directors, substantial shareholders, key senior management personnel and/or persons connected with them for the past 4 FYEs 2015 to 2018, FPE 2019 and up to the LPD.

Transacting parties	Interested persons	Nature of transaction	Value of transactions (Expense)/Income											
			FYE 2015 RM'000	%	FYE 2016 RM'000	%	FYE 2017 RM'000	%	FYE 2018 RM'000	%	FPE 2019 RM'000	%	Up to the LPD RM'000	%
Kejora Bitara Sdn Bhd and Spring Art	(i) Lim Kok Eng, our Promoter, substantial shareholder and Managing Director, is also the substantial shareholder and Director of Kejora Bitara Sdn Bhd	(i) Rental of Land 1 paid by Spring Art to Kejora Bitara Sdn Bhd	(84)	(0.3) <sup>(i)</sup>	(168)	(0.6) <sup>(i)</sup>	(168)	(0.5) <sup>(i)</sup>	-	-	-	-	-	-
	(ii) Kwan Chian Poh, our Promoter, substantial shareholder and Executive Director, is also the substantial shareholder and Director of Kejora Bitara Sdn Bhd	(ii) Sale of a hostel and land held under GM 1612 Lot 1849 situated in the Mukim of Sungai Raya, District of Muar, State of Johor by Spring Art to Kejora Bitara Sdn Bhd <sup>(a)</sup>	-	-	-	-	-	-	2,100	6.6 <sup>(ii)</sup>	-	-	-	-
	(ii) Kwan Chian Poh, our Promoter, substantial shareholder and Executive Director, is also the substantial shareholder and Director of Kejora Bitara Sdn Bhd	(iii) Purchase of Land 1 by Spring Art from Kejora Bitara Sdn Bhd <sup>(a)</sup>	-	-	-	-	-	-	(2,100)	(6.6) <sup>(ii)</sup>	-	-	-	-
	(iv) Reimbursement of cost and expenses by Kejora Bitara Sdn Bhd to Spring Art <sup>(b)</sup>	(iv) Reimbursement of cost and expenses by Kejora Bitara Sdn Bhd to Spring Art <sup>(b)</sup>	-	-	-	-	-	-	-	-	-	-	(b)	-

**Notes:**

(i) Calculated based on our Group's cost of sales for each of the respective financial years.

(ii) Calculated based on our Group's net assets for FPE 2018.

**9. RELATED PARTY TRANSACTIONS (Cont'd)****(a) Land swap arrangement**

Spring Art and Kejora Bitara Sdn Bhd had implemented a land swap arrangement as follows:

<b>Properties</b>	<b>Details</b>	<b>Owner as at 31 December 2017</b>	<b>Owner as at and the LPD</b>
Land 1	Land 1 houses the Factory A1 and Factory A2 and is hence a property deemed material to our Group. As a precursor to the Proposed Listing, Spring Art had acquired Land 1 from Kejora Bitara Sdn Bhd.	Kejora Bitara Sdn Bhd	Spring Art
Hostel and land ("Hostel")	The Hostel* was used by Spring Art to house its production workers. However, the land that the Hostel is constructed on is for agriculture use and as such, the Hostel does not comply with the land use conditions. As a precursor to the Proposed Listing, Spring Art had disposed the Hostel to Kejora Bitara Sdn Bhd. Concurrent with the disposal, the production workers employed by Spring Art were moved to a rented hostel.	Spring Art	Kejora Bitara Sdn Bhd

Note:

\* The Hostel comprises of 4 blocks of single-storey building with a total of 24 units of hostel dormitories.

To facilitate the land swap arrangement, Spring Art and Kejora Bitara Sdn Bhd had entered into the following agreements:

- (i) The sale and purchase agreement dated 13 March 2018 between Spring Art (as vendor) and Kejora Bitara Sdn Bhd (as purchaser) to dispose the Hostel at the consideration price of RM2,100,000 ("Hostel SPA"). This agreement was completed on 30 May 2018;
- (ii) The sale and purchase agreement dated 13 March 2018 between Kejora Bitara Sdn Bhd (as vendor) and Spring Art (as purchaser) to purchase Land 1 at the consideration price of RM2,100,000 ("Land 1 SPA"). This agreement was completed on 20 June 2018; and
- (iii) The set-off agreement dated 13 March 2018 between Kejora Bitara Sdn Bhd and Spring Art to contra the sum of RM2,100,000 being the purchase price in the SPA for the Hostel SPA and Land 1 SPA. This agreement was completed on 20 June 2018.

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**9. RELATED PARTY TRANSACTIONS (cont'd)**


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**(b) Reimbursement of cost and expenses by Kejora Bitara Sdn Bhd to Spring Art**

The land on which the Hostel is located does not have an access road. On 18 June 2017, Spring Art had via its consultant submitted an application to the Pejabat Tanah Muar to apply for an access road.

The Pejabat Tanah Muar had vide its letter dated 27 July 2017 notified that the cost for the access road is RM520,000, of which a deposit of RM260,000 is payable in order for the application to proceed. Spring Art had on 22 August 2017 made the payment to the Pejabat Tanah Muar.

On 13 March 2018, Spring Art had entered into the Hostel SPA to dispose the Hostel to Kejora Bitara Sdn Bhd. As such, Spring Art no longer has a need for the access road as the Hostel is not owned by it anymore.

In view of the above, Kejora Bitara Sdn Bhd and Spring Art entered into a Supplemental Agreement dated 27 June 2018 whereby Kejora Bitara Sdn Bhd has irrevocably and unconditionally undertaken to reimburse Spring Art all the costs and expenses incurred for the application of the access road as well as the consultation fees and processing fees incurred. The Supplemental Agreement is not completed as at the LPD. It shall be deemed completed when the application of the access road is successful and after all costs and expenses incurred for the application is reimbursed by Kejora Bitara Sdn Bhd to Spring Art.

As at the LPD, save as disclosed in Note (b) above, there are no related party transactions entered into but not yet effected.

Our Directors are of the view that the above related party transactions were conducted on an arm's length basis and on competitive commercial terms not more favourable to the related parties.

Moving forward, if there are potential related party transactions, the related parties must first inform our Audit Committee on their interests in the transaction and the nature of the transaction before the transaction is entered into.

Our Audit Committee is responsible for the review of all related party transactions to ensure that there is no conflict of interest. Our Audit Committee shall deliberate and determine if the related party transactions (if any) are undertaken on arm's length basis and on normal commercial terms, we have established the following procedures:

**(a) Recurrent related party transactions**

- (i) At least 2 other contemporaneous transactions with third parties for similar products and/or quantities will be used as comparison, wherever possible, to determine whether the price and terms offered by all related parties are fair and reasonable and comparable to those offered by third parties; or
- (ii) In the event that quotation or comparative pricing from third parties cannot be obtained, the transaction price will be determined by our Group based on those offered by third parties for substantially similar type of transaction to ensure that the recurrent related party transactions are not detrimental to us.

Our Board shall seek mandate from shareholders to enter into any recurrent related party transactions at general meetings of our Company. Due to its time-sensitive nature, the shareholders' mandate will enable us to enter into such recurrent transactions which are transacted in our ordinary course of business without having to convene numerous general meetings to approve such recurrent transactions as and when they are entered into.

## 9. RELATED PARTY TRANSACTIONS *(Cont'd)*

### (b) Other related party transactions

- (i) Whether the terms of the related party transaction are fair and on arm's length basis to our Group and would apply on the same basis if the transaction did not involve a related party;
- (ii) The rationale for our Group to enter into the related party transaction and the nature of alternative transactions, if any; and
- (iii) Whether the related party transaction would present a conflict of interest between our Group and the related parties, taking into account the size of the transaction and nature of the related parties' interest in the transaction.

Where required under the Listing Requirements, a related party transaction may require prior approval of shareholders at a general meeting to be convened. An independent adviser may be appointed to comment as to whether the related party transaction is fair and reasonable so far as the shareholders are concerned; and whether the transaction is to the detriment of minority shareholders. In such instances, the independent adviser shall also advise minority shareholders on whether they should vote in favour of the transaction.

For related party transaction that requires prior approval of shareholders, the Directors, major shareholders and/or persons connected to them, which have any interest, direct or indirect, in the proposed related party transaction will abstain from voting in respect of their direct and/or indirect shareholdings. Where a person connected with a Director or major shareholder has interest, direct or indirect, in any proposed related party transaction, the Director or major shareholder concerned will also abstain from voting in respect of his direct and/or indirect shareholdings.

In addition, to safeguard the interest of our Group and our minority shareholders, and to mitigate any potential conflict of interest situation, our Audit Committee will, amongst others, supervise and monitor any related party transaction and the terms thereof and report to our Board for further action. Where necessary, our Board would make appropriate disclosures in our annual report with regards to any related party transaction entered into by us.

### 9.1.1 OTHER TRANSACTIONS

#### (a) Transactions which are unusual in their nature or conditions

There were no transactions that were unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which our Group was a party during the financial years/period under review and up to the LPD.

#### (b) Loans and guarantees

There were no outstanding loans made to/by us to or for the benefit of any related party for the financial years/period under review and up to the LPD.

Our Promoters, Lim Kok Eng and Kwan Chian Poh had extended guarantees for banking facilities extended to our Group as at the LPD. In conjunction with the Listing, the respective banks had agreed to discharge the said personal guarantees upon the completion of the Listing.

#### (c) Financial assistance provided for the benefit of a related party

There were no financial assistance provided by us for the benefit of any related party for the financial years/period under review and up to the LPD.

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## **10. CONFLICT OF INTERESTS**

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### **10.1 INTEREST IN SIMILAR BUSINESS AND IN BUSINESSES OF OUR CUSTOMERS AND OUR SUPPLIERS**

As at the LPD, none of our Directors or substantial shareholders has any interest, direct or indirect, in other businesses or corporations which are:

- (a) carrying on a similar or related trade as our Group; or
- (b) customers and/or suppliers of our Group.

Our Directors will declare to our Nomination Committee and our Board their interests in other companies at the onset and as and when there are changes in their respective interests in companies outside our Group. Our Nomination Committee will then evaluate if such Director's involvement gives rise to a potential conflict of interest situation with our Group's business. If our Directors are involved in similar business as our Group or business of our customers and our suppliers, our Nomination Committee shall inform our Audit Committee of such involvement. When a determination has been made that there is a conflict of interest of a Director, our Nomination Committee will:

- (aa) Immediately inform our Board of the conflict of interest situation after deliberating with the Audit Committee;
- (bb) Make recommendations to our Board to direct the conflicted Director to:
  - (i) Withdraw from all his executive involvement in our Group in relation to the matter that has given rise to the conflict of interest (in the case where the conflicted Director is an Executive Director); and
  - (ii) Abstain from all Board deliberation and voting in the matter that has given rise to the conflict of interest.

In relation to (bb) above, the conflicted Director shall abstain from any Board discussion relating to the recommendation of our Nomination Committee and the conflicted Director shall not vote or in any way attempt to influence the discussion of, or voting on, the matter at issue. The conflicted Director, may however at the request of the Chairman of the Board, be present at the Board meeting for the purposes of answering any questions.

### **10.2 DECLARATIONS OF CONFLICT OF INTERESTS BY OUR ADVISERS**

- (a) M&A Securities has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Adviser, Sponsor, Underwriter and Placement Agent for our Listing;
- (b) Messrs Ben and Partners has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Solicitors for our Listing;
- (c) Messrs Grant Thornton Malaysia has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Auditors and Reporting Accountants for our Listing; and
- (d) Providence Strategic Partners Sdn Bhd has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the IMR for our Listing.

## 11. FINANCIAL INFORMATION

### 11.1 HISTORICAL AND PRO FORMA FINANCIAL INFORMATION

Our audited combined financial statements throughout the FYEs 2015 to 2018 and FPE 2019 have been prepared in accordance with MFRS and IFRS. Our audited combined financial statements for the FYEs 2015 to 2018 and FPE 2019 under review were not subject to any audit qualifications. Additionally, the unaudited combined statements of profit or loss and other comprehensive income for FPE 2018 have been prepared for comparison purpose only.

#### 11.1.1 Historical financial information

The following summary should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" set out in Section 11.2 and the Accountants' Report set out in Section 12.

##### (a) Historical combined statements of profit or loss and other comprehensive income

The following table sets out a summary of our historical audited combined statements of profit or loss and other comprehensive income for the FYEs 2015 to 2018 and FPEs 2018 to 2019:

	Audited			
	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	FYE 2018 RM'000
Revenue	36,425	41,287	48,276	50,382
Cost of sales	(25,112)	(28,366)	(34,152)	(36,000)
GP	11,313	12,921	14,124	14,382
Other income	89	614	768	842
Selling and distribution expenses	(1,116)	(1,551)	(1,599)	(1,569)
Administrative expenses	(1,823)	(2,016)	(2,156)	(3,153)
Other expenses	(160)	(258)	(912)	(1,753)*
Finance costs	(199)	(116)	(83)	(316)
PBT	8,104	9,594	10,142	8,433
Tax expense	(910)	(2,120)	(2,282)	(2,204)
<b>PAT</b>	<b>7,194</b>	<b>7,474</b>	<b>7,860</b>	<b>6,229</b>
Other comprehensive income	-	-	-	7,514*
<b>Total comprehensive income</b>	<b>7,194</b>	<b>7,474</b>	<b>7,860</b>	<b>13,743</b>
EBIT <sup>(1)</sup>	8,301	9,694	10,184	8,673
EBITDA <sup>(1)</sup>	9,578	11,296	12,034	10,577
GP margin (%)	31.1	31.3	29.3	28.5
PBT margin (%)	22.2	23.2	21.0	16.7
PAT margin (%)	19.8	18.1	16.3	12.4
Effective tax rate (%)	11.2	22.1	22.5	26.1
EPS (sen) <sup>(2)</sup>	2.3	2.4	2.5	2.0
Diluted EPS (sen) <sup>(3)</sup>	1.7	1.8	1.9	1.5

Note:

- \* During FYE 2018, we undertook a revaluation of our properties to determine its fair value for the Acquisition of Spring Art. Resulting from the revaluation, we recorded a revaluation gain of RM7.5 million (for Land 1 and Land 2) and a revaluation loss of RM1.5 million (for Land 3 and Investment Land).



**11. FINANCIAL INFORMATION (Cont'd)**

	<b>Unaudited</b>	<b>Audited</b>
	<b>FPE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>	<b>RM'000</b>
Revenue	15,626	18,297
Cost of sales	(11,559)	(13,292)
GP	4,067	5,005
Other income	63	98
Selling and distribution expenses	(549)	(692)
Administrative expenses	(988)	(1,064)
Other expenses	(143)	(127)
Finance costs	(74)	(107)
PBT	2,376	3,113
Tax expense	(640)	(537)
<b>PAT</b>	<b>1,736</b>	<b>2,576</b>
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>1,736</b>	<b>2,576</b>
EBIT <sup>(1)</sup>	2,406	3,192
EBITDA <sup>(1)</sup>	2,927	3,707
GP margin (%)	26.0	27.4
PBT margin (%)	15.2	17.0
PAT margin (%)	11.1	14.1
Effective tax rate (%)	26.9	17.3
EPS (sen) <sup>(2)</sup>	0.5	0.8
Diluted EPS (sen) <sup>(3)</sup>	0.4	0.6

Notes:

(1) EBIT and EBITDA are calculated as follows:

	<b>Audited</b>				<b>Unaudited</b>	<b>Audited</b>
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
PAT	7,194	7,474	7,860	6,229	1,736	2,576
Less:						
Interest income	(2)	(16)	(41)	(76)	(44)	(28)
Add:						
Finance costs	199	116	83	316	74	107
Taxation	910	2,120	2,282	2,204	640	537
<b>EBIT</b>	<b>8,301</b>	<b>9,694</b>	<b>10,184</b>	<b>8,673</b>	<b>2,406</b>	<b>3,192</b>
Add:						
Depreciation and amortisation	1,277	1,602	1,850	1,904	521	515
<b>EBITDA</b>	<b>9,578</b>	<b>11,296</b>	<b>12,034</b>	<b>10,577</b>	<b>2,927</b>	<b>3,707</b>

(2) Calculated based on our PAT divided by the share capital of 318,000,000 Shares before our IPO.

(3) Calculated based on our PAT divided by the enlarged share capital of 415,687,000 Shares after our IPO.

**11. FINANCIAL INFORMATION (Cont'd)****(b) Historical combined statements of financial position**

The following table sets out our historical combined statements of financial position as at 31 December 2015, 2016, 2017 and 2018 as well as 30 April 2018 and 2019:

	<b>Audited</b>			
	<b>As at 31 December</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	14,601	14,881	16,689	31,058
<b>Total non-current assets</b>	<b>14,601</b>	<b>14,881</b>	<b>16,689</b>	<b>31,058</b>
<b>Current assets</b>				
Inventories	4,816	4,568	5,950	6,778
Trade receivables	4,477	5,290	4,064	5,854
Other receivables	473	890	2,138	2,773
Derivative financial instruments	-	-	106	17
Fixed deposits with licensed banks	450	1,100	2,303	1,401
Cash and bank balances	507	1,180	3,546	2,271
<b>Total current assets</b>	<b>10,723</b>	<b>13,028</b>	<b>18,107</b>	<b>19,094</b>
<b>TOTAL ASSETS</b>	<b>25,324</b>	<b>27,909</b>	<b>34,796</b>	<b>50,152</b>
<b>EQUITY AND LIABILITIES</b>				
Share capital	500	500	500	500
Retained earnings	16,776	18,451	26,311	28,123
Revaluation reserve	-	-	-	7,430
<b>Total equity</b>	<b>17,276</b>	<b>18,951</b>	<b>26,811</b>	<b>36,053</b>
<b>Non-current liabilities</b>				
Borrowings	3,418	3,187	2,937	6,186
Deferred tax liabilities	367	321	439	2,599
<b>Total non-current liabilities</b>	<b>3,785</b>	<b>3,508</b>	<b>3,376</b>	<b>8,785</b>
<b>Current liabilities</b>				
Trade payables	1,926	2,251	1,929	2,912
Other payables	694	731	750	1,358
Derivative financial instruments	314	572	-	-
Finance lease liabilities	61	-	-	-
Borrowings	887	901	1,208	592
Tax payables	381	995	722	452
<b>Total current liabilities</b>	<b>4,263</b>	<b>5,450</b>	<b>4,609</b>	<b>5,314</b>
<b>TOTAL LIABILITIES</b>	<b>8,048</b>	<b>8,958</b>	<b>7,985</b>	<b>14,099</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>25,324</b>	<b>27,909</b>	<b>34,796</b>	<b>50,152</b>

**11. FINANCIAL INFORMATION (Cont'd)**

	<u>Unaudited</u>	<u>Audited</u>
	<u>As at 30 April</u>	
	<u>2018</u>	<u>2019</u>
	<u>RM'000</u>	<u>RM'000</u>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	22,864	31,361
<b>Total non-current assets</b>	<b>22,864</b>	<b>31,361</b>
<b>Current assets</b>		
Inventories	5,170	8,747
Trade receivables	4,872	3,907
Other receivables	2,305	4,303
Derivative financial instruments	99	-
Fixed deposits with licensed banks	-	3,285
Cash and bank balances	1,725	3,115
<b>Total current assets</b>	<b>14,171</b>	<b>23,357</b>
<b>TOTAL ASSETS</b>	<b>37,035</b>	<b>54,718</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital	500	500
Retained earnings	23,546	30,755
Revaluation reserve	-	7,375
<b>Total equity</b>	<b>24,046</b>	<b>38,630</b>
<b>Non-current liabilities</b>		
Borrowings	6,580	5,990
Deferred tax liabilities	439	2,740
<b>Total non-current liabilities</b>	<b>7,019</b>	<b>8,730</b>
<b>Current liabilities</b>		
Trade payables	2,310	4,569
Other payables	1,272	1,527
Derivative financial instruments	-	94
Finance lease liabilities	-	-
Borrowings	1,706	888
Tax payables	682	280
<b>Total current liabilities</b>	<b>5,970</b>	<b>7,358</b>
<b>TOTAL LIABILITIES</b>	<b>12,989</b>	<b>16,088</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>37,035</b>	<b>54,718</b>

**11. FINANCIAL INFORMATION (Cont'd)****(c) Historical audited combined statements of cash flows**

The following table sets out our audited combined statements of cash flows for the FYEs 2015 to 2018 and FPEs 2018 to 2019:

	Audited				Unaudited	Audited
	FYE	FYE	FYE	FYE	FPE	FPE
	2015	2016	2017	2018	2018	2019
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Operating Activities</b>						
PBT	8,104	9,594	10,142	8,433	2,376	3,113
Adjustments for:						
Unrealised (gain) / loss on foreign exchange	(54)	(120)	93	51	(19)	(70)
Depreciation of property, plant and equipment	1,277	1,602	1,850	1,903	521	515
Gain on disposal of property, plant and equipment	(13)	-	-	(766)	-	-
Impairment loss on property, plant and equipment	-	-	-	1,520	-	-
Interest expenses	199	116	83	316	74	107
Interest income	(2)	(16)	(41)	(76)	(44)	(28)
Fair value loss / (gain) on derivative financial instruments	126	258	(678)	88	6	111
<b>Operating profit before working capital changes</b>	<b>9,637</b>	<b>11,434</b>	<b>11,449</b>	<b>11,469</b>	<b>2,914</b>	<b>3,748</b>
Changes in working capital:						
Inventories	(1,387)	248	(1,381)	(827)	780	(1,970)
Receivables	(1,565)	(1,193)	(45)	(2,483)	(911)	442
Payables	(451)	355	(301)	1,597	900	1,823
Bankers' acceptances	(1,300)	40	(440)	-	1,143	290
<b>Cash generated from operations</b>	<b>4,934</b>	<b>10,884</b>	<b>9,282</b>	<b>9,756</b>	<b>4,826</b>	<b>4,333</b>
Interest paid	(198)	(116)	(83)	(316)	(73)	(107)
Tax refunded	145	-	-	-	-	-
Tax paid	(495)	(1,552)	(2,437)	(2,441)	(680)	(568)
<b>Net cash from operating activities</b>	<b>4,386</b>	<b>9,216</b>	<b>6,762</b>	<b>6,999</b>	<b>4,073</b>	<b>3,658</b>
<b>Investing Activities</b>						
Interest received	2	15	41	76	44	29
Proceeds from disposal of property, plant and equipment	13	-	-	10	-	-
Purchase of property, plant and equipment	(1,525)	(1,881)	(3,659)	(7,395)	(6,696)	(818)
<b>Net cash used in investing activities</b>	<b>(1,510)</b>	<b>(1,866)</b>	<b>(3,618)</b>	<b>(7,309)</b>	<b>(6,652)</b>	<b>(789)</b>

**11. FINANCIAL INFORMATION (Cont'd)**

	Audited				Unaudited	Audited
	FYE	FYE	FYE	FYE	FPE	FPE
	2015	2016	2017	2018	2018	2019
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Financing Activities</b>						
Repayment of term loans	(119)	(265)	(234)	(460)	(94)	(189)
Drawdown of term loans	-	-	-	4,000	4,000	-
Dividends paid	(1,500)	(5,800)	-	(4,500)	(4,500)	-
Repayments of finance lease liabilities	(1,097)	(61)	-	-	-	-
Proceeds from issuance of share capital	-	-	-	*	*	-
<b>Net cash used in financing activities</b>	<b>(2,716)</b>	<b>(6,126)</b>	<b>(234)</b>	<b>(960)</b>	<b>(594)</b>	<b>(189)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	160	1,224	2,910	(1,270)	(3,173)	2,680
Effect of foreign currency translation differences	(7)	91	(72)	1	(43)	48
Cash and cash equivalents at the beginning of the financial year	635	788	2,103	4,941	4,941	3,672
<b>Cash and cash equivalents at the end of the financial year</b>	<b>788</b>	<b>2,103</b>	<b>4,941</b>	<b>3,672</b>	<b>1,725</b>	<b>6,400</b>
<b>Cash and cash equivalents consists of:</b>						
Fixed deposits with licensed banks	450	1,100	2,303	1,401	-	3,285
Cash and bank balances	506	1,180	3,546	2,271	1,725	3,115
Bank overdrafts	(168)	(177)	(908)	-	-	-
	<b>788</b>	<b>2,103</b>	<b>4,941</b>	<b>3,672</b>	<b>1,725</b>	<b>6,400</b>

Note:

\* Negligible

**11. FINANCIAL INFORMATION (Cont'd)****11.1.2 Pro forma combined statements of financial position**

The following table sets out a summary of the pro forma combined statements of financial position of our Group, to show the effects of the Acquisition of Spring Art, Public Issue and utilisation of IPO proceeds.

The pro forma combined statements of financial position are presented for illustrative purposes only and should be read in conjunction with the Reporting Accountants' report together with the notes and assumptions accompanying the Pro forma Combined Financial Information as set out in Section 13.

	<b>Spring Art Holdings</b>	<b>I</b>	<b>II</b>	<b>II</b>
	<b>As at 30 April 2019</b>	<b>After Acquisition of Spring Art</b>	<b>After I and after Public Issue</b>	<b>After II and after utilisation of IPO proceeds</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	-	31,361	31,361	55,864
<b>Total non-current assets</b>	<b>-</b>	<b>31,361</b>	<b>31,361</b>	<b>55,864</b>
<b>Current assets</b>				
Inventories	-	8,747	8,747	8,747
Trade receivables	-	3,907	3,907	3,907
Other receivables	128	4,303	4,303	3,157
Fixed deposits with licensed banks	-	3,285	3,285	3,285
Cash and bank balances	32	2,115	26,536	5,779
<b>Total current assets</b>	<b>160</b>	<b>22,357</b>	<b>46,778</b>	<b>24,875</b>
<b>TOTAL ASSETS</b>	<b>160</b>	<b>53,718</b>	<b>78,139</b>	<b>80,739</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to owners of the Company</b>				
Share capital	*	31,800	56,222	55,422
Revaluation reserve	-	7,375	7,375	7,375
Merger deficit	-	(31,300)	(31,300)	(31,300)
(Accumulated losses)/Retained earnings	(60)	29,755	29,754	27,354
<b>Total equity</b>	<b>(60)</b>	<b>37,630</b>	<b>62,051</b>	<b>58,851</b>
<b>Non-current liabilities</b>				
Borrowings	-	5,990	5,990	11,790
Deferred tax liabilities	-	2,740	2,740	2,740
<b>Total non-current liabilities</b>	<b>-</b>	<b>8,730</b>	<b>8,730</b>	<b>14,530</b>
<b>Current liabilities</b>				
Trade payables	-	4,569	4,569	4,569
Other payables	220	1,527	1,527	1,527
Derivative financial instruments	-	94	94	94
Borrowings	-	888	888	888
Tax payables	-	280	280	280
<b>Total current liabilities</b>	<b>220</b>	<b>7,358</b>	<b>7,358</b>	<b>7,358</b>
<b>TOTAL LIABILITIES</b>	<b>220</b>	<b>16,088</b>	<b>16,088</b>	<b>21,888</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>160</b>	<b>53,718</b>	<b>78,139</b>	<b>80,739</b>

**11. FINANCIAL INFORMATION (Cont'd)**

	<b>Spring Art Holdings</b>	<b>I</b>	<b>II</b>	<b>II</b>
	<b>As at 30 April 2019</b>	<b>After Acquisition of Spring Art</b>	<b>After I and after Public Issue</b>	<b>After II and after utilisation of IPO proceeds</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Number of Shares in issue ('000)	^	318,000	415,687	415,687
Net (liabilities)/asset per share (RM)	(301.22)	0.12	0.15	0.14
Borrowings (All interest bearing debts)	-	6,878	6,878	12,678
Gearing (times) <sup>(1)</sup>	-	0.18	0.11	0.22
Current ratio (times) <sup>(2)</sup>	0.73	3.17	6.36	3.38

Notes:

\* Representing RM20.00 only.

^ Representing 200 Shares only.

<sup>(1)</sup> Calculated based on the total borrowings (i.e. finance lease payables and bank borrowings) of our Group divided by the total equity of our Group.<sup>(2)</sup> Calculated based on total current assets divided by total current liabilities of our Group.**11.2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The discussion of our business, financial condition and results of operations for the FYEs 2015 to 2018 and FPE 2019 refers to the historical audited combined financial information of our Group. Our audited financial statements have been prepared in accordance with MFRS and IFRS for the FYEs 2015 to 2018 and FPE 2019.

The following discussion and analysis of our Group's financial performance and results of operations should be read in conjunction with the Accountant's Report as sets out in Section 12 and the Reporting Accountant's letter on the pro forma combined statements of financial position as set out in Section 13.

**11.2.1 Overview of our operations**

Our Group is principally involved in the manufacturing of ready-to-assemble furniture products, where we undertake 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.

Our Group's revenue is mainly derived from sales of ready-to-assemble furniture products which consist of:

- (a) office furniture such as office workstations, filing cabinets and pedestals;
- (b) bedroom furniture such as beds, night stands, wardrobes, dressing tables, dressing stools and study desks;
- (c) living room furniture such as computer desks, television consoles, sideboards, shoe cabinets, bookshelves and drawer chests; and

**11. FINANCIAL INFORMATION (Cont'd)**

- (d) other furniture which includes customised complementary furniture products manufactured as and when ordered by customers, such as dining tables and kitchen cabinets.

Our revenue is generated entirely from overseas sales and the currency used in invoicing is USD and SGD. Approximately 98.3%, 98.9%, 99.0% and 98.9% of our revenues were denominated in USD for FYEs 2015, 2016, 2017 and 2018 respectively, with the remainder denominated in SGD.

Approximately 99.4% of our revenues were denominated in USD for FPE 2019, with the remainder denominated in SGD.

The significant factors affecting our business include the following:

**(i) Fluctuation of foreign exchange rate**

Our revenue is denominated in USD and SGD as all of our furniture products are exported to foreign markets. Our export market comprises among others, UAE, India, Japan, Bahrain, Canada, Saudi Arabia and Singapore.

Any significant change in foreign exchange rates may affect our Group's financial results. For the FYEs 2015, FYE 2016, FYE 2017 and FYE 2018, approximately 98.3%, 98.9%, 99.0% and 98.9% of our revenues were denominated in USD. For the FPE 2019, approximately 99.4% of our revenue was denominated in USD.

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Sales transacted in USD	35,794	98.3	40,853	98.9	47,792	99.0	49,822	98.9
Sales transacted in SGD	631	1.7	434	1.1	484	1.0	560	1.1
	<b>36,425</b>	<b>100.0</b>	<b>41,287</b>	<b>100.0</b>	<b>48,276</b>	<b>100.0</b>	<b>50,382</b>	<b>100.0</b>

	Unaudited FPE 2018		Audited FPE 2019	
	RM'000	%	RM'000	%
Sales transacted in USD	15,522	99.3	18,180	99.4
Sales transacted in SGD	104	0.7	117	0.6
	<b>15,626</b>	<b>100.0</b>	<b>18,297</b>	<b>100.0</b>

Any appreciation or depreciation of the USD against RM will affect the costs of our raw materials.

We maintain foreign currency accounts to receive proceeds of our sales in USD and SGD. Additionally, we also enter into foreign currency forward exchange contracts with banking institutions to sell the USD received from our customers at agreed exchange rates for fixed periods of time to reduce the exposure of our receivables. Our Group mitigates the foreign exchange risk through a natural hedge via operating foreign currency accounts using payment received from our export sales to pay imported purchases.

Notwithstanding the above, there is no assurance that any fluctuation in foreign exchange rates would not have an impact on our financial performance.



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**11. FINANCIAL INFORMATION (Cont'd)**

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**(ii) Fluctuation in the prices of raw materials**

Our main raw materials include particle boards and MDF. The prices of these raw materials used in our manufacturing processes may fluctuate due to demand and supply conditions. As such, any shortage or disruption in the supply of raw materials which results in fluctuation in the prices of raw materials may adversely affect both our Group's operations and financial performance.

Nonetheless, most of our raw material purchases are only made upon receipt of confirmed orders from our customers which minimise the impact of any adverse price fluctuations in our main raw materials. Our suppliers regularly keep us abreast of the supply condition and price trend of our main raw materials so we may be prepared for any price increase of raw materials.

**(iii) Competition risk**

Our Group faces competition from both existing and new players in local and foreign countries with lower cost of production and labour cost, such as Indonesia, Vietnam, Thailand and China. Competition from these countries may result in loss of customers or erosion of our profit margins.

We believe that our Group would be able to stay competitive due to our strengths as outlined in Section 6.8. In addition, we are committed to continuously improve the quality of our products. As part of our business strategies, we will continue to focus on our design and development efforts to expand our product range.

**(iv) We are dependent on our major customers and suppliers, and do not have long term agreements with our major customers and major suppliers**

We have not entered into any long-term contracts with our customers as we manufacture our furniture products based on purchase orders. Further, we also do not have long-term contracts with our suppliers. Thus, we place great emphasis in developing long-term business relationships with our customers and suppliers as we believe this will ensure our business continuity and growth.

As at the LPD, we have established long-term business relationships of more than 4 years with our top 5 suppliers and more than 7 years with 3 of our top 5 customers.

There is no assurance that the absence of long-term contracts with our customers and supplier will not affect our business and financial performance.

**(v) Interruptions in our operations**

Our manufacturing flow could be disrupted or delayed due to unforeseeable circumstances. Such risks which are inherent in furniture manufacturing include, amongst others, fire hazards and power shortage.

Any disruption at our manufacturing facilities will result in longer lead time for the production of our furniture products. Consequently, this may lead to a delay in delivery to our customers. Such failure to meet delivery deadlines may result in the loss of business or claims against us, thereby affecting our financial performance and reputation.

**11. FINANCIAL INFORMATION (Cont'd)****11.2.2 Revenue**

Revenue from sale of goods is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised upon delivery of goods and customer acceptance, if any, when the significant risks and rewards of ownership of the goods has been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

**(i) Revenue by product category**

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Office furniture	16,295	44.7	11,390	27.6	10,005	20.7	8,846	17.6
Bedroom furniture	15,300	42.0	24,282	58.8	30,984	64.2	34,326	68.1
Living room furniture	4,514	12.4	5,564	13.5	7,222	15.0	6,766	13.4
Other furniture	316	0.9	51	0.1	65	0.1	444	0.9
	<b>36,425</b>	<b>100.0</b>	<b>41,287</b>	<b>100.0</b>	<b>48,276</b>	<b>100.0</b>	<b>50,382</b>	<b>100.0</b>

	FPE 2018		FPE 2019	
	RM'000	%	RM'000	%
Office furniture	2,814	18.0	2,347	12.8
Bedroom furniture	10,703	68.5	12,694	69.4
Living room furniture	2,034	13.0	3,161	17.3
Other furniture	75	0.5	95	0.5
	<b>15,626</b>	<b>100.0</b>	<b>18,297</b>	<b>100.0</b>

**(ii) Sales volume by units**

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	Units	%	Units	%	Units	%	Units	%
Office furniture	128,646	49.8	92,179	31.5	82,270	26.6	73,588	23.6
Bedroom furniture	96,510	37.4	157,593	53.8	177,591	57.4	189,417	60.7
Living room furniture	31,570	12.2	42,747	14.6	49,320	15.9	46,316	14.9
Other furniture	1,448	0.6	252	0.1	365	0.1	2,573	0.8
	<b>258,174</b>	<b>100.0</b>	<b>292,771</b>	<b>100.0</b>	<b>309,546</b>	<b>100.0</b>	<b>311,894</b>	<b>100.0</b>

	FPE 2018		FPE 2019	
	Units	%	Units	%
Office furniture	23,866	24.0	18,569	17.4
Bedroom furniture	58,960	59.4	67,800	63.6
Living room furniture	16,108	16.2	19,646	18.4
Other furniture	403	0.4	552	0.5
	<b>99,337</b>	<b>100.0</b>	<b>106,567</b>	<b>100.0</b>

**11. FINANCIAL INFORMATION (Cont'd)****(iii) Revenue by countries/region**

Countries	Region	Audited							
		FYE 2015		FYE 2016		FYE 2017		FYE 2018	
		RM'000	%	RM'000	%	RM'000	%	RM'000	%
India	Asia Pacific	9,464	26.0	11,792	28.6	15,716	32.6	17,520	34.8
Japan	Asia Pacific	7,013	19.3	5,802	14.1	4,368	9.0	3,164	6.3
UAE	Middle East	5,969	16.4	15,535	37.6	18,473	38.3	13,622	27.0
Saudi Arabia	Middle East	4,136	11.4	475	1.2	1,801	3.7	8,059	16.0
Canada	North America and Latin America	2,256	6.2	1,570	3.8	2,738	5.7	2,308	4.6
Bahrain	Middle East	2,124	5.8	1,737	4.2	2,983	6.2	3,708	7.4
Others	-	5,463	14.9	4,376	10.5	2,197	4.5	2,001	3.9
		<b>36,425</b>	<b>100.0</b>	<b>41,287</b>	<b>100.0</b>	<b>48,276</b>	<b>100.0</b>	<b>50,382</b>	<b>100.0</b>

Countries	Region	Unaudited		Audited	
		FPE 2018		FPE 2019	
		RM'000	%	RM'000	%
India	Asia Pacific	5,604	35.9	5,042	27.5
Japan	Asia Pacific	1,559	10.0	982	5.4
UAE	Middle East	2,617	16.7	4,248	23.2
Saudi Arabia	Middle East	3,388	21.7	6,049	33.1
Canada	North America and Latin America	740	4.7	392	2.1
Bahrain	Middle East	1,051	6.7	1,348	7.4
Others	-	667	4.3	236	1.3
		<b>15,626</b>	<b>100.0</b>	<b>18,297</b>	<b>100.0</b>

Other countries include:

Region	Countries
Asia Pacific	Singapore, Hong Kong, Taiwan, Vietnam, and Philippines, Australia and New Zealand
North America and Latin America	USA and Panama
Africa	Algeria, Ethiopia, Tanzania, Benin, Kenya, Malawi, Uganda, Ghana, Zambia, Rwanda and Nigeria
Europe	Republic of Ireland, United Kingdom and Greece

**(iv) Commentary on revenue****(aa) Comparison between FYE 2015 and FYE 2016**

Our revenue increased by 13.5% from RM36.4 million in the preceding financial year to RM41.3 million in FYE 2016. Total sales volume for the financial year increased by 13.4%. Revenue from office furniture and bedroom furniture contributed 86.4% of our Group's revenue for the financial year.

Overall, our revenue growth was a result of higher sales volume from repeat sales orders made by existing customers by 22.7% as compared to the previous financial year as well as the depreciation of RM against USD which has resulted in an increase of 6.1% in our revenue.

**11. FINANCIAL INFORMATION (Cont'd)**

In terms of volume, office furniture and bedroom furniture contributed an aggregate of 85.3% of total sales volume for FYE 2016. Sales volume for office furniture decreased by 28.3% from the preceding financial year while bedroom furniture increased by 63.3% from the preceding financial year.

The WAFEX improved by approximately 6.1% from USD1:RM3.8865 in FYE 2015 to USD1:RM4.1236 in FYE 2016, which resulted in our revenue denominated in RM being higher as the RM weakened against the USD.

In FYE 2016, we experienced highest sales growth in the UAE of 158.3% from RM6.0 million to RM15.5 million mainly due to increase in sales to RNA Resources Group Ltd of RM9.5 million or 166.7% from RM5.7 million in FYE 2015 to RM15.2 million in FYE 2016. Revenue from India grew 24.2% from RM9.5 million in the preceding financial year to RM11.8 million in FYE 2016 mainly due to the increase in sales to Future Retail Limited to RM3.8 million.

**(bb) Comparison between FYE 2016 and FYE 2017**

Our revenue increased by 16.9% from RM41.3 million in the preceding financial year to RM48.3 million in FYE 2017. Total sales volume for the financial year increased by 5.7%.

The revenue from office furniture and bedroom furniture contributed 84.9% of our Group's revenue for the financial year and 84.0% of total sales volume. Sales volume for office furniture decreased by 10.7% while bedroom furniture increased by 12.7%.

Overall, revenue growth was a result of higher sales volume from existing customers by 11.4% as compared to the previous financial year as well as the further depreciation of RM against USD. The WAFEX rose by approximately 4.5% from USD1:RM4.1236 in FYE 2016 to USD1:RM4.3091 in FYE 2017 which has resulted in an increase of 4.5% in our revenue.

In FYE 2017, the increase in sales was mainly due to increase in orders from RNA Resources Group Ltd by RM4.9 million and from Future Retail Limited by RM4.6 million.

We recorded an increase in sales from India by RM3.9 million or 33.1% which was mainly due to increase in sales to Future Retail Limited.

**(cc) Comparison between FYE 2017 and FYE 2018**

Our revenue increased by 4.3% from RM48.3 million in FYE 2017 to RM50.4 million in FYE 2018. Total sales volume for the financial year increased by 0.8%.

The revenue from office furniture and bedroom furniture contributed 85.7% of our Group's revenue for the financial year and 84.3% of total sales volume. Sales volume for office furniture decreased by 10.6% while bedroom furniture increased by 6.7%.

The WAFEX decreased by approximately 6.1% from USD1:RM4.3091 in FYE 2017 to USD1:RM4.0470 in FYE 2018. Despite of the appreciation of RM against USD, we recorded an increase in revenue mainly as a result of higher sales volume derived from our sales. Sales volume increased from 309,546 units in FYE 2017 to 311,894 units in FYE 2018, mainly due to the increase in sale of bedroom furniture from 177,591 units in FYE 2017 to 189,417 units in FYE 2018.

**11. FINANCIAL INFORMATION (Cont'd)**

In FYE 2018, we recorded an increase in sales to India of RM1.8 million or 11.5% mainly due to increase in sales to Godrej & Boyce Mfg Co of RM1.2 million. We recorded an increase in sales to RNA Resources Group Ltd of RM1.1 million to RM21.2 million of which RM8.1 million was shipped to Saudi Arabia and RM13.1 million was shipped to UAE.

Sales to Japan decreased by RM1.2 million or 27.3% due to decrease in orders from Nitori Co Ltd from RM4.2 million to RM3.0 million in FYE 2018.

**(dd) Comparison between FPE 2018 and FPE 2019**

Our revenue increased by 17.3% from RM15.6 million in FPE 2018 to RM18.3 million in FPE 2019. Total sales volume for the financial period increased by 7.3%.

The revenue from bedroom furniture and living room furniture contributed 86.7% of our Group's revenue for the financial period and 82.0% of total sales volume. Sales volume for bedroom furniture increased by 15.0% and living room increased by 22.0% while sales volume for office furniture decreased by 22.2%.

The WAFEX increased by approximately 4.1% from USD1:RM3.9336 in FPE 2018 to USD1:RM4.0938 in FPE 2019, which also contributed to our increase in revenue in FPE 2019.

Overall, the increase in revenue was mainly a result of higher sales volume as well as favourable foreign exchange rate derived from our export sales. Sales volume increased from 99,337 units in FPE 2018 to 106,567 units in FPE 2019, mainly due to the increase in bedroom furniture from 58,960 units in FPE 2018 to 67,800 units in FPE 2019 and increase in living room furniture from 16,108 units in FPE 2018 to 19,646 units in FPE 2019.

In FPE 2019, we experienced sales growth in Saudi Arabia of RM2.7 million or 79.4% as well as in UAE of RM1.6 million or 61.5% mainly due to increase in sales to RNA Resources Group Ltd. However, sales to India and Japan decreased by RM0.6 million or 10.7% and RM0.6 million or 37.5% respectively due to decrease in orders from Future Retail Limited and Nitori Co Ltd.

**11.2.3 Cost of sales, GP and GP margin****(i) Analysis of cost of sales by cost items**

The components of our cost of sales are as follows:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Direct materials	19,007	75.7	21,417	75.5	25,169	73.7	26,781	74.4
Direct labour	3,100	12.3	3,496	12.3	4,249	12.4	4,545	12.6
Production overheads	3,005	12.0	3,453	12.2	4,734	13.9	4,674	13.0
	<b>25,112</b>	<b>100.0</b>	<b>28,366</b>	<b>100.0</b>	<b>34,152</b>	<b>100.0</b>	<b>36,000</b>	<b>100.0</b>

**11. FINANCIAL INFORMATION (Cont'd)**

	FPE 2018		FPE 2019	
	RM'000	%	RM'000	%
Direct materials	8,714	75.4	9,557	71.9
Direct labour	1,405	12.1	1,904	14.3
Production overheads	1,440	12.5	1,831	13.8
	<b>11,559</b>	<b>100.0</b>	<b>13,292</b>	<b>100.0</b>

**(aa) Direct materials**

Direct materials mainly consist of boards (particle boards and MDF), metal components (screws, nuts and mounting brackets), PVC edges as well as packaging materials (corrugated cartons and packing tapes).

Direct materials were the largest component of our cost of sales, representing between 71.9% to 75.7% of our total cost of sales.

The increase in direct material costs for the past FYEs/FPE was in line with the increase in total revenue for the financial years/period under review; where the change in our sales volume is in tandem with the change in our direct material requirements, mainly particle boards and MDF.

For the FYEs/FPE under review, we did not experience any significant fluctuations in prices of direct materials.

**(bb) Direct labour**

Direct labour consists mainly of production related labour costs, which includes payroll and other related expenses such as transport allowance and staff welfare.

Our direct labour represents between 12.1% to 14.3% of our total cost of sales. For the past FYEs/FPE, the change in our direct labour costs is in tandem with the change in production headcount which is in line with the change in our production volume.

**(cc) Production overheads**

Our production overheads consist mainly of depreciation of manufacturing-related assets, electricity charges, repair and maintenance of machinery and building.

Production overheads represented between 12.0% and 13.9% of our total cost of sales. Throughout the FYEs 2015 to FYE 2017, we recorded a continued increase in our production overheads which was in line with the increase in sales volume. In FYE 2017, we recorded higher production overheads of RM4.7 million due to the installation of 1 production line in June 2016 which resulted in higher machinery depreciation expenses and electricity usage.

**11. FINANCIAL INFORMATION (Cont'd)****(ii) Analysis of GP and GP margin by product category**

Our GP and GP margin for the financial years/period under review is set out below:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Revenue	36,425	41,287	48,276	50,382	15,626	18,297
Cost of sales	(25,112)	(28,366)	(34,152)	(36,000)	(11,559)	(13,292)
GP	11,313	12,921	14,124	14,382	4,067	5,005
GP margin (%)	31.1	31.3	29.3	28.5	26.0	27.4

Our GP and GP margin for the financial years/period under review by product category is set out below:

	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>	
	<b>GP</b>	<b>GP margin</b>	<b>GP</b>	<b>GP margin</b>	<b>GP</b>	<b>GP margin</b>	<b>GP</b>	<b>GP margin</b>
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Office furniture	4,533	27.8	3,390	29.8	2,659	26.6	2,259	25.5
Bedroom furniture	5,114	33.4	7,559	31.1	9,088	29.3	9,955	29.0
Living room furniture	1,572	34.8	1,955	35.1	2,361	32.7	2,031	30.0
Other furniture	94	29.6	17	34.2	16	23.9	137	30.9
	<b>11,313</b>	<b>31.1</b>	<b>12,921</b>	<b>31.3</b>	<b>14,124</b>	<b>29.3</b>	<b>14,382</b>	<b>28.5</b>

	<b>FPE 2018</b>		<b>FPE 2019</b>	
	<b>GP</b>	<b>GP margin</b>	<b>GP</b>	<b>GP margin</b>
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Office furniture	712	25.3	612	26.1
Bedroom furniture	2,861	26.7	3,365	26.5
Living room furniture	477	23.5	1,005	31.8
Other furniture	17	22.7	23	24.2
	<b>4,067</b>	<b>26.0</b>	<b>5,005</b>	<b>27.4</b>

**(iii) Commentary on cost of sales, GP and GP margin****(aa) Comparison between FYE 2015 and FYE 2016**

Our cost of sales increased by RM3.3 million or 13.1% to RM28.4 million in FYE 2016, which is in tandem with the increase in our total revenue of 13.5%. Corresponding to the increase in sales volume, we recorded higher direct materials cost of RM2.4 million or 12.7% as we utilise more direct materials in the production. In addition, our direct labour cost and production overheads cost increased by 12.8% and 14.9% respectively.

In FYE 2016, our GP increased by approximately RM1.6 million or 14.2% from the preceding financial year. During the year, we recorded an increase in GP for bedroom furniture and living room furniture while recording a decrease in GP for office furniture. In view that GP margin of bedroom furniture and living room furniture is higher as compared to office furniture, our overall GP margin recorded a slight improvement from 31.1% in FYE 2015 to 31.3% in FYE 2016. The GP margin for office furniture is generally lower as study desk tops uses melamine laminated tops which are more expensive.

**11. FINANCIAL INFORMATION (Cont'd)**

In addition, higher GP margin is also attributed to the favourable foreign exchange rate.

Largest GP contributor for FYE 2016 was bedroom furniture. Sales of bedroom furniture had increased mainly due to increase in orders for bedroom furniture from our major customer, RNA Resources Group Ltd. Our second largest GP contributor for FYE 2016 was from office furniture.

**(bb) Comparison between FYE 2016 and FYE 2017**

Our cost of sales increased by RM5.8 million or 20.4% to RM34.2 million in FYE 2017. The increase in cost of sales was attributable to the increase in all components of the cost of sales. Corresponding to the increase sales volume, we recorded higher direct materials cost of RM3.8 million or 17.8% as we utilise more direct materials in the production. In addition, our direct labour cost and production overheads cost increased by 21.5% and 37.1% respectively.

In FYE 2017, we recorded an increase in GP of approximately RM1.2 million or 9.3% from the preceding the financial year. The increase in GP was due to a further increase in sales of bedroom furniture and living room furniture while sales of office furniture had continued to decrease.

Notwithstanding the increase in GP, our GP margin had decreased from 31.3% in FYE 2016 to 29.3% in FYE 2017 due to:

- (i) a lower increase in exchange rate of 4.5% in FYE 2017 as compared to an increase in exchange rate of 6.1% in FYE 2016; and
- (ii) higher cost of sales of 20.4% arising from the installation of 1 new production line in June 2016 which led to higher machinery depreciation expenses and higher electricity usage.

As the production line was newly commissioned, it operated at a lower production rate as the production team was still in the midst of calibrating it. Even though it operated at a lower production rate, it incurred the same electricity usage as other production lines and hence we recorded a lower GP margin.

During FYE 2017, RNA Resources Group Ltd, our major customer from the UAE had continued to increase orders for bedroom furniture. As a result, bedroom furniture was the highest GP contributor. Similar to FYE 2016, office furniture was our second largest GP contributor.

**(cc) Comparison between FYE 2017 and FYE 2018**

Our cost of sales increased by RM1.8 million or 5.3% to RM36.0 million in FYE 2018. The increase in cost of sales was mainly attributable to the increase in direct materials cost of RM1.6 million or 6.3%.

For FYE 2018, our GP was higher by approximately RM0.3 million or 2.1% as compared to FYE 2017. The increase in GP was due to the increase in sales of bedroom furniture and other furniture while sales of office furniture and living room furniture decreased.

Notwithstanding the increase in GP, our GP margin had decreased from 29.3% in FYE 2017 to 28.5% in FYE 2018 mainly due to a decrease in WAFEX by approximately 6.1% in FYE 2018 as compared to an increase in exchange rate of 4.5% in FYE 2017.



**11. FINANCIAL INFORMATION (Cont'd)**

Sale of bedroom furniture contributed the largest GP for FYE 2018 which was mostly from sales to our major customer, RNA Resources Group Ltd.

**(dd) Comparison between FPE 2018 and FPE 2019**

Our cost of sales increased by RM1.7 million or 14.7% to RM13.3 million in FPE 2019. The increase in cost of sales was mainly attributable to the increase in direct materials cost of RM0.8 million or 9.2%, direct labour cost of RM0.5 million or 35.7% and production overheads cost of RM0.4 million or 28.5%.

For FPE 2019, our GP was higher by approximately RM0.9 million or 22.0% as compared to FPE 2018 due to increase in sales volume for bedroom furniture, living room furniture and other furniture while sales volume of office furniture decreased.

Our overall GP margin recorded an improvement from 26.0% in FPE 2018 to 27.4% in FPE 2019 mainly due to an improvement in the GP margin for living room furniture. GP margin of living room furniture increase as we secured orders with higher selling prices.

In addition, higher GP margin is also attributed to the favourable foreign exchange rate in FPE 2019 and higher sales volume.

**11.2.4 Other income**

The breakdown of our other income is as follows:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Interest income	2	2.2	16	2.6	41	5.3	76	9.0
Compensation	12	13.5	-	-	-	-	-	-
Sundry income	8	9.0	39	6.4	49	6.4	-	-
Gain on disposal of fixed assets	13	14.6	-	-	-	-	766	91.0
Net fair value gain on derivative financial instrument	-	-	-	-	678	88.3	-	-
Foreign exchange gain								
- realised	-	-	439	71.5	-	-	-	-
- unrealised	54	60.7	120	19.5	-	-	-	-
	<b>89</b>	<b>100.0</b>	<b>614</b>	<b>100.0</b>	<b>768</b>	<b>100.0</b>	<b>842</b>	<b>100.0</b>
	FPE 2018		FPE 2019					
	RM'000	%	RM'000	%				
Interest income	44	69.8	28	28.6				
Compensation	-	-	-	-				
Sundry income	-	-	-	-				
Gain on disposal of fixed assets	-	-	-	-				
Net fair value gain on derivative financial instrument	-	-	-	-				
Foreign exchange gain								
- realised	-	-	-	-				
- unrealised	19	30.2	70	71.4				
	<b>63</b>	<b>100.0</b>	<b>98</b>	<b>100.0</b>				

**11. FINANCIAL INFORMATION (Cont'd)****Comparison between FYE 2015 and FYE 2016**

In FYE 2015, other income comprises mainly unrealised foreign exchange gain of approximately RM0.05 million, gain on disposal of fixed assets (production machinery) of approximately RM0.01 million as well as insurance compensation of approximately RM0.01 million for damaged inventory and machinery due to overflow of water resulting from blocked public drainage. This issue has since been rectified by the relevant local authorities.

For FYE 2016, other income increased to approximately RM0.6 million, mainly due to foreign exchange gain of RM0.6 million.

**Comparison between FYE 2016 and FYE 2017**

For FYE 2017, other income increased by approximately RM0.2 million or 33.3% to approximately RM0.8 million, mainly due to net fair value gain of forward currency contracts as at 31 December 2017. The WAFEX rose by approximately 4.5% from USD1:RM4.1236 in FYE 2016 to USD1:RM4.3091 in FYE 2017.

**Comparison between FYE 2017 and FYE 2018**

For FYE 2018, other income increased by approximately RM0.07 million or 9.1% as we recorded gain on disposal of the hostel and land held under title GM 1612 Lot 1849 situated in Mukim of Sungai Raya, District of Muar, State of Johor ("Hostel") amounting to RM0.8 million.

On 13 March 2018, we entered into a sale and purchase agreement with Kejora Bitara Sdn Bhd to dispose the Hostel at the consideration price of RM2,100,000. The disposal was completed on 30 May 2018. Additional information on this disposal is set out in Section 9.1.

We did not record any net fair value gain of forward currency contracts as at 31 December 2018 as compared to the preceding FYE 2017.

**Comparison between FPE 2018 and FPE 2019**

For FPE 2019, the higher other income was mainly due to higher unrealised foreign exchange gain. The WAFEX increased by approximately 4.1% from USD1:RM3.9336 in FPE 2018 to USD1:RM4.0938 in FPE 2019.

**11.2.5 Selling and distribution expenses**

The breakdown of our selling and distribution expenses is as follows:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Advertisement	4	0.4	3	0.2	4	0.3	1	0.1
Exhibition expenses	144	12.9	166	10.7	107	6.7	116	7.4
Sales commission	35	3.1	67	4.3	119	7.4	184	11.7
Transportation charges	15	1.3	77	5.0	73	4.6	69	4.4
Forwarding and handling charges	918	82.3	1,238	79.8	1,296	81.0	1,199	76.4
	<b>1,116</b>	<b>100.0</b>	<b>1,551</b>	<b>100.0</b>	<b>1,599</b>	<b>100.0</b>	<b>1,569</b>	<b>100.0</b>

**11. FINANCIAL INFORMATION (Cont'd)**

	FPE 2018		FPE 2019	
	RM'000	%	RM'000	%
Advertisement	-	-	-	-
Exhibition expenses	89	16.2	136	19.7
Sales commission	46	8.4	69	10.0
Transportation charges	34	6.2	57	8.2
Forwarding and handling charges	380	69.2	430	62.1
	<b>549</b>	<b>100.0</b>	<b>692</b>	<b>100.0</b>

**Comparison between FYE 2015 and FYE 2016**

For FYE 2016, selling and distribution expenses increased by RM0.4 million or 39.1% as compared to the preceding financial year. The increase was mainly attributable to the following:

- (i) higher forwarding and handling charges, which was a result of higher sales volume; and
- (ii) increase in exhibition expenses by RM0.02 million due to higher travelling charges to attend Furniture China in Shanghai, China. Please refer to Section 6.12(i) for further details of the trade fairs that we have participated.

**Comparison between FYE 2016 and FYE 2017**

For FYE 2017, we did not record any significant change to our selling and distribution expenses. The selling and distribution expenses of RM1.6 million mainly comprises of:

- (i) forwarding and handling charges of RM1.3 million, which was slightly higher due to the increase in sales volume; and
- (ii) exhibition expenses of RM0.1 million where we participated in 1 exhibition during the financial year.

**Comparison between FYE 2017 and FYE 2018**

For FYE 2018, we did not record any significant change to our selling and distribution expenses. The selling and distribution expenses of RM1.6 million mainly comprises of:

- (i) forwarding and handling charges of RM1.2 million, which was slightly lower as compared to FYE 2017 as we secured lower charges offered by our forwarding agent;
- (ii) sales commission of RM0.2 million, which was higher due to the increase in sales; and
- (iii) exhibition expenses of RM0.1 million where we participated in 1 exhibition during the financial year.

**Comparison between FPE 2018 and FPE 2019**

The selling and distribution expenses recorded in FPE 2019 increased by RM0.1 million or 18.2% lower as compared to the preceding financial period, mainly due to:

- (i) higher forwarding and handling charges, which was a result of higher sales volume; and
- (ii) increase in exhibition expenses as we secured a larger exhibition booth for our participation in the Malaysian International Furniture Fair during the financial period, hence requiring higher expenses.

**11. FINANCIAL INFORMATION (Cont'd)****11.2.6 Administrative expenses**

The breakdown of our administrative expenses is as follows:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Staff costs	294	16.1	383	19.0	501	23.2	916	29.0
Director's remuneration	722	39.6	794	39.4	794	36.8	1,083	34.4
Depreciation	135	7.4	200	9.9	190	8.8	214	6.8
Bank charges	209	11.5	146	7.2	124	5.8	100	3.2
Upkeep and maintenance	8	0.4	21	1.1	8	0.4	38	1.2
Printing and stationery	152	8.3	133	6.6	125	5.8	189	6.0
Utilities	92	5.1	98	4.9	108	5.0	112	3.5
Legal and professional fees	26	1.4	31	1.5	91	4.2	157	5.0
Motor vehicle expenses	21	1.2	34	1.7	61	2.8	71	2.3
Other expenses <sup>(1)</sup>	164	9.0	176	8.7	154	7.2	273	8.6
	<b>1,823</b>	<b>100.0</b>	<b>2,016</b>	<b>100.0</b>	<b>2,156</b>	<b>100.0</b>	<b>3,153</b>	<b>100.0</b>

	FPE 2018		FPE 2019	
	RM'000	%	RM'000	%
Staff costs	296	29.9	426	40.0
Director's remuneration	360	36.4	360	33.8
Depreciation	64	6.5	42	3.9
Bank charges	54	5.5	37	3.5
Upkeep and maintenance	10	1.0	8	0.8
Printing and stationery	28	2.8	63	5.9
Utilities	42	4.3	40	3.8
Legal and professional fees	63	6.4	4	0.4
Motor vehicle expenses	7	0.7	11	1.0
Other expenses <sup>(1)</sup>	64	6.5	73	6.9
	<b>988</b>	<b>100.0</b>	<b>1,064</b>	<b>100.0</b>

Note:

<sup>(1)</sup> Other expenses include security charges, real property gains tax, quit rent and assessment as well as transportation charges for administrative staff.

**Comparison between FYE 2015 and FYE 2016**

For FYE 2016, administrative expenses increased by approximately RM0.2 million or 11.1% as compared to the preceding financial year. The increase was mainly attributable to higher staff costs, Director's remuneration and depreciation.

Staff costs increased by approximately RM0.1 million mainly due to the addition of 3 employees, which include the Purchasing Assistant, IT and Admin Executive and Export Sales Executive. Director's remuneration increased by approximately RM0.07 million while depreciation increased by approximately RM0.07 million due to addition of a motor vehicle during the financial year.

**11. FINANCIAL INFORMATION (Cont'd)****Comparison between FYE 2016 and FYE 2017**

For FYE 2017, administrative expenses increased by approximately RM0.1 million or 5.0% as compared to the preceding financial year. The increase was mainly attributable to higher staff costs as well as legal and professional fees.

Staff costs increased by RM0.1 million mainly due to the addition of 1 employee, being Loo Soon Chuan, our Marketing Manager who joined in September 2016. Legal and professional fees increased by approximately RM0.06 million due to preliminary listing expenses incurred.

**Comparison between FYE 2017 and FYE 2018**

For FYE 2018, administrative expenses increased by approximately RM1.0 million or 45.5% as compared to the preceding financial year. The increase was mainly attributable to higher staff cost of RM0.4 million mainly due to the addition of 7 employees as well as increase in Director's remuneration by RM0.3 million.

During the financial year, our Group incurred real property gains tax amounting to RM0.06 million due to the sale of hostel and land held under GM 1612 Lot 1849 situated in the Mukim of Sungai Raya, District of Muar, State of Johor. In addition, legal and professional fees increased by RM0.07 million mainly due to our listing expenses.

**Comparison between FPE 2018 and FPE 2019**

For FPE 2019, administrative expenses increased by approximately RM0.1 million or 7.6% as compared to the preceding financial period. The increase was mainly attributable to higher staff cost of RM0.1 million due to the addition of 4 employees during FPE 2019.

**11.2.7 Other expenses**

The breakdown of our other expenses is as follows:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Net fair value loss on derivative financial instrument	126	78.8	258	100.0	-	-	88	5.0
Revaluation loss on property, plant and equipment	-	-	-	-	-	-	1,520	86.7
Foreign exchange loss								
- Realised	34	21.2	-	-	819	89.8	94	5.4
- Unrealised	-	-	-	-	93	10.2	51	2.9
	<b>160</b>	<b>100.0</b>	<b>258</b>	<b>100.0</b>	<b>912</b>	<b>100.0</b>	<b>1,753</b>	<b>100.0</b>
	FPE 2018		FPE 2019					
	RM'000	%	RM'000	%				
Net fair value loss on derivative financial instrument	7	4.9	111	87.4				
Revaluation loss on property, plant and equipment	-	-	-	-				
Foreign exchange loss								
- Realised	136	95.1	16	12.6				
- Unrealised	-	-	-	-				
	<b>143</b>	<b>100.0</b>	<b>127</b>	<b>100.0</b>				

**11. FINANCIAL INFORMATION (Cont'd)**

For FYE 2015 and FYE 2016, other expenses mainly comprised net loss on fair value of derivative financial instrument of RM0.1 million and RM0.3 million, respectively.

The derivative financial instruments comprise foreign currency forward contracts entered with banking institutions to sell the USD received from our customers at agreed exchange rates for fixed periods of time to reduce the exposure of our receivables. Further details are set out in Section 11.10.

In FYE 2017, other expenses were due to realised foreign exchange loss of RM0.8 million and an unrealised foreign exchange loss of RM0.1 million.

In FYE 2018, other expenses was mainly due to revaluation loss of RM1.5 million on our properties, namely RM1.4 million for Land 3 and RM0.1 million for Investment Land.

During FYE 2018, we undertook a revaluation of all properties owned by our Group. However, the market value for Land 3 and Investment Land were lower than its net book value and we recorded revaluation loss of RM1.5 million. Further details are set out below:

	<b>Land 3</b>	<b>Investment Land</b>
	<b>RM'000</b>	<b>RM'000</b>
Total cost of acquisition for Land 3 / Net book value of Investment Land as at FYE 2017	6,434	2,086
Net book value as at FYE 2018	5,000*	2,000
Revaluation loss	(1,434)	(86)

Note:

\* Excluding the consultant fee of RM18,000 paid for the land conversion.

In FYE 2019, other expenses were mainly due to net loss on fair value of derivative financial instrument of RM0.1 million.

**11.2.8 Finance costs**

Finance costs consist of interest on bank overdraft, term loan, bankers' acceptance and hire purchase.

The breakdown of our finance costs is as follows:

	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Bank overdraft	16	8.0	12	10.3	1	0.9	3	0.9
Term loan	113	56.8	92	79.3	82	99.1	283	89.6
Banker's acceptances	28	14.0	11	9.5	-	-	30	9.5
Hire purchase	42	21.2	1	0.9	-	-	-	-
	<b>199</b>	<b>100.0</b>	<b>116</b>	<b>100.0</b>	<b>83</b>	<b>100.0</b>	<b>316</b>	<b>100.0</b>

**11. FINANCIAL INFORMATION (Cont'd)**

	FPE 2018		FPE 2019	
	RM'000	%	RM'000	%
Bank overdraft	-	-	-	-
Term loan	64	86.5	103	96.3
Banker's acceptances	10	13.5	4	3.7
Hire purchase	-	-	-	-
	<b>74</b>	<b>100.0</b>	<b>107</b>	<b>100.0</b>

Bank overdraft is used to finance our working capital while bankers' acceptances are used to finance purchases of raw materials while term loans are used to finance the construction of Factory B. Hire purchase is used to finance the purchase of motor vehicle.

**Comparison between FYE 2015 and FYE 2016**

For FYE 2016, finance costs decreased by approximately RM0.08 million as compared to the preceding financial year. The decrease was mainly attributable to lower term loan interest, banker's acceptances interest and hire purchase interest. Most of our hire purchase were paid off in FYE 2015, leading to a lower hire purchase interest for FYE 2016.

**Comparison between FYE 2016 and FYE 2017**

For FYE 2017, finance costs decreased by approximately RM0.03 million as compared to the preceding financial year. The decrease was mainly attributable to lower term loan interest and the absence of banker's acceptances interest and hire purchase interest.

**Comparison between FYE 2017 and FYE 2018**

For FYE 2018, finance cost increased by approximately RM0.2 million as compared to the preceding financial year. The increase in interest cost was mainly due to the term loan of RM4.0 million drawn for the purchase of Land 3.

**Comparison between FPE 2018 and FPE 2019**

For FPE 2019, our finance cost increased by RM0.03 million. The slight increase was mainly due to the increase in interest cost due to the term loan of RM4.0 million drawn for the purchase of Land 3.

**11.2.9 Tax expense, PBT and PAT**

The following tables sets out the comparison between the statutory tax rates and our effective tax rates for the financial years/period under review:

	FYE 2015	FYE 2016	FYE 2017	FYE 2018	FPE 2018	FPE 2019
	%	%	%	%	%	%
Statutory tax rate <sup>(1)</sup>	20 / 25	19 / 24	18 / 24	18 / 24	18 / 24	17 / 24
Effective tax rate	11.2	22.1	22.5	26.1	26.9	17.3

Note:

<sup>(1)</sup> We qualify for lower statutory tax rates of 20.0%, 19.0%, 18.0%, 18.0%, 18.0% and 17.0% on the first chargeable income of RM500,000 for FYEs 2015, 2016, 2017, 2018 and FPEs 2018 and 2019 respectively.

**11. FINANCIAL INFORMATION (Cont'd)**

The following tables sets out the PBT, PBT margin, PAT and PAT margin for the financial years/period under review:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2018</b>	<b>FPE 2019</b>
PBT (RM'000)	8,104	9,594	10,142	8,433	2,376	3,113
PBT margin (%)	22.2	23.2	21.0	16.7	15.2	17.0
PAT (RM'000)	7,194	7,474	7,860	6,229	1,736	2,576
PAT margin (%)	19.8	18.1	16.3	12.4	11.1	14.1

**Comparison between FYE 2015 and FYE 2016**

For FYE 2015, we registered a PBT and PAT of RM8.1 million and RM7.2 million respectively, with PBT margin and PAT margin of 22.2% and 19.8% respectively. The effective tax rate of 11.2% is lower than the statutory tax rate due to utilisation of reinvestment allowance of RM4.4 million during the financial year.

For FYE 2016, as a result of increase in revenue and GP, our PBT and PBT margin improved from approximately RM8.1 million and 22.2% for FYE 2015 to approximately RM9.6 million and 23.2% for FYE 2016. Correspondingly, our PAT and PAT margin increased from approximately RM7.2 million or 19.8% to approximately RM7.5 million and 18.1% in FYE 2016. The effective tax rate increased to 22.1% due to lower reinvestment allowance of RM0.8 million utilised during the financial year.

**Comparison between FYE 2016 and FYE 2017**

As a result of increase in revenue and GP, our PBT improved from approximately RM9.6 million to approximately RM10.1 million for FYE 2017. In line with higher PBT, PAT increased by approximately RM0.4 million to approximately RM7.9 million in FYE 2017.

However, we recorded decrease in PBT margin from to 23.2% to 21.0% and decrease in PAT margin dropped from 18.1% to 16.3% mainly due to foreign exchange loss of RM0.9 million. During FYE 2017, reinvestment allowance utilised was lower at RM0.7 million and our effective tax rate increased to 22.5%. Correspondingly, we recorded lower PAT margin of 16.3%.

**Comparison between FYE 2017 and FYE 2018**

While our GP for FYE 2018 was higher as compared to FYE 2017, our PBT decreased from approximately RM10.1 million in FYE 2017 to approximately RM8.4 million in FYE 2018. This was mainly due to revaluation loss on Land 3 of RM1.4 million. Resulting from the revaluation loss, our PBT margin decreased from 21.0% to 16.7% and our PAT margin decreased from 16.3% to 12.4%.

In line with lower PBT, PAT decreased from approximately RM7.9 million in FYE 2017 to approximately RM6.2 million in FYE 2018.

During FYE 2018, we recorded fair value loss on derivative financial instruments, revaluation loss on Land 3 and Investment Land as well as real property gain tax from the disposal of hostel and land. These expenses are not allowed for tax deduction. As such, our effective tax rate for FYE 2018 increased to 26.1%.



**11. FINANCIAL INFORMATION (Cont'd)****Comparison between FPE 2018 and FPE 2019**

For FPE 2019, as a result of increase in revenue and GP, our PBT and PBT margin improved from approximately RM2.4 million and 15.2% for FPE 2018 to approximately RM3.1 million and 17.0% for FPE 2019. Correspondingly, our PAT and PAT margin increased from approximately RM1.7 million or 11.1% to approximately RM2.6 million and 14.1% in FPE 2019.

The effective tax rate was higher at 26.9% in FPE 2018 due to as certain expenses (such as realised exchange rate loss) are not allowed for tax deduction. We recorded a decrease in the effective tax rate to 17.3% in FPE 2019 as we qualified for tax allowance of RM0.1 million as we have successfully increased our export.

**11.2.10 Review of financial position****(a) Assets**

Our assets for the financial years/period under review comprise the following:

	<b>Audited</b>			
	<b>As at 31 December</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	14,601	14,881	16,689	31,058
<b>Total non-current assets</b>	<b>14,601</b>	<b>14,881</b>	<b>16,689</b>	<b>31,058</b>
<b>Current assets</b>				
Inventories	4,816	4,568	5,950	6,778
Trade receivables	4,477	5,290	4,064	5,854
Other receivables	473	890	2,138	2,773
Derivative financial instruments	-	-	106	17
Fixed deposits with licensed banks	450	1,100	2,303	1,401
Cash and bank balances	507	1,180	3,546	2,271
<b>Total current assets</b>	<b>10,723</b>	<b>13,028</b>	<b>18,107</b>	<b>19,094</b>
<b>TOTAL ASSETS</b>	<b>25,324</b>	<b>27,909</b>	<b>34,796</b>	<b>50,152</b>
	<b>Unaudited</b>	<b>Audited</b>		
	<b>As at 30 April</b>			
	<b>2018</b>	<b>2019</b>		
	<b>RM'000</b>	<b>RM'000</b>		
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	22,864	31,361		
<b>Total non-current assets</b>	<b>22,864</b>	<b>31,361</b>		
<b>Current assets</b>				
Inventories	5,170	8,747		
Trade receivables	4,872	3,907		
Other receivables	2,305	4,303		
Derivative financial instruments	99	-		
Fixed deposits with licensed banks	-	3,285		
Cash and bank balances	1,725	3,115		
<b>Total current assets</b>	<b>14,171</b>	<b>23,357</b>		
<b>TOTAL ASSETS</b>	<b>37,035</b>	<b>54,718</b>		

**11. FINANCIAL INFORMATION (Cont'd)**

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**FYE 2016****Non-current assets**

Our non-current assets increased by RM0.3 million mainly due:

- (i) purchase of 2 units of CNC woodworking machines of RM1.4 million;
- (ii) purchase of motor vehicles, improvement made to buildings and purchase of office equipment amounting to RM0.5 million; and
- (iii) decrease in property, plant and equipment of RM1.6 million resulting from depreciation charges during the year.

**Current assets**

Our current assets increased by RM2.3 mainly due to:

- (i) increase of RM0.8 million in trade receivables due to higher revenue,
- (ii) increase of RM0.4 million in other receivables mainly due to levy paid for foreign workers and higher GST receivable; and
- (iii) increase of RM1.3 million in fixed deposits and cash and bank balances due to higher internally generated funds contributed by higher sales in FYE 2016.

The increase in current assets was partially offset by the decrease in inventories of RM0.2 million.

**FYE 2017****Non-current assets**

Our non-current assets increased by RM1.8 million mainly due:

- (i) purchase 3 units of edge banding machines and 1 unit of CNC panel saw machine of RM1.4 million;
- (ii) improvement made to buildings and purchase of office equipment amounting to RM0.2 million;
- (iii) purchase of the Investment Land for RM2.0 million; and
- (iv) decrease in property, plant and equipment of RM1.8 million resulting from depreciation charges during the year.

**Current assets**

Our current assets increased by RM5.1 million mainly due to:

- (i) increase of RM1.4 million in inventories to cater for increasing orders;
- (ii) increase of RM1.2 million in other receivables mainly due to deposits paid for acquisition of Land 3 as well as higher levy paid for foreign workers, utility deposits, prepayment of listing expenses and higher GST receivable; and
- (iii) increase of RM3.6 million in fixed deposits and cash and bank balances due to higher internally generated funds contributed by higher sales in the FYE 2017.

## **11. FINANCIAL INFORMATION (Cont'd)**

However, we recorded a decrease in trade receivables of RM1.2 million due to lower trade receivable turnover days of 35 days recorded in FYE 2017 as compared to 43 days recorded in FYE 2016.

### **FYE 2018**

Our non-current assets increased by RM14.4 million mainly due to:

- (i) purchase of motor vehicles, improvement made to buildings and purchase of office equipment amounting to RM0.3 million;
- (ii) purchase of the Land 1 for RM2.1 million and Land 3 for RM6.0 million as well as related transaction costs of RM0.9 million; and
- (iii) revaluation gain of RM4.3 million for Land 1 (including Factory A1 and A2) and RM5.3 million for Land 2 (including Factory B).

The increase in non-current assets was offset by:

- (i) impairment loss on revaluation gain of RM1.4 million for Land 3 and RM0.1 million for the Investment Land;
- (ii) disposal of a hostel and land held under GM 1612 Lot 1849 situated in the Mukim of Sungai Raya, District of Muar, State of Johor which has a NBV of RM1.4 million; and
- (iii) decrease in property, plant and equipment of RM1.9 million resulting from depreciation charges during the year.

### **Current assets**

Our current assets increased by RM1.0 million mainly due to:

- (i) the increase in trade receivables of RM1.8 million due to higher revenue for FYE 2018;
- (ii) increase of RM0.8 million in inventories to cater for increasing orders; and
- (iii) increase of RM0.6 million in other receivables mainly due to increase in the prepayment of listing expenses, levy paid for foreign workers, utility deposits and GST receivable.

The increase was offset by the decrease in fixed deposits and cash and bank balances amounting to RM2.2 million.

### **FPE 2019**

#### **Non-current assets**

Our non-current assets increased by RM0.3 million as compared to non-current assets as at 31 December 2018 of RM31.1 million mainly due to:

- (i) purchase of machineries, improvement made to buildings and purchase of office equipment amounting to RM0.5 million; and
- (ii) consultant fees and application fees paid for the planning permit of Land 3 of RM0.3 million.

**11. FINANCIAL INFORMATION (Cont'd)**

The increase in non-current assets was offset by the decrease in property, plant and equipment of RM0.5 million resulting from depreciation charges.

**Current assets**

Our current assets increased by RM4.3 million as compared to current assets as at 31 December 2018 of RM19.1 million mainly due to:

- (i) the increase of RM2.0 million in inventories to cater for increasing orders;
- (ii) the increase in other receivables of RM1.5 million mainly consist of the deposits for purchases of machineries and prepayments of listing expenses; and
- (iii) the increase of fixed deposits and cash and bank balances amounting to RM2.7 million.

The increase was offset by a decrease in trade receivables of RM1.9 million due to lower trade receivable turnover days of 35 days recorded in FYE 2018 as compared to 32 days recorded in FPE 2019.

**(b) Liabilities**

Our liabilities for the financial years/period under review comprise the following:

	<b>Audited</b>			
	<b>As at 31 December</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Non-current liabilities</b>				
Borrowings	3,418	3,187	2,937	6,186
Deferred tax liabilities	367	321	439	2,599
<b>Total non-current liabilities</b>	<b>3,785</b>	<b>3,508</b>	<b>3,376</b>	<b>8,785</b>
<b>Current liabilities</b>				
Trade payables	1,926	2,251	1,929	2,912
Other payables	694	731	750	1,358
Derivative financial instruments	314	572	-	-
Finance lease liabilities	61	-	-	-
Borrowings	887	901	1,208	592
Tax payables	381	995	722	452
<b>Total current liabilities</b>	<b>4,263</b>	<b>5,450</b>	<b>4,609</b>	<b>5,314</b>
<b>TOTAL LIABILITIES</b>	<b>8,048</b>	<b>8,958</b>	<b>7,985</b>	<b>14,099</b>

**11. FINANCIAL INFORMATION (Cont'd)**

	<b>Unaudited</b>	<b>Audited</b>
	<b>As at 30 April</b>	
	<b>2018</b>	<b>2019</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Non-current liabilities</b>		
Borrowings	6,580	5,990
Deferred tax liabilities	439	2,740
<b>Total non-current liabilities</b>	<b>7,019</b>	<b>8,730</b>
<b>Current liabilities</b>		
Trade payables	2,310	4,569
Other payables	1,272	1,527
Derivative financial instruments	-	94
Finance lease liabilities	-	-
Borrowings	1,706	888
Tax payables	682	280
<b>Total current liabilities</b>	<b>5,970</b>	<b>7,358</b>
<b>TOTAL LIABILITIES</b>	<b>12,989</b>	<b>16,088</b>

**FYE 2016****Non-current liabilities**

Our non-current liabilities decreased by RM0.3 million mainly due to decrease in borrowings of RM0.2 million as our Group did not draw down on new borrowings and the existing term loan at that time was fully settled in March 2016.

**Current liabilities**

Our current liabilities increased by RM1.2 million mainly due to:

- (i) increase of RM0.3 million in trade payables due to higher purchase of raw materials and supplies to support our increase in sales;
- (ii) increase of RM0.3 million in derivative financial instruments for the purpose of limiting our foreign currency exposure; and
- (iv) increase of RM0.6 million in tax payables due to higher PBT recorded and less reinvestment allowance utilised.

**FYE 2017****Non-current liabilities**

Our non-current liabilities decreased by RM0.1 million mainly due to decrease in borrowings as our Group did not draw down on new borrowings.

**Current liabilities**

Our current liabilities decreased by RM0.8 million mainly due to:

- (i) decrease of RM0.3 million in trade payables due a decrease in trade payable turnover days from 26 days in FYE 2016 to 22 days in FYE 2017;

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**11. FINANCIAL INFORMATION (Cont'd)**

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- (ii) decrease in derivative financial instruments of RM0.6 million as we recorded net gain in our foreign currency forward contracts; and
- (iii) decrease in tax payables by RM0.3 million.

The decrease in current liabilities was offset by an increase of RM0.3 million in borrowings due to higher bank overdrafts drawn to for purchase of raw materials to support the increase in production.

**FYE 2018****Non-current liabilities**

Our non-current liabilities increased by RM5.4 million mainly due to:

- (i) increase of RM3.2 million in borrowings due to the drawn down of new term loan in FYE 2018 for the purchase of Land 3; and
- (ii) increase in deferred tax liabilities of RM2.2 million due to the revaluation gain of Land 1 (including Factory A1 and A2) and Land 2 (including Factory B).

**Current liabilities**

Our current liabilities increased by RM0.7 million mainly due to:

- (i) increase of RM1.0 million in trade payables due to higher purchase of raw materials and supplies to support our increase in sales; and
- (ii) increase in other payables by RM0.6 million due to increase in receipt of advance payment from new customers of RM0.4 million, accrued salaries and staff allowance of RM0.2 million.

The increase in current liabilities was offset by decrease in borrowing as no overdraft was drawn in FYE 2018 and decrease in tax payables of RM0.3 million.

**FPE 2019****Non-current liabilities**

Our non-current liabilities decreased slightly by RM0.06 million as compared to non-current liabilities as at 31 December 2018 of RM8.8 million mainly due to repayment of long term loan for the purchase of Land 2 and Land 3.

**Current liabilities**

Our current liabilities increased by RM2.0 million as compared to current liabilities as at 31 December 2018 of RM5.3 million mainly due to:

- (i) increase of RM1.7 million in trade payables due to higher purchase of raw materials and supplies to support our increase in sales;
- (ii) increase of RM0.2 million in other payables due to increase in non-trade payables; and
- (ii) increase in term loan of RM0.3 million for the purchase of Land 3.

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## **11. FINANCIAL INFORMATION (Cont'd)**

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### **11.2.11 Recent developments**

There were no significant events subsequent to our Group's audited combined financial statements for FPE 2019.

### **11.3 LIQUIDITY AND CAPITAL RESOURCES**

#### **11.3.1 Working capital**

We have been financing our operations through existing cash and bank balances, cash generated from our operations and external sources of funds. Our external sources of funds mainly comprise term loans, bank overdrafts and trade facilities such as bankers' acceptance as well as hire purchase financing. As at 30 April 2019, we have:

- (a) cash and bank balances of approximately RM3.1 million; and
- (b) banking facilities (excluding finance lease) up to a limit of RM13.9 million, of which RM6.9 million has been utilised.

The interest rate of our borrowings is based on prevailing market rates. Currently, the principal use of our borrowings is for our Group's business growth and operations, for the acquisition of property, plant and equipment as well as for working capital purposes.

The decision to utilise either internally generated funds or borrowings for our business operations depends on, amongst others, our cash and bank balances, expected cash inflows, future working capital requirements, future capital expenditure requirements and the interest rate on borrowings.

Based on the pro forma combined statements of financial position of our Group as at 30 April 2019 (after the Acquisition of Spring Art but before the Public Issue), our NA position stood at RM38.6 million and our gearing level is 0.2 times. Our NA position and gearing level after the Acquisition of Spring Art and Public Issue (and utilisation of proceeds) are RM58.9 million and 0.2 times respectively.

Our Board is confident that, after taking into account our gearing and cash flow position as well as the banking facilities currently available to our Group, our working capital will be sufficient for our existing and foreseeable requirements for a period of 12 months from the date of this Prospectus.

At this juncture, we do not foresee any circumstances which may materially affect our liquidity. Our Group has not encountered any major disputes with our debtors. Our finance personnel works together closely with our sales and marketing staff for the collection of these outstanding balances on a monthly basis. This measure has proven to be effective while maintaining a cordial relationship with our customers.

**11. FINANCIAL INFORMATION (Cont'd)****11.3.2 Review of cash flows****(a) Cash flow summary**

The table below sets out the summary of our Group's historical audited combined statements of cash flows for FYEs 2015 to 2018 and FPE 2019.

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Net cash from operating activities	4,386	9,216	6,762	6,999	4,073	3,658
Net cash used in investing activities	(1,510)	(1,866)	(3,618)	(7,309)	(6,652)	(789)
Net cash used in financing activities	(2,716)	(6,126)	(234)	(960)	(594)	(189)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>160</b>	<b>1,224</b>	<b>2,910</b>	<b>(1,270)</b>	<b>(3,173)</b>	<b>2,680</b>

**Commentary of cash flows****FYE 2015****Net cash from operating activities**

In FYE 2015, we recorded net operating cash of RM4.4 million. We collected approximately RM33.1 million from our customers which was offset by cash payments of RM28.7 million. Such cash payments were mainly due to:

- (i) Approximately RM24.1 million paid to our suppliers for purchase of raw materials (including packaging materials);
- (ii) Approximately RM4.3 million paid for our operating expenses and salaries; and
- (iii) Income tax paid of RM0.3 million.

**Net cash used in investing activities**

We recorded a net cash outflow of RM1.5 million from our investing activities in FYE 2015, mainly due to:

- (i) purchase of 2 units of CNC woodworking machines for RM1.1 million;
- (ii) improvement made to buildings and purchase of office equipment amounting RM0.4 million.



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**11. FINANCIAL INFORMATION (Cont'd)**

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**Net cash used in financing activities**

In FYE 2015, the cash outflow in financing activities of RM2.7 million was mainly due to:

- (i) repayment of borrowings of RM0.1 million;
- (ii) repayment of hire purchase of RM1.1 million; and
- (iii) dividend payment of RM1.5 million.

**FYE 2016****Net cash from operating activities**

In FYE 2016, we recorded net operating cash of RM9.2 million. We collected approximately RM40.6 million from our customers which was offset by cash payments of RM31.4 million. Such cash payments were mainly due to:

- (i) Approximately RM25.0 million paid to our suppliers for purchase of raw materials (including packaging materials);
- (ii) Approximately RM4.8 million paid for our operating expenses and salaries; and
- (iii) Income tax paid of RM1.6 million.

**Net cash used in investing activities**

We recorded a net cash outflow of RM1.9 million from our investing activities in FYE 2016, mainly due to:

- (i) purchase of 2 units of CNC woodworking machines for RM1.4 million;
- (ii) purchase of motor vehicles of RM0.3 million;
- (iii) improvement made to buildings and purchase of office equipment amounting RM0.2 million.

**Net cash used in financing activities**

In FYE 2016, we recorded a net cash outflow of RM6.1 million from our financing activities, mainly due to:

- (i) dividend payment of RM5.8 million; and
- (ii) repayment of borrowings of RM0.3 million.

**11. FINANCIAL INFORMATION (Cont'd)**

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**FYE 2017****Net cash from operating activities**

In FYE 2017, we recorded net operating cash of RM6.8 million. For FYE 2017, we collected approximately RM47.0 million from our customers which was offset by cash payments of RM40.2 million. Such cash payments were mainly due to:

- (i) Approximately RM32.2 million paid to our suppliers for purchase of raw materials (including packaging materials);
- (ii) Approximately RM5.6 million paid for our operating expenses and salaries; and
- (iii) Income tax paid of RM2.4 million.

**Net cash used in investing activities**

In FYE 2017, we recorded a net cash outflow of RM3.6 million from our investing activities, mainly due to:

- (i) purchase of 3 units of edge banding machines and 1 unit of CNC panel saw machine for RM1.4 million;
- (ii) purchase of Investment Land (including related transaction costs) of RM2.1 million;
- (iii) improvement made to buildings and purchase of office equipment amounting RM0.2 million.

The outflow was offset with the interest received of approximately RM0.04 million for the fixed deposits placed with licensed banks.

**Net cash used in financing activities**

In FYE 2017, we recorded a net cash outflow of RM0.2 million from our financing activities due to repayment of term loans.

**FYE 2018****Net cash from operating activities**

In FYE 2018, we recorded net operating cash of RM7.0 million. For FYE 2018, we collected approximately RM47.8 million from our customers which was offset by cash payments of RM40.8 million. Such cash payments were mainly due to:

- (i) Approximately RM31.8 million paid to our suppliers for purchase of raw materials (including packaging materials);
- (ii) Approximately RM6.3 million paid for our operating expenses and salaries; and
- (iii) Income tax paid of RM2.4 million.

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**11. FINANCIAL INFORMATION (Cont'd)**

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**Net cash used in investing activities**

In FYE 2018, we recorded a net cash outflow of RM7.3 million from our investing activities, mainly due to:

- (i) purchase of Land 3 (including related transaction costs) of RM6.4 million;
- (ii) improvement made to buildings and purchase of office equipment amounting to RM0.4 million;
- (iii) purchase of machinery amounting to RM 0.4 million; and
- (iv) purchase of motor vehicles of RM0.1 million.

**Net cash used in financing activities**

In FYE 2018, we recorded a net cash outflow of RM1.0 million from our financing activities, mainly due to:

- (i) dividend payment of RM4.5 million; and
- (ii) repayment of borrowings of RM0.5 million.

The outflow was offset by the drawdown of borrowings amounting to RM4.0 million for the acquisition of Land 3.

**FPE 2019****Net cash from operating activities**

In FPE 2019, we recorded net operating cash of RM3.7 million. For FPE 2019, we collected approximately RM18.7 million from our customers which was offset by cash payments of RM15.0 million. Such cash payments were mainly due to:

- (i) Approximately RM11.8 million paid to our suppliers for purchase of raw materials (including packaging materials);
- (ii) Approximately RM2.6 million paid for our operating expenses and salaries; and
- (iii) Income tax paid of RM0.6 million.

**Net cash used in investing activities**

In FPE 2019, we recorded a net cash outflow of RM0.8 million from our investing activities, mainly due to:

- (i) purchase of machinery amounting to RM0.4 million; and
- (ii) consultant fees and application fees paid for the planning permit of Land 3 of RM0.3 million.

**Net cash used in financing activities**

In FPE 2019, we recorded a net cash outflow of RM0.2 million from our financing activities due the repayment of borrowings of RM0.2 million.

**11. FINANCIAL INFORMATION (Cont'd)****11.4 BORROWINGS**

We utilise credit facilities such as bankers' acceptances to partially finance our working capital. In addition, we also utilise term loans to finance the construction of factory building and purchase of machinery.

Our total outstanding bank borrowings as at 30 April 2019 stood at RM6.9 million, details of which are set out below. All our bank borrowings are interest-bearing and denominated in RM.

				<b>As at 30 April 2019</b>
		<b>Purpose</b>	<b>Tenure</b>	<b>Interest rate</b>
				<b>% per annum</b>
				<b>RM'000</b>
<b>Interest bearing short-term borrowings, payable within 1 year:</b>				
Term loans		Acquisition of Land 2 and the construction of Factory B	15 years	4.5
Term loans		Acquisition of Land 3	10 years	4.4
Bankers' acceptances		Working capital requirements	90 to 120 days	4.8
<b>Sub-total</b>				<b>888</b>
<b>Interest bearing long-term borrowings, payable after 1 year:</b>				
Term loans		Acquisition of Land 2 and the construction of Factory B	15 years	4.5
Term loans		Acquisition of Land 3	10 years	4.4
<b>Sub-total</b>				<b>5,990</b>
<b>Total borrowings</b>				<b>6,878</b>

**Pro forma gearing (times)**

After Acquisition of Spring Art before the Public Issue <sup>(1)</sup>	0.2
After the Public Issue <sup>(2)</sup>	0.2

## Notes:

- (1) Computed based on our pro forma shareholders' funds of RM38.6 million in the pro forma combined statements of financial position after the Acquisition of Spring Art before the Public Issue.
- (2) Computed based on our pro forma shareholders' funds of RM58.9 million in the pro forma combined statements of financial position after the Acquisition of Spring Art and Public Issue (and utilisation of proceeds).

Our pro forma gearing ratio is expected to decrease from 0.2 times (before the Public Issue) to 0.1 times (after the Public Issue) due to the increase in shareholders' funds arising from the issuance of new Shares pursuant to the Public Issue. Thereafter, the gearing ratio will increase to 0.2 times (after utilisation of proceeds) as we intend to part finance the construction of our new Factory C with the drawdown of term loan amounting to RM5.8 million. We have received an indicative loan offer letter from a licensed bank for RM5.8 million.

**11. FINANCIAL INFORMATION (Cont'd)**

Our bank borrowings carry the following interest rates for the FYEs 2015 to 2018 and FPE 2019:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>
	<b>% per annum</b>				
Bankers' acceptances	3.3 – 4.8	3.3 – 4.6	-	-	4.8
Bank overdrafts	7.9 – 8.9	7.9 – 8.9	7.9 – 8.1	-	-
Term loans	4.7 – 6.4	4.7	4.4 – 6.6	4.6 – 4.8	4.4 – 4.5

The following table sets out the maturities of our borrowings and finance lease liabilities:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>				
<b>Bank borrowings</b>					
Within the next 12 months	887	901	1,208	592	888
After the next 12 months:					
Later than 1 year but not later than 5 years	1,101	1,137	1,205	2,645	2,675
More than 5 years	2,317	2,050	1,732	3,541	3,315

As at the LPD, we do not have any borrowings which are non-interest bearing and/or in foreign currency. We have not defaulted on payments of principal sums and/or interests in respect of any borrowings throughout the FYEs 2015 to 2018 and FPE 2019 as well as the subsequent financial period up to LPD.

As at the LPD, neither our Group nor our subsidiary is in breach of any terms and conditions or covenants associated with the credit arrangement or bank loan which can materially affect our financial position and results or business operations or the investments by holders of our securities.

From FYEs 2015 to 2018 and FPE 2019, we have not experienced any claw back or reduction in the facilities limit granted to us by our lenders.

**11.5 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES**

As at the LPD, save for our bank borrowings as disclosed in Section 11.4 and the USD denominated forward contracts entered into as disclosed in Section 11.10.1, we do not utilise any other financial instruments. We maintain foreign currency accounts to receive proceeds of our sales in USD and SGD.

We finance our operations mainly through cash generated from our operations, as well as external sources of funds which mainly comprise bank borrowings. Our bank borrowings as at 30 April 2019 are based on the bank's cost of funds plus a rate which varies depending on the different types of bank facilities.

The principal usages of these banking facilities are for working capital, purchase of raw materials and purchases of fixed assets.

**11. FINANCIAL INFORMATION (Cont'd)****11.6 MATERIAL CAPITAL COMMITMENTS, MATERIAL LITIGATION AND CONTINGENT LIABILITY****11.6.1 Material capital commitments**

Save as disclosed below, as at the LPD, our Group does not have any material capital commitment:

	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Unaudited</b>
	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>	<b>As at the LPD</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Authorised and contracted for:				
Purchase of freehold land <sup>(i)</sup>	5,489	-	-	-
Application for access road <sup>(ii)</sup>	260	260	260	260
Purchase of machinery <sup>(iii)</sup>	-	1,539	994	106
Purchase of computer system	-	15	-	-

Notes:

- (i) On 23 October 2017, Spring Art (as purchaser) had entered into a sale and purchase agreement to purchase Land 3 at a consideration price of approximately RM6.1 million. As at 31 December 2017, a deposit of RM0.6 million has been paid.

As such, the remaining purchase sum payable of RM5.5 million has been recorded as recorded as a material commitment as at 31 December 2017. The acquisition of Land 3 was subsequently completed on 6 February 2018.

- (ii) On 18 June 2017, Spring Art had vide its consultant submitted an application to the Pejabat Tanah Muar to apply for an access road.

The Pejabat Tanah Muar had vide its letter dated 27 July 2017 notified that the cost for the access road is RM520,000, of which a deposit of RM260,000 is payable in order for the application to proceed. Spring Art had on 22 August 2017 made the payment to the Pejabat Tanah Muar.

The remaining amount payable of RM260,000 has been recorded as a material commitment as at 31 December 2018, 30 April 2019 and as at the LPD. This amount, when due, shall be paid via our internally generated funds.

- (iii) For the purchase of the following machines:

<b>Description</b>	<b>No of units/location</b>
(i) Boring machines	1 unit at Factory A2, 1 unit at Factory B and 6 units at subcontractors' factory*
(ii) CNC panel saw machines	3 units at subcontractors' factory*
(iii) Edge banding machines	4 units at subcontractors' factory*

**11. FINANCIAL INFORMATION (Cont'd)**

- \* On 16 May 2019, Spring Art had entered into a subcontractor agreement with Bright Showcase whereby Bright Showcase is appointed as a subcontractor to undertake the manufacturing of our furniture products for sales orders that we are unable to manufacture at our manufacturing factories. A total of 13 machines are placed at the subcontractor's factory for this purpose.

Additional information on the subcontractor agreement is set out in Section 6.16(b).

**11.6.2 Material litigation and contingent liability**

We are not engaged in any material litigation, claim or arbitration either as plaintiff or defendant and there are no proceedings pending or threatened or of any fact likely to give rise to any proceeding which might materially or adversely affect our position or business as at the LPD.

There are no contingent liabilities incurred by us or our subsidiary, which upon becoming enforceable, may have a material effect on our financial position or our subsidiary as at the LPD.

**11.7 KEY FINANCIAL RATIOS**

The key financial ratios of our Group for FYEs 2015 to 2018 and FPE 2019 are as follows:

	<b>Audited</b>				
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>
Trade receivable turnover (days) <sup>(1)</sup>	36	43	35	35	32
Trade payable turnover (days) <sup>(2)</sup>	28	26	22	24	33
Inventory turnover (days) <sup>(3)</sup>	59	60	56	64	70
Current ratio (times) <sup>(4)</sup>	2.5	2.4	3.9	3.6	3.2
Gearing ratio (times) <sup>(5)</sup>	0.2	0.2	0.2	0.2	0.2

Notes:

- (1) Computed based on the average trade receivables multiplied by 365 days for FYEs and 120 days for FPE 2019:

	<b>Audited</b>				
	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FPE</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Opening trade receivables	2,836	4,477	5,290	4,064	5,854
Closing trade receivables	4,477	5,290	4,064	5,854	3,907
Revenue	36,425	41,287	48,276	50,382	18,297
Average trade receivables turnover period (days)	36	43	35	35	32

**11. FINANCIAL INFORMATION (Cont'd)**

- (2) Computed based on the average trade payables multiplied by 365 days for FYEs and 120 days for FPE 2019:

	<b>Audited</b>				
	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FPE</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Opening trade payables	1,976	1,926	2,251	1,929	2,912
Closing trade payables	1,926	2,251	1,929	2,912	4,569
Cost of sales	25,112	28,366	34,152	36,000	13,292
Average trade payable turnover period (days)	28	26	22	24	33

- (3) Computed based on the average inventories multiplied by 365 days for FYEs and 120 days for FPE 2019:

	<b>Audited</b>				
	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FPE</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Opening inventory	3,429	4,816	4,568	5,950	6,778
Closing inventory	4,816	4,568	5,950	6,778	8,747
Cost of sales	25,112	28,366	34,152	36,000	13,292
Inventory turnover period (days)	59	60	56	64	70

- (4) Computed based on current assets over current liabilities as at year end for each of the FYEs 2015 to 2018 and FPE 2019.

- (5) Computed based on the total borrowings over total equity as at year end for each of the FYEs 2015 to 2018 and FPE 2019.

**11.7.1 Trade receivables turnover**

The ageing analysis of our trade receivables as at 30 April 2019 is as follows:

	<b>Within credit period</b>	<b>Exceeding credit period</b>				<b>Total</b>
	<b>Neither past due nor impaired</b>	<b>1 to 30 days past due but not impaired</b>	<b>31 to 60 days past due but not impaired</b>	<b>61 - 90 days past due but not impaired</b>	<b>More than 90 days past due but not impaired</b>	
Trade receivables (RM'000)	3,866	41	-	-	-	3,907
% of total trade receivables (%)	99.0	1.0	-	-	-	100
Subsequent collections up to the LPD (RM'000)	3,866	41	-	-	-	3,907
Trade receivables net of subsequent collections (RM'000)	-	-	-	-	-	-
% of trade receivables net of subsequent collections to total trade receivables net of subsequent collections (%)	-	-	-	-	-	-
Turnover period (Days)						32



**11. FINANCIAL INFORMATION (Cont'd)**

As at the LPD, all outstanding trade receivables as at 30 April 2019 have been collected.

Our normal trade terms are cash term and credit terms of up to 90 days. Our credit terms to customers are assessed and approved on a case-by-case basis taking into consideration various factors such as relationship with customers, customers' payment history, credit worthiness and quantum of amount owing. We use ageing analysis to monitor the credit quality of our trade receivables.

Our average trade receivables turnover periods for the FYE 2015, FYE 2016, FYE 2017, FYE 2018 and FPE 2019 were 36 days, 43 days, 35 days, 35 days and 32 days respectively, which is within our credit period.

Our Group has not encountered any major disputes with our debtors and hence no allowance for impairment was provided for as there were no doubtful receivables outstanding for the FYE 2015, FYE 2016, FYE 2017, FYE 2018 and FPE 2019.

**11.7.2 Trade payables turnover**

The ageing analysis of our trade payables as at 30 April 2019 is as follows:

	<b>Exceeding credit period</b>					<b>Total</b>
	<b>Within credit term</b>	<b>1 to 30 days past due</b>	<b>31 to 60 days past due</b>	<b>61 - 90 days past due</b>	<b>More than 90 days past due</b>	
Trade payables (RM'000)	2,572	1,431	272	261	33	4,569
% of total trade payables (%)	56.3	31.3	6.0	5.7	0.7	100
Subsequent payments up to the LPD (RM'000)	2,572	1,431	272	261	33	4,569
Trade payables net of subsequent payments (RM'000)	-	-	-	-	-	-
% of trade payables net of subsequent payments to total trade payables net of subsequent payments (%)	-	-	-	-	-	-
Turnover period (Days)						33

The normal trade terms granted to our Group by our suppliers are cash term and credit terms of up to 90 days.

Our average trade payables turnover period as at for the FYE 2015, FYE 2016, FYE 2017, FYE 2018 and FPE 2019 were 28 days, 26 days, 22 days, 24 days and 33 days respectively, which is within the credit period given.

As at the LPD, all the outstanding trade payables as at 30 April 2019 have been paid.

**11. FINANCIAL INFORMATION (Cont'd)****11.7.3 Inventories**

Our inventories consist of raw materials, packaging materials, work-in-progress, and finished goods. The table below sets out a summary of our Group's inventories for the financial years/period under review:

	<b>Audited</b>				
	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FPE</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Opening inventories	3,429	4,816	4,568	5,950	6,778
Closing inventories	4,816	4,568	5,950	6,778	8,747
Cost of sales	25,112	28,366	34,152	36,000	13,292
Average inventory turnover period (days)	59	60	56	64	70

Average inventory turnover period as at 31 December 2015, 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019 were 59 days, 60 days, 56 days, 64 days and 70 days respectively. Our average inventory turnover period is approximately 2 months and we keep our inventories low as we manufacture on a 'made-to-order' basis.

The inventory turnover of FYE 2018 of 64 days and FPE 2019 of 70 days are higher to cater for increasing in sales in 2019.

As at 30 April 2019, the inventories of our Group amounting to approximately RM8.7 million can be analysed as follows:

	<b>1 to 30</b>	<b>31 to 60</b>	<b>61 to 90</b>	<b>91 days</b>	<b>Total</b>
	<b>days</b>	<b>days</b>	<b>days</b>	<b>and above</b>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Inventories					
- Raw materials (including packaging material)	4,212	184	348	1,084	5,828
- Work-in-progress	918	-	-	-	918
- Finished goods	1,666	-	-	-	1,666
- Goods in transit*	335	-	-	-	335
Inventories	<b>7,131</b>	<b>184</b>	<b>348</b>	<b>1,084</b>	<b>8,747</b>
Turnover period (Days)					70

The closing inventory for the past 4 FYEs and FPE 2019 are as follows:

	<b>Audited</b>				
	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FPE</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Closing inventory					
- Raw materials (including packaging material)	4,323	4,154	4,308	4,801	5,828
- Work-in-progress	29	298	133	412	918
- Finished goods	464	116	1,509	1,240	1,666
- Goods in transit*	-	-	-	325	335
	<b>4,816</b>	<b>4,568</b>	<b>5,950</b>	<b>6,778</b>	<b>8,747</b>

**11. FINANCIAL INFORMATION (Cont'd)**

Note:

\* Goods yet to be received as at financial years/period under review.

Our Group's raw materials mainly consist of boards (particle boards and MDF), metal components (screws, nuts and mounting brackets), PVC edges as well as packaging materials (corrugated cartons and packing tapes).

Our Group's finished goods consist of furniture products.

We conduct a monthly management meeting to review the stockholding level and inventory ageing analysis. Approval is required from authorised personnel at management level for replenishment of stocks and impairment on slow moving stocks.

Our Group practices first-in-first-out basis in computing the cost of inventories, work-in-progress, and finished goods. The costs of raw materials include invoices value of goods purchased and expenditure incurred in acquiring the inventories. The cost of finished goods and work-in-progress comprises raw materials, direct labour and an appropriate proportion of production overhead.

**11.7.4 Current ratio**

Our current ratio, current assets and current liabilities for the financial years/period under review are as follows:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Current assets	10,723	13,028	18,107	19,094	23,357
(Current liabilities)	(4,263)	(5,450)	(4,609)	(5,314)	(7,358)
<b>Net current assets/ (liabilities)</b>	<b>6,460</b>	<b>7,578</b>	<b>13,498</b>	<b>13,780</b>	<b>15,999</b>
Current ratio (times)	2.5	2.4	3.9	3.6	3.2

Our current ratio ranged from 2.4 times to 3.9 times for the financial years/period under review, indicating that our Group is capable of meeting our current obligations as our current assets such as inventory and trade receivables, which can be readily converted to cash, together with our cash in the bank are enough to meet immediate current liabilities.

In FYE 2017, our current ratio increased to 3.9 times mainly due to the increase of RM3.6 million in fixed deposits and cash and bank balances contributed by higher PAT in the FYE 2017.

Kindly also refer to Section 11.2.10 for further details on our current assets and current liabilities.

**11.7.5 Gearing ratio**

Our gearing ratio throughout the financial years/period under review is as follows:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>
Total borrowings (RM'000)	4,305	4,088	4,145	6,778	6,878
Total equity (RM'000)	17,276	18,951	26,811	36,053	38,630
Gearing ratio (times)	0.2	0.2	0.2	0.2	0.2

Our Group's gearing ratio is at 0.2 times for the FYEs/FPE under review.

**11. FINANCIAL INFORMATION (Cont'd)**

During FYE 2016 and FYE 2017, we did not drawdown on any new borrowings. During FYE 2018, our borrowings increased to RM6.8 million mainly due to the drawdown of term loan for the purchase of Land 3.

The improvement in our total equity is as a result of the PAT recorded for the past FYEs/FPE. During FYE 2018 and FPE 2019, we recorded surplus from revaluation of land and buildings of RM7.4 million (net of deferred tax liability) respectively.

**11.8 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES**

There were no government, economic, fiscal or monetary policies or factors which have materially affected our financial performance during the financial years/period under review.

There is no assurance that our financial performance will not be adversely affected by the impact of further changes in government, economic, fiscal or monetary policies or factors moving forward. Risks relating to government, economic, fiscal or monetary policies or factors which may adversely and materially affect our operations are set out in Section 8.

**11.9 IMPACT OF INFLATION**

Our Group is of the view that the current inflation rate does not have a material impact on our business, financial condition or results of our operation. However, any significant increase in future inflation may adversely affect our Group's operations and performance insofar as we are unable to pass on the higher costs to our customers through increase in selling prices.

**11.10 IMPACT OF FOREIGN EXCHANGE RATES, INTEREST RATES AND/OR COMMODITY PRICES****11.10.1 Impact of foreign exchange rates**

We are exposed to transactional currency exposure as approximately 98.3%, 98.9%, 99.0%, 98.9% and 99.4% of our revenues were denominated in USD for FYEs 2015, 2016, 2017 and 2018 and FPE 2019 respectively. Our Group's GP margin is therefore directly affected by the foreign currencies exchange rate fluctuation.

An appreciation of the RM against the USD may ultimately affect our revenue. This may adversely affect our financial performance as it would reduce our GP margin.

**(a) Foreign exchange gain/(loss)**

For the past 4 FYEs 2015 to 2018 and FPE 2019, our gain and losses from the foreign exchange fluctuations are as follows:

	FYE 2015	FYE 2016	FYE 2017	FYE 2018	FPE 2019
	RM'000	RM'000	RM'000	RM'000	RM'000
Realised foreign exchange gain/(loss) <sup>(i)</sup>	(34)	439	(819)	(94)	(16)
Unrealised foreign exchange gain/(loss) <sup>(ii)</sup>	54	120	(93)	(51)	70
<b>Net gain/(loss)</b>	<b>20</b>	<b>559</b>	<b>(912)</b>	<b>(145)</b>	<b>54</b>

**11. FINANCIAL INFORMATION (Cont'd)**

- (i) Realised foreign exchange gain/(loss) represents the difference in the foreign exchange rate as at the date of our invoice as compared to the foreign exchange rate when the payment for the invoice is received.

If the foreign exchange rate as at the date of our invoice is higher as compared to the rate when the payment for the invoice is received, we will record a realised foreign exchange loss. Conversely, if the foreign exchange rate as at the date of our invoice is lower as compared to the rate when the payment for the invoice is received, we will record a realised foreign exchange gain.

- (ii) Unrealised foreign exchange gain/(loss) represents the difference in the foreign exchange rate as at the date of our invoice as compared to the foreign exchange spot rates as at respective FYE/FPE.

**(b) Foreign currency forward contracts**

In addition, we enter into foreign currency forward contracts with banking institutions to sell the USD received from our customers at agreed exchange rates for fixed periods of time to reduce the exposure of our receivables. The USD denominated forward contracts entered into are as follows:

	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>		<b>FPE 2019</b>	
	<b>USD'000</b>	<b>RM'000</b>	<b>USD'000</b>	<b>RM'000</b>	<b>USD'000</b>	<b>RM'000</b>	<b>USD'000</b>	<b>RM'000</b>	<b>USD'000</b>	<b>RM'000</b>
USD denominated forward contracts	1,694	6,958	1,750	7,289	800	3,151	850	3,533	2,139	8,755

In the past 4 FYEs 2015 to 2018 and FPE 2019, our gain and losses arising from the fluctuations in foreign exchange from the forward contracts that we entered into, as follows:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Net fair value gain/(loss) on derivative financial instrument	(126)	(258)	678	(88)	(111)

We will record a net fair value gain if the agreed exchange rate is higher than the rates as at respective FYEs/FPE. Conversely, we will record a net fair value loss if the agreed exchange rate is lower than the rates as at respective FYEs/FPE.

Resulting from the usage of foreign currency forward contracts, the net effect to the impact of foreign exchange rate fluctuations is as follows:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Net foreign exchange gain/(loss)	20	559	(912)	(145)	54
Net fair value gain/(loss) on derivative financial instrument	(126)	(258)	678	(88)	(111)
<b>Foreign exchange gain/(loss)</b>	<b>(106)</b>	<b>301</b>	<b>(234)</b>	<b>(233)</b>	<b>(57)</b>

**11. FINANCIAL INFORMATION (Cont'd)**

Based on the above, we were able to reduce the net foreign exchange loss recorded in FYE 2017 of RM0.91 million as we had recorded a net fair value gain of RM0.68 million via usage of foreign currency forward contracts. While for FYE 2018, we recorded net foreign exchange loss of RM0.15 million and net fair value loss of RM0.09 million via usage of foreign currency forward contracts. The overall impact of foreign exchange loss for the FYE 2017 was RM0.23 million.

However, for FYE 2016, our net foreign exchange gain of RM0.56 million was offset by the net fair value loss of RM0.26 million via usage of foreign currency forward contracts.

For FYE 2015 and FPE 2019, the impact of foreign exchange gain/loss was minimal at RM0.11 million for FYE 2015 and RM0.06 million for FPE 2019.

Kindly refer to Section 8.1.1 for the details on risk relating to fluctuations in foreign exchange rates.

**11.10.2 Impact of interest rates**

Interest coverage ratio measures the number of times a company can make its interest payments with its profit before interest and tax. The interest coverage ratio for the financial years/period under review is as follows:

	<b>Audited</b>				
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FPE 2019</b>
Interest coverage ratio (times) <sup>(1)</sup>	41.7	83.6	122.7	27.4	29.8

Note:

<sup>(1)</sup> Computed based on profit before interest and tax over finance costs for the FYEs 2015 to 2018 and FPE 2019.

Our interest coverage ratio of between 27.4 times to 122.7 times for the FYEs 2015 to 2018 and FPE 2019 indicates that our Group has been able to generate sufficient profits before interest and tax to meet our interest serving obligations. Our interest coverage ratio decreased from 122.7 times in FYE 2017 to 27.4 times in FYE 2018 due to the increase in interest cost arising from the term loan of RM4.0 million drawn for the purchase of Land 3 and lower profit before interest and tax resulting from the revaluation loss of RM1.5 million.

Our Group's financial results for the financial years/period under review were not materially affected by fluctuations in interest rates. However, major increase in interest rates would raise the cost of borrowings and our finance costs for our purchases of raw materials, which may have an adverse effect on the performance of our Group.

**11.10.3 Impact of commodity prices**

Our Group is exposed to fluctuation in prices of raw materials, particularly particle boards and MDF. Presently, although there are various sources of local and foreign supply of these direct materials, and furniture parts and components, their prices may fluctuate and such fluctuation may affect our financial performance.

Nonetheless, it is our practice to find multiple sources of supply to obtain competitive prices. Some of our purchases of raw materials are made upon receipt of confirmed orders from our customers to minimise the impact of any adverse price fluctuations in our main raw materials.

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**11. FINANCIAL INFORMATION (Cont'd)**

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Our suppliers regularly keep us abreast of the supply condition and price trend of our main raw materials to ensure that we are aware and are prepared for increase in prices of raw materials.

**11.11 ORDER BOOK**

Due to the nature of our business, we do not maintain an order book. We generate our revenue as and when we deliver our products based on purchase orders received.

**11.12 DIRECTORS' DECLARATION ON OUR GROUP'S FINANCIAL PERFORMANCE**

Our Board is of the opinion that:

- (a) Our Group's revenue will remain sustainable with an upward growth trend, in line with the growth outlook of the furniture industry as set out in the IMR Report;
- (b) Our liquidity will improve subsequent to the Public Issue given the additional funds to be raised for us to carry out our future plans as stated in Section 6.19;
- (c) Our revenue and profitability is expected to improve following the completion of the construction of our new Factory C and setting up of manufacturing line in Factory C as stated in Section 6.19.1; and
- (d) Our financial resources will strengthen, taking into account the amount to be raised from the IPO as well as internally generated funds. We may consider debt funding for our business expansion should the need arises.

There are no known circumstances which would result in a significant decline in our revenue and GP margins or know of any factors that are likely to have a material impact on our liquidity, revenue or profitability.

**11.13 TREND INFORMATION**

Based on our track record for the past years under review, including our segmental analysis of revenue and profitability, the following trends may continue to affect our business:

- (a) Revenue contribution from bedroom furniture has been on an uptrend from 42.0% in FYE 2015 to 69.4% in FPE 2019. We expect the bedroom furniture segment to continue contributing significantly to our revenue in the future;
- (b) For the past FYEs 2015 to 2018 and FPE 2019, all of our revenue is derived from export sales. We expect this trend to continue in the future;
- (c) For the past FYEs 2015 to 2018 and FPE 2019, sales to the India, Japan, UAE and Saudi Arabia have contributed between 73.1% to 89.2% of our revenue. We expect sales to these countries to continue contributing significantly to our revenue in the future; and
- (d) For the past FYEs 2015 to 2018 and FPE 2019, the main component of our cost of sales is direct materials, which constituted more than 70% of total cost of sales. We expect this trend to continue.

**11. FINANCIAL INFORMATION (Cont'd)**

Save as disclosed in Section 11.2, there are no other factors which are likely to have a material effect on our financial condition and results of operations or cause our Group's historical financial statements to be not necessarily indicative of our future financial performance.

We had in May 2019 appointed a subcontractor to undertake the manufacturing of our furniture products for sales orders that we are unable to manufacture at our manufacturing factories. We anticipate that this manufacturing arrangement will allow us to increase the volumes of furniture products that we can supply to our customers by 49,158 units per annum. Kindly refer to Section 6.16(b) for details of the subcontractor agreement.

Our Board is optimistic about the future prospects of our Group given our Group's competitive strengths set out in Section 6.8 and our Group's business strategies and prospects as set out in Section 6.19.

**11.14 DIVIDENDS**

Our Company does not have any formal dividend policy. As we are a holding company, our Company's income and therefore our ability to pay dividends is dependent upon the dividends we receive from our subsidiary, present or future. Save for compliance with the solvency requirement under the Act, which is applicable to all Malaysian companies, and consent from our financiers as set out in the respective facility agreements, there are no legal, financial, or economic restrictions on the ability of our existing subsidiary to transfer funds in the form of cash dividends, loans or advances to us. Generally, consent from the financier is required if any payment or declaration of such dividend exceeds or will exceed the PAT or a specific PAT threshold as prescribed in the respective facility agreement. Moving forward, the payment of dividends or other distributions by our subsidiary will depend on their distributable profits, operating results, financial condition, capital expenditure plans, business expansion plans and other factors that their respective boards of Directors deem relevant.

The declaration of interim dividends and the recommendation of final dividends are subject to the discretion of our Board and any final dividends for the year are subject to shareholders' approval. Actual dividends proposed and declared may vary depending on the financial performance and cash flows of our Group, and may be waived if the payment of the dividends would adversely affect the cash flows and operations of our Group.

In respect of FYEs 2015 to 2018 and FPE 2019, dividends declared by our subsidiary were as follows:

	<u>FYE 2015</u>	<u>FYE 2016</u>	<u>FYE 2017</u>	<u>FYE 2018</u>	<u>FPE 2019</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Dividends declared	5,500	1,800	4,500	-	1,000



**11. FINANCIAL INFORMATION (Cont'd)****11.15 CAPITALISATION AND INDEBTEDNESS**

The table below summarises our capitalisation and indebtedness as at 31 August 2019 and after adjusting for the effects of the Acquisition of Spring Art and Public Issue including the utilisation of proceeds from the Public Issue.

	<b>Spring Art Holdings</b>	<b>I</b>	<b>II</b>
	<b>As at 31 August 2019 (1)</b>	<b>After I and Public Issue</b>	<b>After II and utilisation of proceeds</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Capitalisation</b>			
Shareholders' equity	40,528	64,949	61,749
<b>Total capitalisation</b>	<b>40,528</b>	<b>64,949</b>	<b>61,749</b>
<b>Indebtedness<sup>(2)</sup></b>			
<b>Current</b>			
Bankers' acceptance	-	-	-
Term loans	608	608	608
<b>Non-current</b>			
Term loans	5,785	5,785	5,785
<b>Total indebtedness</b>	<b>6,393</b>	<b>6,393</b>	<b>6,393</b>
<b>Total capitalisation and indebtedness</b>	<b>46,921</b>	<b>71,342</b>	<b>68,142</b>
<b>Gearing ratio<sup>(3)</sup>(times)</b>	<b>0.16</b>	<b>0.10</b>	<b>0.10</b>

Notes:

- (1) The Acquisition of Spring Art Industries was completed on 31 July 2019.
- (2) All of our indebtedness are secured.
- (3) Calculated based on the total indebtedness divided by the total capitalisation.

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**12. ACCOUNTANTS' REPORT**

**SPRING ART HOLDINGS BERHAD**  
**(Company No.: 1278159 - A)**  
(Incorporated in Malaysia)

**ACCOUNTANTS' REPORT**  
**FOR THE FINANCIAL YEARS ENDED**  
**31 DECEMBER 2015, 2016, 2017, 2018 AND**  
**FINANCIAL PERIOD ENDED 30 APRIL 2019**

**GRANT THORNTON MALAYSIA**  
**CHARTERED ACCOUNTANTS**

**Member of Grant Thornton International Ltd.**

## 12. ACCOUNTANTS' REPORT (Cont'd)



Date: 17 September 2019

The Board of Directors  
**Spring Art Holdings Berhad**  
Lot Plo 49  
Jalan Rami 4  
Kawasan Perindustrian Bukit Pasir  
84300 Bukit Pasir, Muar  
Johor Darul Takzim

**Grant Thornton Mala**  
(AF:0737)

Level 11, Sheraton Imperia  
Jalan Sultan Ismail  
50250 Kuala Lumpur  
Malaysia

T +603 2692 4022

F +603 2691 5229

Dear Sirs,

### **Reporting Accountants' Opinion On The Financial Information Contained In The Accountants' Report Of Spring Art Holdings Berhad ("the Company" or "Spring Art")**

#### *Opinion*

We have audited the accompanying combined financial statements ("Financial Information") of Spring Art Holdings Berhad and of its subsidiary (collectively known as "the Group" or "Spring Art Group") which comprises the combined statements of financial position of the Group as at 31 December 2015, 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, and the combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the financial years ended 31 December 2015, 31 December 2016, 31 December 2017, 31 December 2018 and 4 months financial period ended 30 April 2019, and a summary of significant accounting policies and other explanatory notes, as set out on pages 4 to 63.

In our opinion, the accompanying Financial Information give a true and fair view of the combined financial position of the Group as at 31 December 2015, 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019 and of their combined financial performance and combined cash flows for the financial years/period then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

#### *Basis for Opinion*

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Reporting Accountants' Responsibilities for the Audit of the Financial Information* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence and Other Ethical Responsibilities*

We are independent of the Group in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

**12. ACCOUNTANTS' REPORT (Cont'd)**

An instinct for growth™

*Responsibilities of the Directors for the Financial Information*

The Directors of the Group are responsible for the preparation of the Financial Information of the Group that give a true and fair view in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of Financial Information of the Group that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Information of the Group, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

*Reporting Accountants' Responsibilities for the Audit of the Financial Information*

Our objectives are to obtain reasonable assurance about whether the Financial Information of the Group as a whole are free from material misstatement, whether due to fraud or error, and to issue a reporting accountants' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Information.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:-

- Identify and assess the risks of material misstatement of the Financial Information of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our reporting accountants' report to the related disclosures in the Financial Information of the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern.

## 12. ACCOUNTANTS' REPORT (Cont'd)



### *Reporting Accountants' Responsibilities for the Audit of the Financial Information (cont'd)*

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also (cont'd):

- Evaluate the overall presentation, structure and content of the Financial Information of the Group, including the disclosures, and whether the Financial Information of the Group represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the Financial Information of the entities or business activities within the Group to express and opinion on the Financial Information of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicated with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### *Other matters*

This report has been prepared solely to comply with the Prospectus Guidelines – Equity issued by the Securities Commission Malaysia and for inclusion in the prospectus of Spring Art in connection with the listing of and quotation for the entire enlarged issued share capital of Spring Art on the ACE Market of Bursa Malaysia Securities Berhad and should not be relied upon for any other purposes. We do not assume responsibility to any other person for the content of this report.

The comparative information of 4 months financial period ended 30 April 2019 for the combined statements of financial position, combined statements of profit or loss and other comprehensive income, combined statements of changes in equity, combined statements of cash flows of the Group and their related explanatory notes for the 4 months financial period ended 30 April 2018 have not been audited.

GRANT THORNTON MALAYSIA  
(NO. AF: 0737)  
CHARTERED ACCOUNTANTS

Kuala Lumpur

OOI POH LIM  
(NO: 3087/10/19(J))  
CHARTERED ACCOUNTANT  
PARTNER

**12. ACCOUNTANTS' REPORT (Cont'd)****SPRING ART HOLDINGS BERHAD**  
(Incorporated in Malaysia)**COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2015, 31 DECEMBER 2016, 31 DECEMBER 2017, 31 DECEMBER 2018 AND FINANCIAL PERIOD ENDED 30 APRIL 2019**

	Note	Audited	Unaudited	Audited			
		30.4.2019 RM	30.4.2018 RM	31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
<b>ASSETS</b>							
<b>Non-current asset</b>							
Property, plant and equipment	4	<u>31,360,878</u>	<u>22,863,762</u>	<u>31,057,733</u>	<u>16,689,354</u>	<u>14,880,791</u>	<u>14,601,379</u>
<b>Total non-current asset</b>		<u>31,360,878</u>	<u>22,863,762</u>	<u>31,057,733</u>	<u>16,689,354</u>	<u>14,880,791</u>	<u>14,601,379</u>
<b>Current assets</b>							
Inventories	5	8,747,283	5,169,890	6,777,463	5,949,903	4,568,568	4,816,181
Trade receivables	6	3,907,086	4,871,996	5,854,323	4,063,982	5,289,695	4,477,064
Other receivables	7	4,302,889	2,305,304	2,773,437	2,138,683	889,910	472,875
Derivative financial instruments	8	-	99,238	17,290	105,904	-	-
Fixed deposits with licensed banks	9	3,285,219	-	1,400,604	2,302,712	1,100,000	450,000
Cash and bank balances	10	<u>3,114,288</u>	<u>1,724,741</u>	<u>2,271,462</u>	<u>3,545,856</u>	<u>1,179,833</u>	<u>506,359</u>
<b>Total current assets</b>		<u>23,356,765</u>	<u>14,171,169</u>	<u>19,094,579</u>	<u>18,107,040</u>	<u>13,028,006</u>	<u>10,722,479</u>
<b>Total assets</b>		<u>54,717,643</u>	<u>37,034,931</u>	<u>50,152,312</u>	<u>34,796,394</u>	<u>27,908,797</u>	<u>25,323,858</u>
<b>EQUITY AND LIABILITIES</b>							
<b>EQUITY</b>							
Equity attributable to owners of the Group:-							
Share capital	11	500,020	500,020	500,020	500,000	500,000	500,000
Revaluation reserve	12	7,375,173	-	7,430,575	-	-	-
Retained earnings		<u>30,754,735</u>	<u>23,546,374</u>	<u>28,122,748</u>	<u>26,310,682</u>	<u>18,450,777</u>	<u>16,776,315</u>
<b>Total equity</b>		<u>38,629,928</u>	<u>24,046,394</u>	<u>36,053,343</u>	<u>26,810,682</u>	<u>18,950,777</u>	<u>17,276,315</u>
<b>LIABILITIES</b>							
<b>Non-current liabilities</b>							
Borrowings	13	5,990,013	6,579,978	6,185,799	2,936,625	3,186,650	3,418,479
Deferred tax liabilities	14	<u>2,740,319</u>	<u>439,000</u>	<u>2,599,615</u>	<u>439,000</u>	<u>321,000</u>	<u>367,000</u>
<b>Total non-current liabilities</b>		<u>8,730,332</u>	<u>7,018,978</u>	<u>8,785,414</u>	<u>3,375,625</u>	<u>3,507,650</u>	<u>3,785,479</u>
<b>Current liabilities</b>							
Trade payables	15	4,568,738	2,309,435	2,912,050	1,929,443	2,251,112	1,925,627
Other payables	16	1,526,870	1,272,138	1,358,348	750,266	731,143	693,470
Derivative financial instruments	8	94,196	-	-	-	571,960	314,402
Lease liabilities	17	-	-	-	-	-	60,454
Borrowings	13	887,924	1,706,165	591,584	1,208,556	901,382	886,836
Tax payable		<u>279,655</u>	<u>681,821</u>	<u>451,573</u>	<u>721,822</u>	<u>994,773</u>	<u>381,275</u>
<b>Total current liabilities</b>		<u>7,357,383</u>	<u>5,969,559</u>	<u>5,313,555</u>	<u>4,610,087</u>	<u>5,450,370</u>	<u>4,262,064</u>
<b>Total liabilities</b>		<u>16,087,715</u>	<u>12,988,537</u>	<u>14,098,969</u>	<u>7,985,712</u>	<u>8,958,020</u>	<u>8,047,543</u>
<b>Total equity and liabilities</b>		<u>54,717,643</u>	<u>37,034,931</u>	<u>50,152,312</u>	<u>34,796,394</u>	<u>27,908,797</u>	<u>25,323,858</u>

The accompanying notes form an integral part of the combined financial statements.

**12. ACCOUNTANTS' REPORT (Cont'd)****SPRING ART HOLDINGS BERHAD**  
(Incorporated in Malaysia)**COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2015, 31 DECEMBER 2016, 31 DECEMBER 2017, 31 DECEMBER 2018 AND FINANCIAL PERIOD ENDED 30 APRIL 2019**

	Note	Audited	Unaudited	← Audited →			
		1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Revenue	18	18,296,970	15,626,316	50,381,862	48,276,443	41,287,223	36,424,464
Cost of sales		<u>(13,292,146)</u>	<u>(11,558,901)</u>	<u>(36,000,350)</u>	<u>(34,152,463)</u>	<u>(28,365,916)</u>	<u>(25,111,726)</u>
Gross profit		5,004,824	4,067,415	14,381,512	14,123,980	12,921,307	11,312,738
Other income		98,617	63,247	842,036	768,301	613,691	88,924
Selling and distribution expenses		(692,311)	(549,646)	(1,568,937)	(1,599,414)	(1,551,718)	(1,115,914)
Administrative expenses		(1,064,068)	(988,549)	(3,152,685)	(2,155,937)	(2,016,065)	(1,823,120)
Other expenses		(126,943)	(143,013)	(1,753,148)	(911,913)	(257,558)	(160,356)
Finance costs		<u>(106,748)</u>	<u>(73,762)</u>	<u>(315,817)</u>	<u>(82,874)</u>	<u>(115,755)</u>	<u>(198,535)</u>
<b>Profit before tax</b>	19	3,113,371	2,375,692	8,432,961	10,142,143	9,593,902	8,103,737
Tax expense	20	<u>(536,786)</u>	<u>(640,000)</u>	<u>(2,203,997)</u>	<u>(2,282,238)</u>	<u>(2,119,440)</u>	<u>(910,006)</u>
<b>Net profit for the financial period/year</b>		2,576,585	1,735,692	6,228,964	7,859,905	7,474,462	7,193,731
<b>Other comprehensive income for the financial period/year, net of tax</b>							
<b>Item that will not be subsequently reclassified to profit or loss</b>							
Revaluation of land and buildings		-	-	7,513,677	-	-	-
<b>Total comprehensive income for the financial period/year wholly attributable to the owners of the Group</b>		<u>2,576,585</u>	<u>1,735,692</u>	<u>13,742,641</u>	<u>7,859,905</u>	<u>7,474,462</u>	<u>7,193,731</u>
Earnings per share							
- Basic (sen)	21	<u>515.11</u>	<u>347.13</u>	<u>1,245.45</u>	<u>1,571.98</u>	<u>1,494.89</u>	<u>1,438.75</u>
- Diluted (sen)	21	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>

\* There are no dilutive potential equity instruments that would give a diluted effect to the basic earnings per share

The accompanying notes form an integral part of the combined financial statements.

**12. ACCOUNTANTS' REPORT (Cont'd)****SPRING ART HOLDINGS BERHAD**  
(Incorporated in Malaysia)**COMBINED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2015, 31 DECEMBER 2016, 31 DECEMBER 2017, 31 DECEMBER 2018 AND FINANCIAL PERIOD ENDED 30 APRIL 2019**

	<u>Note</u>	<u>Share capital</u> RM	<u>Revaluation reserve</u> RM	<u>Retained earnings</u> RM	<u>Total</u> RM
Balance as at 1 January 2015		500,000	-	11,082,584	11,582,584
<b>Transactions with owners:-</b>					
Dividends	22	-	-	(1,500,000)	(1,500,000)
Total comprehensive income for the financial year		-	-	7,193,731	7,193,731
Balance as at 31 December 2015		500,000	-	16,776,315	17,276,315
<b>Transactions with owners:-</b>					
Dividends	22	-	-	(5,800,000)	(5,800,000)
Total comprehensive income for the financial year		-	-	7,474,462	7,474,462
Balance as at 31 December 2016		500,000	-	18,450,777	18,950,777
Total comprehensive income for the financial year		-	-	7,859,905	7,859,905
Balance as at 31 December 2017		500,000	-	26,310,682	26,810,682
Total comprehensive income for the financial year		-	7,513,677	6,228,964	13,742,641
Realisation of revaluation reserve upon depreciation of revalued assets		-	(83,102)	83,102	-
<b>Transactions with owners:-</b>					
Issuance of shares	11	20	-	-	20
Dividends	22	-	-	(4,500,000)	(4,500,000)
Balance as at 31 December 2018		500,020	7,430,575	28,122,748	36,053,343
Realisation of revaluation reserve upon depreciation of revalued assets		-	(55,402)	55,402	-
Total comprehensive income for the financial period		-	-	2,576,585	2,576,585
Balance as at 30 April 2019		500,020	7,375,173	30,754,735	38,629,928



**12. ACCOUNTANTS' REPORT (Cont'd)****SPRING ART HOLDINGS BERHAD**  
(Incorporated in Malaysia)**COMBINED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2015, 31 DECEMBER 2016, 31 DECEMBER 2017, 31 DECEMBER 2018 AND FINANCIAL PERIOD ENDED 30 APRIL 2019 (CONT'D)**

	<u>Note</u>	<u>Share capital</u> RM	<u>Revaluation reserve</u> RM	<u>Retained earnings</u> RM	<u>Total</u> RM
<b>Unaudited</b>					
Balance as at 1 January 2018		500,000	-	26,310,682	26,810,682
<b>Transactions with owners:-</b>					
Issuance of shares	11	20	-	-	20
Dividends	22	-	-	(4,500,000)	(4,500,000)
Total comprehensive income for the financial period		-	-	<u>1,735,692</u>	<u>1,735,692</u>
Balance as at 30 April 2018		<u>500,020</u>	-	<u>23,546,374</u>	<u>24,046,394</u>

The accompanying notes form an integral part of the combined financial statements.

**12. ACCOUNTANTS' REPORT (Cont'd)****SPRING ART HOLDINGS BERHAD**  
(Incorporated in Malaysia)**COMBINED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEARS ENDED  
31 DECEMBER 2015, 31 DECEMBER 2016, 31 DECEMBER 2017, 31 DECEMBER 2018  
AND FINANCIAL PERIOD ENDED 30 APRIL 2019**

	Note	Audited	Unaudited	Audited			
		1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
<b>OPERATING ACTIVITIES</b>							
Profit before tax		3,113,371	2,375,692	8,432,961	10,142,143	9,593,902	8,103,737
<b>Adjustments for:-</b>							
Unrealised (gain)/loss on foreign exchange		(70,176)	(19,442)	50,593	93,104	(119,751)	(53,855)
Depreciation of property, plant and equipment		514,695	521,290	1,903,637	1,850,377	1,602,002	1,277,326
Gain on disposal of property, plant and equipment	A	-	-	(765,827)	-	-	(13,000)
Impairment loss on revaluation of property, plant and equipment		-	-	1,519,796	-	-	-
Interest expenses		106,748	73,762	315,817	82,874	115,755	198,535
Interest income		(28,441)	(43,805)	(76,209)	(40,991)	(15,805)	(1,931)
Fair value loss/(gain) on derivatives financial instruments		111,486	6,666	88,614	(677,864)	257,558	126,154
Operating profit before working capital changes		3,747,683	2,914,163	11,469,382	11,449,643	11,433,661	9,636,966
<b>Changes in working capital:-</b>							
Inventories		(1,969,820)	780,013	(827,560)	(1,381,335)	247,613	(1,387,199)
Receivables		442,203	(910,838)	(2,482,905)	(45,071)	(1,192,725)	(1,564,781)
Payables		1,823,132	900,455	1,597,323	(301,030)	355,138	(450,687)
Net drawdown/ (Repayment) of bankers' acceptances	C	290,000	1,142,633	-	(440,000)	40,000	(1,300,000)
Cash generated from operations		4,333,198	4,826,426	9,756,240	9,282,207	10,883,687	4,934,299
Interest paid		(106,748)	(73,762)	(315,817)	(82,874)	(115,755)	(198,535)
Tax refunded		-	-	-	-	-	145,293
Tax paid		(568,000)	(680,001)	(2,441,191)	(2,437,189)	(1,551,942)	(494,779)
Net cash from operating activities		3,658,450	4,072,663	6,999,232	6,762,144	9,215,990	4,386,278
<b>INVESTING ACTIVITIES</b>							
Interest received		28,441	43,805	76,209	40,991	15,805	1,931
Proceeds from disposal of property, plant and equipment	A	-	-	10,500	-	-	13,000
Purchase of property, plant and equipment	B	(817,840)	(6,695,698)	(7,395,248)	(3,658,940)	(1,881,414)	(1,525,012)
Net cash used in investing activities		(789,399)	(6,651,893)	(7,308,539)	(3,617,949)	(1,865,609)	(1,510,081)

**12. ACCOUNTANTS' REPORT (Cont'd)****SPRING ART HOLDINGS BERHAD**  
(Incorporated in Malaysia)**COMBINED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2015, 31 DECEMBER 2016, 31 DECEMBER 2017, 31 DECEMBER 2018 AND FINANCIAL PERIOD ENDED 30 APRIL 2019 (CONT'D)**

	Note	Audited	Unaudited	← Audited →			
		1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
<b>FINANCING ACTIVITIES</b>							
Repayments of term loans	C	(189,446)	(94,308)	(460,435)	(233,690)	(265,230)	(119,136)
Drawdown of term loans	C	-	4,000,000	4,000,000	-	-	-
Dividend paid		-	(4,500,000)	(4,500,000)	-	(5,800,000)	(1,500,000)
Repayments of finance lease liabilities	C	-	-	-	-	(60,454)	(1,097,213)
Proceeds from issuance of share capital		-	20	20	-	-	-
Net cash used in financing activities		<u>(189,446)</u>	<u>(594,288)</u>	<u>(960,415)</u>	<u>(233,690)</u>	<u>(6,125,684)</u>	<u>(2,716,349)</u>
<b>CASH AND CASH EQUIVALENTS</b>							
Net changes		2,679,605	(3,173,518)	(1,269,722)	2,910,505	1,224,697	159,848
Effect of foreign currency translation differences		47,836	(42,946)	583	(72,609)	90,830	(7,406)
At beginning of financial period/year		<u>3,672,066</u>	<u>4,941,205</u>	<u>4,941,205</u>	<u>2,103,309</u>	<u>787,782</u>	<u>635,340</u>
At end of financial period/year	D	<u>6,399,507</u>	<u>1,724,741</u>	<u>3,672,066</u>	<u>4,941,205</u>	<u>2,103,309</u>	<u>787,782</u>

**NOTES TO THE COMBINED STATEMENTS OF CASH FLOWS****A. PROCEEDS FROM DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT**

	Audited	Unaudited	← Audited →			
	1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Total net carrying amount of property, plant and equipment disposed	-	-	1,344,673	-	-	-
Gain on disposal of property, plant and equipment	-	-	765,827	-	-	13,000
Purchase through swapping of land (Note B)	-	-	(2,100,000)	-	-	-
Total consideration received	<u>-</u>	<u>-</u>	<u>10,500</u>	<u>-</u>	<u>-</u>	<u>13,000</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****SPRING ART HOLDINGS BERHAD**

(Incorporated in Malaysia)

**COMBINED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2015, 31 DECEMBER 2016, 31 DECEMBER 2017, 31 DECEMBER 2018 AND FINANCIAL PERIOD ENDED 30 APRIL 2019 (CONT'D)****NOTES TO THE COMBINED STATEMENTS OF CASH FLOWS (CONT'D):-****B. PURCHASE OF PROPERTY, PLANT AND EQUIPMENT**

	Audited 1.1.2019 to 30.4.2019 RM	Unaudited 1.1.2018 to 30.4.2018 RM	← Audited → 1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Total additions	817,840	8,795,698	9,495,248	3,658,940	1,881,414	1,525,012
Purchase through swapping of land (Note A)*	-	(2,100,000)	(2,100,000)	-	-	-
Total consideration paid	<u>817,840</u>	<u>6,695,698</u>	<u>7,395,248</u>	<u>3,658,940</u>	<u>1,881,414</u>	<u>1,525,012</u>

\* Freehold land and hostel of the Group were disposed in exchange for leasehold land as disclosed in Note 4 to the combined financial statements.

**C. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES**

	1.1.2019 RM	Drawdown RM	Repayments RM	30.4.2019 RM
<b>Audited</b>				
Banker's acceptance	-	290,000	-	290,000
Term loans	6,777,383	-	(189,446)	6,587,937
	<u>6,777,383</u>	<u>290,000</u>	<u>(189,446)</u>	<u>6,877,937</u>
	1.1.2018 RM	Drawdown RM	Repayments RM	31.12.2018 RM
Term loans	3,237,818	4,000,000	(460,435)	6,777,383
	1.1.2017 RM	Drawdown RM	Repayments RM	31.12.2017 RM
Banker's acceptance	440,000	-	(440,000)	-
Term loans	3,471,508	-	(233,690)	3,237,818
	<u>3,911,508</u>	<u>-</u>	<u>(673,690)</u>	<u>3,237,818</u>
	1.1.2016 RM	Drawdown RM	Repayments RM	31.12.2016 RM
Banker's acceptance	400,000	40,000	-	440,000
Term loans	3,736,738	-	(265,230)	3,471,508
Finance lease liabilities	60,454	-	(60,454)	-
	<u>4,197,192</u>	<u>40,000</u>	<u>(325,684)</u>	<u>3,911,508</u>
	1.1.2015 RM	Drawdown RM	Repayments RM	31.12.2015 RM
Banker's acceptance	1,700,000	-	(1,300,000)	400,000
Term loans	3,855,874	-	(119,136)	3,736,738
Finance lease liabilities	1,157,667	-	(1,097,213)	60,454
	<u>6,713,541</u>	<u>-</u>	<u>(2,516,349)</u>	<u>4,197,192</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****SPRING ART HOLDINGS BERHAD**

(Incorporated in Malaysia)

**COMBINED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2015, 31 DECEMBER 2016, 31 DECEMBER 2017, 31 DECEMBER 2018 AND FINANCIAL PERIOD ENDED 30 APRIL 2019 (CONT'D)****NOTES TO THE COMBINED STATEMENTS OF CASH FLOWS (CONT'D):-****C. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (CONT'D)**

	<u>1.1.2018</u> RM	<u>Drawdown</u> RM	<u>Repayments</u> RM	<u>30.4.2018</u> RM
<b>Unaudited</b>				
Banker's acceptance	-	1,142,633	-	1,142,633
Term loan	3,237,818	4,000,000	(94,308)	7,143,510
	<u>3,237,818</u>	<u>5,142,633</u>	<u>(94,308)</u>	<u>8,286,143</u>

**D. CASH AND CASH EQUIVALENTS**

	<u>Audited</u> <u>30.4.2019</u> RM	<u>Unaudited</u> <u>30.4.2018</u> RM	<u>←</u> <u>31.12.2018</u> RM	<u>31.12.2017</u> RM	<u>Audited</u> <u>31.12.2016</u> RM	<u>→</u> <u>31.12.2015</u> RM
Fixed deposits with licensed banks (Note 9)	3,285,219	-	1,400,604	2,302,712	1,100,000	450,000
Cash and bank balances (Note 10)	3,114,288	1,724,741	2,271,462	3,545,856	1,179,833	506,359
Bank overdrafts (Note 13)	-	-	-	(907,363)	(176,524)	(168,577)
	<u>6,399,507</u>	<u>1,724,741</u>	<u>3,672,066</u>	<u>4,941,205</u>	<u>2,103,309</u>	<u>787,782</u>

The accompanying notes form an integral part of the combined financial statements.

**12. ACCOUNTANTS' REPORT (Cont'd)****SPRING ART HOLDINGS BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE COMBINED FINANCIAL STATEMENTS****1. GENERAL INFORMATION****1.1 Introduction**

This report has been prepared solely to comply with the Prospectus Guidelines – Equity issued by the Securities Commission Malaysia and for inclusion in the prospectus of Spring Art Holdings Berhad (“the Company” or “Spring Art”) in connection with the listing of and quotation for the entire enlarged issued share capital of Spring Art on the ACE Market of Bursa Malaysia Securities Berhad (“Bursa Securities”) (hereinafter defined as “the Listing”) and should not be relied upon for any other purposes.

**1.2 Background**

The Company was incorporated on 25 April 2018 as a public limited liability company and domiciled in Malaysia. The registered office is located at No. 7 (1st Floor), Jalan Pesta 1/1, Taman Tun Dr. Ismail 1, Jalan Bakri, 84000 Muar, Johor Darul Takzim. The principal place of business of the Company is located at Lot Plot 49, Jalan Rami 4, Kawasan Perindustrian Bukit Pasir, 84300 Bukit Pasir, Muar, Johor Darul Takzim.

**1.3 Principal activities**

Spring Art’s principal activities are investment holding and provision of management services.

The details of the subsidiary of Spring Art as of the date of this report is as follows:-

<b>Name of company</b>	<b>Effective ownership</b>	<b>Principal activities</b>	<b>Date of incorporation</b>	<b>Country of incorporation</b>
<b><u>Subsidiary</u></b>				
Spring Art Industries Sdn. Bhd.	100%	Manufacturing of ready-to-assemble furniture products	28 December 1996	Malaysia

**1.4 The acquisition**

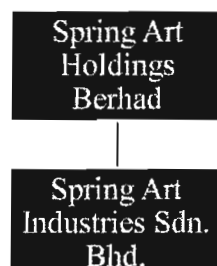
The Spring Art Group has been formed pursuant to the completion of the acquisition of Spring Art Industries Sdn. Bhd. by Spring Art prior to the listing and quotation on the ACE Market of Bursa Malaysia Securities Berhad.

Spring Art acquired the entire issued share capital of Spring Art Industries Sdn. Bhd. comprising 500,000 ordinary shares (“Acquisition”).

The aggregate purchase consideration for the above Acquisition was RM31,799,980 satisfied by the issuance of 317,999,800 new shares at its indicative value of approximately RM0.10 per share.

**12. ACCOUNTANTS' REPORT (Cont'd)****1. GENERAL INFORMATION (CONT'D)****1.4 The acquisitions (cont'd)**

Following the completion of the Acquisition on 31 July 2019, the Group adopted the current structure as follows:-

**1.5 Auditors**

The combined financial statements of Spring Art Group reflect the financial information of Spring Art Holdings Berhad and Spring Art Industries Sdn. Bhd..

The relevant financial years of the audited financial statements used for the purpose of the combined financial statements ("Relevant Financial Years") and the auditors are as follows:-

<b>Companies</b>	<b>Relevant Financial Years/Periods</b>	<b>Auditors</b>
Spring Art Holdings Berhad	FPE 31 December 2018 FPE 30 April 2019	Grant Thornton Malaysia Grant Thornton Malaysia
Spring Art Industries Sdn. Bhd.	FYE 31 December 2015 FYE 31 December 2016 FYE 31 December 2017 FYE 31 December 2018 FPE 30 April 2019	Grant Thornton Malaysia Grant Thornton Malaysia Grant Thornton Malaysia Grant Thornton Malaysia Grant Thornton Malaysia

The audited financial statements of Spring Art Holdings Berhad and Spring Art Industries Sdn. Bhd. for the Relevant Financial Years/Periods reported above were not subject to any qualification or modification, except for the financial statements for FPE 30 April 2018 which is unaudited.

**2. BASIS OF PREPARATION****2.1 Statement of compliance**

The combined financial statements have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards ("IFRSs") based on the Guidance Note on 'Combined Financial Statements' issued by the Malaysian Institute of Accountants in relation to the Listing.

The combined financial statements consist of the financial statements of combining entities as disclosed in Note 1.5 to this report, which were under common control throughout the reporting years/periods by virtue of common controlling shareholders.

The combined financial statements have been prepared using financial information obtained from the records of the combining entities during the reporting years/periods.

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## **12. ACCOUNTANTS' REPORT (Cont'd)**

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### **2. BASIS OF PREPARATION (CONT'D)**

#### **2.1 Statement of compliance (cont'd)**

The financial information as presented in the combined financial statements do not correspond to the consolidated financial statements of the Group, as the combined financial statements reflect business combinations under common control for the purpose of the Listing. Consequently, the financial information from the combined financial statements do not purport to predict the financial positions, results of operations and cash flows of the combining entities during the reporting years/periods.

#### **2.2 Basis of measurement**

The combined financial statements of the Group are prepared under the historical cost convention, unless otherwise indicated in the summary of significant accounting policies.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial market takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure for value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to their fair value measurement as a whole:-

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to their fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to their fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to their fair value measurement as a whole) at the end of each reporting years/periods.



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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**2. BASIS OF PREPARATION (CONT'D)****2.2 Basis of measurement (cont'd)**

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of fair value hierarchy as explained above.

**2.3 Functional and presentation currency**

The combined financial statements are presented in Ringgit Malaysia ("RM"), which is the Group's functional currency and all values are rounded to the nearest RM except when otherwise stated.

**2.4 Adoption of amendments/improvements to MFRSs**

The Group applied MFRS 16 'Leases' for the first time in the 2019 financial statements with the date of initial application of 1 January 2019. The standard is applied retrospectively.

Initial application of amendments/improvements to MFRSs did not have material impact to the financial statements.

**2.5 Standards issued but not yet effective**

At the date of authorisation of these combined financial statements, certain new standards, amendments and interpretations to existing standards have been published by Malaysia Accounting Standards Board ("MASB") but are not yet effective and have not been early adopted by the Group.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, amendment and interpretations not adopted in current financial period have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

**2.6 Significant accounting estimates and judgements**

Estimates, assumptions concerning the future and judgements are made in the preparation of the combined financial statements. They affect the application of the Group's accounting policies and reported amounts of assets, liabilities, income and expenses, and disclosures made. Estimates and underlying assumptions are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

**2.6.1 Key sources of estimation uncertainties**

When preparing the combined financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**2. BASIS OF PREPARATION (CONT'D)****2.6 Significant accounting estimates and judgements (cont'd)****2.6.1 Key sources of estimation uncertainties (cont'd)****Useful lives of depreciable assets**

The management estimates the useful lives of the property, plant and equipment to be 5 to 50 years and reviews the useful lives of depreciable assets at each reporting date. The management assesses that the useful lives represent the expected utility of the assets to the Group. Actual results, however, may vary due to changes in the expected level of usage and developments, resulting in adjustment to the Group's assets.

The management expects that the expected useful lives of the property, plant and equipment would not have material difference from the management's estimation hence it would not result in material variance in the Group's profit for the financial years/period.

The carrying amount of the Group's property, plant and equipment at the end of the reporting date is disclosed in Note 4 to the combined financial statements.

**Inventories**

Inventories are measured at the lower of cost and net realisable value. In estimating net realisable values, management takes into account the most reliable evidence available at the times the estimates are made. The realisation of these inventories may be affected by market-driven changes that may occur in the future.

The management reviews inventories to identify damaged, obsolete and slow-moving inventories which require judgement and changes in such estimates could result in revision to the valuation of inventories.

The carrying amount of the Group's inventories at the end of the reporting date is disclosed in Note 5 to the combined financial statements.

**Measurement of expected credit losses**

Credit losses are the difference between all contractual cash flows the Group is due and the cash flows that it actually expects to receive. An expected credit loss is the probability-weighted estimate of credit losses which requires the Group's judgement. The expected credit losses are discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for grouping of various customer segments that have similar loss patterns such as geography, customer/debtor type and rating, and coverage by letters of credit and other forms of credit insurance.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**2. BASIS OF PREPARATION (CONT'D)****2.6 Significant accounting estimates and judgements (cont'd)****2.6.1 Key sources of estimation uncertainties (cont'd)****Measurement of expected credit losses (cont'd)**

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed rates, forecast economic conditions and ECLs are significant estimate. The amount of ECLs are sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default rate in the future.

The carrying amount of the Group's receivables at the end of the reporting date is disclosed in Notes 6 and 7 to the combined financial statements.

**Income taxes**

Significant judgements is involved in determining the Group's provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

**Fair value of financial instruments**

The fair value of financial instruments are based on active market quotes. Where active market quotes are not available, management uses valuation techniques in measuring the fair value of financial instruments. Details of the assumptions used are given in the notes regarding financial assets and liabilities. In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting date.

**Impairment of non-financial assets**

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**2. BASIS OF PREPARATION (CONT'D)****2.6 Significant accounting estimates and judgements (cont'd)****2.6.1 Key sources of estimation uncertainties (cont'd)****Impairment of non-financial assets (cont'd)**

In the process of measuring expected future cash flows management makes assumptions about future operating results. The actual results may vary, and may cause significant adjustments to the Group's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

**Revaluation of property, plant and equipment**

The Group measures its land and buildings at revalued amount with changes in fair value being recognised in other comprehensive income. The Group engaged independent valuation specialists to determine fair values as at 30 June 2018. The carrying amount of the land and buildings at the end of the reporting date, and the relevant revaluation bases, are disclosed in Note 4 to the combined financial statements.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The Group applies significant accounting policies, as summarised below, consistently throughout all financial periods presented in the combined financial statements.

**3.1 Property, plant and equipment**

All property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bring the asset to working condition for its intended use, cost of replacing component parts of the assets, and the present value of the expected cost for the decommissioning of the assets after their use. All other repair and maintenance costs are recognised in profit or loss as incurred.

Subsequent to initial recognition, property, plant and equipment with the exception of land and buildings, are measured at cost less accumulated depreciation and accumulated impairment losses.

On 30 June 2018, the Group elected to change the method of accounting for land and buildings as the Group believes that the revaluation model provides more relevant information to the users of its combined financial statements.

**12. ACCOUNTANTS' REPORT (Cont'd)****3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.1 Property, plant and equipment (cont'd)**

Land and buildings are shown at market value provided by independent professional valuers on an open market basis, less subsequent accumulated depreciation and impairment losses. Land and buildings are revalued when indicators of material changes in value exists or at interval of not more than 5 years. Any revaluation increase is credited to other comprehensive income and shown as revaluation reserve in shareholders' equity. Decreases that offset previous increase of the same asset are charged in other comprehensive income and debited against revaluation reserve directly in equity; all other decreases are charged to the profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the profit or loss and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings. Upon disposal of revalued assets, the attributable revaluation surplus remaining in revaluation reserve is transferred to unappropriated profits.

Depreciation is recognised on the straight-line method in order to write off the cost of each asset over its estimated useful lives. Freehold land is not depreciated but is subject to impairment test if there is indication of impairment. Other property, plant and equipment are depreciated based on the estimated useful lives of the assets as follows:-

Leasehold land	2%
Buildings	2%
Hostel	2%
Computer and office equipment	10% - 20%
Factory machinery and equipment	10%
Electrical installation, furniture and fittings	10% - 20%
Renovation	10%
Motor vehicles	20%
Signboard	10%

The residual values, useful lives and depreciation method are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable, or at least annually to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

Building in progress consists of buildings under construction for intended use as production facilities. The amount is stated at cost and includes capitalisation of interest incurred on borrowings, if any related to property, plant and equipment under construction until the property, plant and equipment are ready for their intended use. Assets under construction are not depreciated until it is completed and ready for their intended use.

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss in the financial year in which the asset is derecognised.

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**12. ACCOUNTANTS' REPORT (Cont'd)**


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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.2 Leases**

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:-

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Group has the right to direct the use of the asset if either:-
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments), less any lease incentives.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.2 Leases (cont'd)**As a lessee (cont'd)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee or if the Company changes their assessment of whether it will exercise a purchase, extension or termination option.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "administration expenses" in the combined statement of profit or loss and other comprehensive income.

As a practical expedient, MFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

**3.3 Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired.

For the purpose of impairment testing, recoverable amount (i.e. the higher of the fair value less cost to sell and value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating units ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in profit or loss.

**3.4 Financial instruments****3.4.1 Financial assets**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

## 12. ACCOUNTANTS' REPORT (Cont'd)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 3.4 Financial instruments (cont'd)

##### 3.4.1 Financial assets (cont'd)

##### 3.4.1.1 Initial recognition and categorisation

At initial recognition, financial assets are either classified and measured at amortised cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

In order for a financial asset to be classified and measured at amortised cost or FVTOCI, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

At the reporting date, the Group has not designated any financial assets at FVTOCI. The Group carries financial assets at amortised cost and FVTPL on their statements of financial position.

##### Financial assets at amortised cost

Financial assets measures at amortised cost if both of the conditions are met:-

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flow; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

##### FVPTL

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference of the market to market value.

##### 3.4.1.2 Subsequent measurement

Financial assets at amortised cost are subsequently measured using effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade receivables, most of the other receivables, fixed deposits with licensed banks and cash and bank balances.



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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.4 Financial instruments (cont'd)****3.4.1 Financial assets (cont'd)****3.4.1.3 Impairment of financial assets**

The Group assesses on a forward-looking basis the expected credit loss ("ECLs") for all debt instrument not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The maximum period considered when estimating ECLs is the maximum contractual period (including extension options) over which the Group is exposed to credit risk.

ECLs are measured on either of the following bases:-

- 12-month ECLs: these are losses that are expected to result from possible default events within 12 months after the reporting date; and
- Lifetime ECLs: these are losses that are expected to result from all possible defaults event over the unexpected life of terms, irrespective of timing of the default to which ECL model applies.

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward looking factors specific to the debtors and economic environment.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

ECLs are re-measured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECLs amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVTOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have any assets or sources of income that could generate sufficient cash flows to repay the amount subject to the write-off.

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## **12. ACCOUNTANTS' REPORT (Cont'd)**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **3.4 Financial instruments (cont'd)**

##### **3.4.2 Financial liabilities**

###### **3.4.2.1 Initial recognition and measurement**

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

At the reporting date, the Group has not designated any financial liabilities at fair value through profit or loss. The Group carries only other financial liabilities measured at amortised cost on their statements of financial position.

###### **3.4.2.2 Subsequent measurement**

The subsequent measurement of financial liabilities depends on their classification, as described below:-

###### Other financial liabilities measured at amortised cost

Other financial liabilities including borrowings and trade and most of the other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

###### **3.4.3 Derecognition**

A financial asset or part of it is derecognised when and only when the contractual rights to the cash flows from the financial asset have expired or control of the asset is not retained or substantially all of the risk and rewards of ownership of the financial asset are transferred to another party. If the Group neither transfers nor retain substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of transferred assets, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

The Group derecognises a financial liability when their contractual obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

###### **3.4.4 Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the combined statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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**12. ACCOUNTANTS' REPORT (Cont'd)**


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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.4 Financial instruments (cont'd)****3.4.5 Derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured at their fair values. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates the derivative as follows:-

Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency exposures.

Forward foreign exchange contracts used are accounted for on an equivalent basis as the underlying assets, liabilities or net positions. Any profit or loss arising is recognised on the same basis as those arising from the related assets, liabilities or net position.

Exchange gains or losses on contracts are recognised when settled at which time they are included in the measurement of the transaction hedged.

The fair value of foreign currency forward contract is determined using the forward exchange market rates at the reporting date.

**3.5 Foreign currency transactions and balances**

Transactions in foreign currencies are initially recorded at the functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

**3.6 Inventories**

Inventories comprise of raw materials, packaging materials, work-in-progress and finished goods which are stated at the lower of cost and net realisable value.

Inventories are determined on first-in-first-out method. Cost of raw materials and packaging materials includes invoices value of goods purchased and expenditure incurred in acquiring the inventories. Cost of finished goods and work-in-progress comprises raw materials, direct labour and an appropriate proportion of production overhead which include expenditure incurred in bringing them to their existing location and condition.

Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Write-down to net realisable value and inventory losses are recognised as an expense when it occurred and any reversal is recognised in profit or loss in the financial year in which it occurs.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.7 Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, bank balances, fixed deposits with licensed banks and bank overdrafts which are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown in current liabilities in the combined statements of financial position.

For the purpose of the financial position, cash and cash equivalents restricted to be used to settle a liability of 12 months or more after the end of the reporting year are classified as non-current assets.

**3.8 Equity, reserves and dividend payments**

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Ordinary shares are equity instruments.

Retained earnings include all current financial period and prior financial year retained profits.

Revaluation reserve within equity comprises gains resulting from revaluation of land and buildings in property, plant and equipment.

Interim dividends are simultaneously proposed and declared, because the articles of association of the Group grants the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

Final dividends proposed by the Directors are not accounted for in shareholder's equity as an appropriation of retained profits, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

All transactions with owners of the Group are recorded separately within equity.

**3.9 Provisions**

Provisions are recognised when there is a present legal or constructive obligation that can be estimated reliably, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provision is discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.10 Contingencies**

Where it is not probable that an inflow or an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the asset or the obligation is not recognised in the combined statements of financial position and is disclosed as a contingent asset or contingent liability, unless the probability of inflow or outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent assets or contingent liabilities unless the probability of inflow or outflow of economic benefits is remote.

**3.11 Borrowing costs**

Borrowing costs are recognised as an expense in profit or loss in the year in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurred in connection with the borrowing of funds.

**3.12 Employee benefits****3.12.1 Short term employee benefits**

Wages, salaries, bonuses and social security contributions are recognised as expenses in the financial year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave is recognised when services are rendered by the employees that increase their entitlement to future compensated absences and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

A provision is made for the estimated liability for leave as a result of services rendered by employees up to the reporting date.

**3.12.2 Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into independent entities of funds and will have no legal or constructive obligation to pay further contribution if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current period and preceding financial years.

Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, the Group makes such contributions to the Employees Provident Fund ("EPF").

**3.13 Revenue recognition**

The Group recognises revenue from contracts with customers for goods or services based on the five-step model as set out in this standards:-

- i. Identify contracts with a customer. A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.

**12. ACCOUNTANTS' REPORT (Cont'd)****3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.13 Revenue recognition (cont'd)**

The Group recognises revenue from contracts with customers for goods or services based on the five-step model as set out in this standards (cont'd):-

- ii. Identify performance obligations in the contract. A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer either a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
- iii. Determine the transaction price. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
- iv. Allocate the transaction price to the performance obligations in the contract. For a contract that has more than one performance obligation, the Group allocates transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expect to be entitled in exchange for satisfying each performance obligation.
- v. Recognise revenue when (or as) the Group satisfies a performance obligation. An asset is transferred when (or as) the customer obtains control of the asset.

The Group satisfies a performance obligation and recognise revenue over time if the Group's performance:-

- i. Do not create an asset with an alternative use to the Group and has an enforceable right to payment for performance completed to-date; or
- ii. Create or enhance an asset that the customer controls as the asset is created or enhanced; or
- iii. Provide benefits that the customer simultaneously receives and consumes as the Group perform.

For performance obligations where any one of the above conditions not met, revenue is recognised at a point in time at which the performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised goods or service, it creates a contract based on asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised, this give rise to a contract liability.

Revenue is measured at fair value of consideration received or receivable. The followings describe the performance obligation in contracts with customers:-

**Sale of goods**

The Group manufactures and sells a range of ready-to-assemble furniture product to oversee market. Revenue from sales of goods is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the customs, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

**12. ACCOUNTANTS' REPORT (Cont'd)****3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.13 Revenue recognition (cont'd)**

Revenue is measured at fair value of consideration received or receivable. The followings describe the performance obligation in contracts with customers (cont'd):-

**Sale of goods (cont'd)**

Revenue from these sales is recognised based on the price specified in the contract and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as the sales are made with a credit term of 7 to 90 days, which is consistent with market practice. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. The Group's obligation to transfer goods or services to a customer for which the Group has received consideration in advance from customer is presented as contract liability as disclosed in Note 16 to the Financial Statements.

**3.14 Interest income**

Interest income is recognised in the profit or loss on time proportion basis taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

**3.15 Tax expense****3.15.1 Current tax**

Current tax expense is the expected amount of income taxes payable in respect of the taxable profit for the financial period and is measured using the tax rates that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised in financial position as liability (or asset) to the extent that it is unpaid (or refundable). Current tax is recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

**3.15.2 Deferred tax**

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the combined statements of financial position and their tax bases. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting date.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## **12. ACCOUNTANTS' REPORT (Cont'd)**

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **3.15 Tax expense (cont'd)**

##### **3.15.3 Indirect tax**

Goods and Services Tax ("GST") is a consumption tax based on value-added concept. GST is imposed on goods and services at every production and distribution stage in the supply chain including importation of goods and services, at the applicable tax rate of 6%. Input GST that the Group paid on purchases of business inputs can be deducted from output GST.

Revenues, expenses, assets and liabilities are recognised net of the amount of GST except:-

- Where the GST incurred in a purchase of assets or services is not recoverable from the authority, in which case the GST is recognised as part of the cost of acquisition of the assets or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the customs is included as part of receivables or payables in the combined statements of financial position.

In prior financial year, GST reset at standard rated of 0% with effective on 1 June 2018 and sales and services tax ("SST") was enacted with effective on 1 September 2018 to replace GST.

#### **3.16 Related parties**

A related party is a person or entity that is related to the entity that is preparing its financial statements ("the reporting entity"). A related party transaction is a transfer of resources, services or obligations between the reporting entity and its related party, regardless of whether a price is charged.

- (a) A person or a close member of that person's family is related to the reporting entity if that person:-
- (i) Has control or joint control over the reporting entity;
  - (ii) Has significant influence over the reporting entity; or
  - (iii) Is a member of the key management personnel of the reporting entity.
- (b) An entity is related to the reporting entity if any of the following conditions applies:-
- (i) The entity and the reporting entity are members of the same group.
  - (ii) One entity is an associate or joint venture of the other entity.
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) An entity is a joint venture of a third entity and the other entity is an associate of the same third entity.
  - (v) The entity is a post-employment benefit plan for the benefits of employees of either the reporting entity or an entity related to the reporting entity.
  - (vi) The entity is controlled or jointly-controlled by a person identified in (a) above.
  - (vii) A person identified in (a)(i) above has significant influence over the entity or is a member of the key management personnel of the entity.
  - (viii) The entity, or any member of a group of which it is a party that provides key management personnel services to the reporting entity or to the parents of the reporting entity.



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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.17 Segmental results****Operating segment**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

**3.18 Earnings per share****(a) Basic**

Basic earnings per share for the financial year is calculated by dividing the net profit for the financial year attributable to common controlling shareholders by the weighted average number of ordinary shares in issue.

**(b) Diluted**

Diluted earnings per share is calculated by dividing the net profit for the financial period/year attributable to common controlling shareholders by the weighted average number of ordinary shares in issue, adjusted for the dilutive effects of all potential ordinary shares to be issued. Diluted earnings per share is not applicable as the Group does not have potential dilutive equity instruments that would give a diluted effect to the basic earnings per share.

**12. ACCOUNTANTS' REPORT (Cont'd)****4. PROPERTY, PLANT AND EQUIPMENT**

Audited Cost or valuation	At cost/valuation				At cost							Total RM	
	Freehold land RM	Leasehold land RM	Freehold factory buildings RM	Leasehold factory buildings RM	Hostel RM	Computer and office equipment RM	Factory machinery and equipment RM	Electrical, installation, Furniture and fittings RM	Renovation RM	Motor vehicles RM	Signboard RM		Building in progress RM
At 1.1.2015	2,910,932	-	5,000,287	3,817,112	-	217,281	10,084,984	53,558	102,668	1,007,691	900	-	23,195,413
Additions	-	-	3,900	-	321,832	27,138	1,142,882	29,260	-	-	-	-	1,525,012
Disposals	-	-	-	-	-	-	(180,000)	-	-	-	-	-	(180,000)
At 31.12.2015	2,910,932	-	5,004,187	3,817,112	321,832	244,419	11,047,866	82,818	102,668	1,007,691	900	-	24,540,425
Additions	-	-	42,453	-	53,797	33,306	1,425,208	16,328	-	310,322	-	-	1,881,414
At 31.12.2016	2,910,932	-	5,046,640	3,817,112	375,629	277,725	12,473,074	99,146	102,668	1,318,013	900	-	26,421,839
Additions	2,086,283	-	-	-	143,943	14,818	1,379,438	34,458	-	-	-	-	3,658,940
At 31.12.2017	4,997,215	-	5,046,640	3,817,112	519,572	292,543	13,852,512	133,604	102,668	1,318,013	900	-	30,080,779
Additions	6,451,632	2,173,061	28,892	1,000	-	92,455	412,078	19,620	147,937	82,994	69,738	15,841	9,495,248
Disposals	(841,904)	-	-	-	(519,572)	-	(62,936)	-	-	-	-	-	(1,424,412)
Impairment loss on revaluation	(1,519,796)	-	-	-	-	-	-	-	-	-	-	-	(1,519,796)
Revaluation gain	1,330,972	137,439	3,977,083	4,195,743	-	-	-	-	-	-	-	-	9,641,237
At 31.12.2018	10,418,119	2,310,500	9,052,615	8,013,855	-	384,998	14,201,654	153,224	250,605	1,401,007	70,638	15,841	46,273,056
Additions	-	-	-	-	-	44,638	415,053	-	30,000	-	-	328,149	817,840
Written off	-	-	-	-	-	-	(163,597)	-	-	-	-	-	(163,597)
At 30.4.2019	10,418,119	2,310,500	9,052,615	8,013,855	-	429,636	14,453,110	153,224	280,605	1,401,007	70,638	343,990	46,927,299

**12. ACCOUNTANTS' REPORT (Cont'd)****4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	At cost/valuation				At cost							Total RM	
	Freehold land RM	Leasehold land RM	Freehold factory buildings RM	Leasehold factory buildings RM	Hostel RM	Computer and office equipment RM	Factory machinery and equipment RM	Electrical, installation, Furniture and fittings RM	Renovation RM	Motor vehicles RM	Signboard RM		Building in progress RM
<b>Audited</b>													
<b>Accumulated depreciation</b>													
At 1.1.2015	-	-	100,006	741,106	-	174,209	7,112,625	48,473	102,668	561,733	900	-	8,841,720
Charge for the financial year	-	-	100,084	76,342	6,437	16,271	951,740	8,870	-	117,582	-	-	1,277,326
Disposals	-	-	-	-	-	-	(180,000)	-	-	-	-	-	(180,000)
At 31.12.2015	-	-	200,090	817,448	6,437	190,480	7,884,365	57,343	102,668	679,315	900	-	9,939,046
Charge for the financial year	-	-	100,933	76,342	-	20,575	1,215,117	10,683	-	178,352	-	-	1,602,002
Reclassification	-	-	-	305,549	-	-	(306,399)	-	-	850	-	-	-
At 31.12.2016	-	-	301,023	1,199,339	6,437	211,055	8,793,083	68,026	102,668	858,517	900	-	11,541,048
Charge for the financial year	-	-	100,933	76,342	10,391	21,834	1,456,529	16,239	-	168,109	-	-	1,850,377
At 31.12.2017	-	-	401,956	1,275,681	16,828	232,889	10,249,612	84,265	102,668	1,026,626	900	-	13,391,425
Charge for the financial year	-	38,677	141,185	118,313	908	24,661	1,357,532	16,219	19,552	181,941	4,649	-	1,903,637
Disposals	-	-	-	-	(17,736)	-	(62,003)	-	-	-	-	-	(79,739)
At 31.12.2018	-	38,677	543,141	1,393,994	-	257,550	11,545,141	100,484	122,220	1,208,567	5,549	-	15,215,323
Charge for the financial period	-	18,785	60,351	53,426	-	12,108	322,953	6,664	11,862	26,221	2,325	-	514,695
Written off accumulated depreciation	-	-	-	-	-	-	(163,597)	-	-	-	-	-	(163,597)
At 30.4.2019	-	57,462	603,492	1,447,420	-	269,658	11,704,497	107,148	134,082	1,234,788	7,874	-	15,566,421

**12. ACCOUNTANTS' REPORT (Cont'd)****4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	At valuation				At cost								
	Freehold land RM	Leasehold land RM	Freehold factory buildings RM	Leasehold factory buildings RM	Hostel RM	Computer and office equipment RM	Factory machinery and equipment RM	Electrical, installation, Furniture and fittings RM	Renovation RM	Motor vehicles RM	Signboard RM	Building in progress RM	Total RM
<b>Net carrying amount</b>													
At 30.4.2019	10,418,119	2,253,038	8,449,123	6,566,435	-	159,978	2,748,613	46,076	146,523	166,219	62,764	343,990	31,360,878
At 31.12.2018	10,418,119	2,271,823	8,509,474	6,619,861	-	127,448	2,656,513	52,740	128,385	192,440	65,089	15,841	31,057,733
At 31.12.2017	4,997,215	-	4,644,684	2,541,431	502,744	59,654	3,602,900	49,339	-	291,387	-	-	16,689,354
At 31.12.2016	2,910,932	-	4,745,617	2,617,773	369,192	66,670	3,679,991	31,120	-	459,496	-	-	14,880,791
At 31.12.2015	2,910,932	-	4,804,097	2,999,664	315,395	53,939	3,163,501	25,475	-	328,376	-	-	14,601,379
<b>Unaudited</b>													
<b>Cost</b>													
At 1.1.2018	4,997,215	-	5,046,640	3,817,112	519,572	292,543	13,852,512	133,604	102,668	1,318,013	900	-	30,080,779
Additions	6,428,513	-	28,892	1,000	-	35,536	17,000	18,400	83,363	82,994	-	-	6,695,698
At 30.4.2018	11,425,728	-	5,075,532	3,818,112	519,572	328,079	13,869,512	152,004	186,031	1,401,007	900	-	36,776,477
<b>Accumulated depreciation</b>													
At 1.1.2018	-	-	401,956	1,275,681	16,828	232,889	10,249,612	84,265	102,668	1,026,626	900	-	13,391,425
Charge for the financial period	-	-	37,241	25,447	908	4,902	390,408	2,951	630	58,803	-	-	521,290
At 30.4.2018	-	-	439,197	1,301,128	17,736	237,791	10,640,020	87,216	103,298	1,085,429	900	-	13,912,715
<b>Net carrying amount</b>													
At 30.4.2018	11,425,728	-	4,636,335	2,516,984	501,836	90,288	3,229,492	64,788	82,733	315,578	-	-	22,863,762

**12. ACCOUNTANTS' REPORT (Cont'd)****4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

- (a) Net carrying amount of asset financed under finance lease arrangements.

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited →			
			31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
Motor vehicles	-	-	-	-	-	318,000

- (b) Net carrying amount of assets pledged to licensed banks as security for banking facilities granted.

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited →			
			31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
Freehold land	8,418,120	8,771,781	8,418,119	2,910,932	2,910,932	2,910,932
Freehold factory buildings	8,449,123	4,639,835	8,509,474	4,644,684	4,745,617	4,804,097
Leasehold factory buildings	6,566,435	2,516,983	6,619,861	2,541,431	2,617,773	2,999,664
	<u>23,433,678</u>	<u>15,928,599</u>	<u>23,547,454</u>	<u>10,097,047</u>	<u>10,274,322</u>	<u>10,714,693</u>

**Revaluation of land and buildings**

The Group applies revaluation model in measuring its land and buildings. The land and buildings of the Group were revalued on 31 May 2018 by Jones Lang Wootton, an independent professional valuer. The revaluation surplus net of applicable deferred tax was credited to other comprehensive income and is shown in "Revaluation Reserve" under the equity.

Impairment losses on the land and buildings are recognised at the date of the revaluation, resulting from the valuation amount lower than the carrying amount of the freehold land. The impairment losses are being recognised in profit or loss in financial year ended 31 December 2018.

Fair value measurement of the land and buildings were categorised under Level 2. There were no transfers between Level 1 and Level 2 during the financial year.

**Level 2 Fair Value**

Level 2 fair value of land and buildings have been generally derived using the sales comparison approach. Sales price of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is per square foot of comparable properties.

**12. ACCOUNTANTS' REPORT (Cont'd)****4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)****Revaluation of land and buildings (cont'd)**

If land and buildings were measured using the cost model, the carrying amounts would be as follows:-

	← At cost →				
	Freehold land RM	Leasehold land RM	Freehold factory buildings RM	Leasehold factory buildings RM	Total RM
<b>Cost</b>					
At 1.1.2018	4,997,215	-	5,046,640	3,817,112	13,860,967
Additions	6,451,632	2,173,061	28,892	1,000	8,654,585
Disposals	(841,904)	-	-	-	(841,904)
At 31.12.2018/30.4.2019	10,606,943	2,173,061	5,075,532	3,818,112	21,673,648
<b>Accumulated depreciation</b>					
At 1.1.2018	-	-	401,956	1,275,681	1,677,637
Charge for the financial year	-	37,001	101,414	76,346	214,761
At 31.12.2018	-	37,001	503,370	1,352,027	1,892,398
Charge for the financial year	-	17,869	33,837	25,454	77,160
At 30.4.2019	-	54,870	537,207	1,377,481	1,969,558
<b>Net carrying amount</b>					
At 30.4.2019	10,606,943	2,118,191	4,538,325	2,440,631	19,704,090
At 31.12.2018	10,606,943	2,136,060	4,572,162	2,466,085	19,781,250
At 31.12.2017	4,997,215	-	4,644,684	2,541,431	12,183,330

**5. INVENTORIES**

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited →			
			31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
Raw materials	5,765,722	3,753,016	4,800,890	4,286,035	4,060,220	4,303,785
Work-in-progress	917,970	1,322,267	411,996	132,759	298,521	28,879
Finished goods	1,666,442	81,204	1,239,908	1,509,299	115,570	464,514
Packaging materials	62,028	13,403	-	21,810	94,257	19,003
Goods in transit	335,121	-	324,669	-	-	-
	8,747,283	5,169,890	6,777,463	5,949,903	4,568,568	4,816,181
Recognised in profit or loss	9,594,074	8,714,641	26,780,909	25,169,508	21,415,643	19,005,552

**12. ACCOUNTANTS' REPORT (Cont'd)****6. TRADE RECEIVABLES**

(a) Trade receivables are non-interest bearing and the normal trade credit terms granted to customers are ranging from 7 to 90 (30.4.2018, 31.12.2018, 31.12.2017, 31.12.2016 and 31.12.2015: 7 to 90) days. They are recognised at their original invoice amount which represent their fair values on initial recognition.

(b) The foreign currency risk exposure of trade receivables are as follows:-

	Audited	Unaudited	Audited			
	30.4.2019	30.4.2018	31.12.2018	31.12.2017	31.12.2016	31.12.2015
	RM	RM	RM	RM	RM	RM
United States Dollar ("USD")	3,789,581	4,751,703	5,625,985	3,788,743	5,072,609	4,343,934
Singapore Dollar ("SGD")	117,505	120,293	228,338	275,239	217,086	133,130

(c) The expected credit loss (ECL) were determined as follows:-

	Current	Day past due				Total
		<30 days	30-60 days	61-90 days	>91 days	
<b>Audited</b>						
<u>30 April 2019</u>						
Expected credit loss rate	-	-	-	-	-	-
Gross carrying amount	3,866,042	41,044	-	-	-	3,907,086
Expected credit loss	-	-	-	-	-	-
<u>31 December 2018</u>						
Expected credit loss rate	-	-	-	-	-	-
Gross carrying amount	4,966,474	871,932	15,917	-	-	5,854,323
Expected credit loss	-	-	-	-	-	-
<u>31 December 2017</u>						
Expected credit loss rate	-	-	-	-	-	-
Gross carrying amount	2,823,734	1,019,365	1,640	164,834	54,409	4,063,982
Expected credit loss	-	-	-	-	-	-
<u>31 December 2016</u>						
Expected credit loss rate	-	-	-	-	-	-
Gross carrying amount	3,544,628	1,503,662	124,672	30,887	85,846	5,289,695
Expected credit loss	-	-	-	-	-	-
<u>1 January 2016</u>						
Expected credit loss rate	-	-	-	-	-	-
Gross carrying amount	3,533,674	714,223	138,216	25,506	65,445	4,477,064
Expected credit loss	-	-	-	-	-	-
<b>Unaudited</b>						
<u>30 April 2018</u>						
Expected credit loss rate	-	-	-	-	-	-
Gross carrying amount	4,612,713	198,450	-	-	60,833	4,871,996
Expected credit loss	-	-	-	-	-	-

(d) Information on financial risk of trade receivables is disclosed in Note 27 to the combined financial statements.

**12. ACCOUNTANTS' REPORT (Cont'd)****7. OTHER RECEIVABLES**

	Audited	Unaudited	Audited			
	<u>30.4.2019</u>	<u>30.4.2018</u>	<u>31.12.2018</u>	<u>31.12.2017</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM	RM	RM	RM	RM	RM
Non-trade receivables	97,458	462,790	97,934	61,743	39,541	26,595
Utilities deposits	179,357	162,356	179,357	138,256	77,496	65,496
Deposits for acquisition of land	-	-	-	609,840	-	-
Deposit for acquisition of access road	274,240	274,240	274,240	274,240	-	-
Deposits for purchases of machineries	1,620,188	-	-	-	-	-
Prepayments for listing expenses	1,146,214	328,300	787,850	230,000	-	-
Prepayments – others*	607,494	534,921	795,564	279,255	379,581	153,937
GST receivable	377,938	542,697	638,492	545,349	393,292	226,847
	<u>4,302,889</u>	<u>2,305,304</u>	<u>2,773,437</u>	<u>2,138,683</u>	<u>889,910</u>	<u>472,875</u>

\* Mainly consists of levy for foreign workers and prepaid insurance.

**8. DERIVATIVE FINANCIAL INSTRUMENTS**

	Contract/ Notional Amount	Assets	Liabilities	Net
	RM	RM	RM	RM
<b>Non-hedging derivative</b>				
Forward currency contracts				
30.4.2019	8,754,874	-	(94,196)	(94,196)
30.4.2018 (unaudited)	7,545,110	99,238	-	99,238
31.12.2018	3,533,628	17,290	-	17,290
31.12.2017	3,355,460	105,904	-	105,904
31.12.2016	7,289,494	-	(571,960)	(571,960)
31.12.2015	6,957,970	-	(314,402)	(314,402)

Forward currency contracts are used to manage some of the foreign currency exposure arising from the Group's transactions denominated in currencies other than the functional currency of the Group. All forward currency contracts have maturities of less than one year after the end of the reporting date.

These contracts are not designated as cash flow or fair value hedges and are entered into for periods consistent with currency transaction exposure and fair value changes exposure. Such derivatives do not qualify for hedge accounting.

**9. FIXED DEPOSITS WITH LICENSED BANKS**

	Audited	Unaudited	Audited			
	<u>30.4.2019</u>	<u>30.4.2018</u>	<u>31.12.2018</u>	<u>31.12.2017</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM	RM	RM	RM	RM	RM
Fixed deposits with licensed banks	<u>3,285,219</u>	-	<u>1,400,604</u>	<u>2,302,712</u>	<u>1,100,000</u>	<u>450,000</u>

The average effective interest rate per annum for fixed deposits with licensed banks are 2.90% to 3.50% (30.4.2018: 3.15% to 3.80%, 31.12.2018: 3.15% to 3.80%, 31.12.2017: 3.10% to 3.40%, 31.12.2016: 3.15% to 3.90% and 31.12.2015: 3.40%).



**12. ACCOUNTANTS' REPORT (Cont'd)****10. CASH AND BANK BALANCES**

The foreign currency risk exposure of cash and bank balances is as follows:-

	Audited	Unaudited	← Audited →			
	<u>30.4.2019</u>	<u>30.4.2018</u>	<u>31.12.2018</u>	<u>31.12.2017</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
	RM	RM	RM	RM	RM	RM
United States Dollar ("USD")	1,136,911	1,661,067	1,278,176	2,195,904	964,428	492,704
Singapore Dollar ("SGD")	29,205	43,404	41,113	35,416	-	8,814

**11. SHARE CAPITAL**

	Spring Art Holdings <u>Berhad</u> Unit	Spring Art Industries <u>Sdn. Bhd.</u> Unit	Total Unit
<b>Unit:-</b>			
<b>Issued and fully paid up:-</b>			
<b>Number of ordinary shares:-</b>			
At 31.12.2015/31.12.2016/31.12.2017	-	500,000	500,000
Issued during the financial year	200	-	200
At 31.12.2018/30.4.2019/30.4.2018	200	500,000	500,200
<b>Amount:-</b>			
<b>Issued and fully paid-up:-</b>			
At 31.12.2015/31.12.2016/31.12.2017	-	500,000	500,000
Issued during the financial year	20	-	20
At 31.12.2018/30.4.2019/30.4.2018	20	500,000	500,020

The holders of ordinary shares are entitled to receive dividends as and when declared by the Group. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Group's residual assets.

**12. REVALUATION RESERVE**

Revaluation reserve consists of surplus from revaluation of the land and buildings of the Group on 30 June 2018 net of deferred tax.

**12. ACCOUNTANTS' REPORT (Cont'd)****13. BORROWINGS**

	Audited	Unaudited	Audited			
	30.4.2019	30.4.2018	31.12.2018	31.12.2017	31.12.2016	31.12.2015
	RM	RM	RM	RM	RM	RM
<b>Current</b>						
<b>Secured:-</b>						
Bankers' acceptances	290,000	1,142,633	-	-	440,000	400,000
Bank overdrafts	-	-	-	907,363	176,524	168,577
Term loan (I)	256,625	238,006	254,321	301,193	284,858	273,513
Term loan (II)	-	-	-	-	-	44,746
Term loan (III)	341,299	325,526	337,263	-	-	-
	<u>887,924</u>	<u>1,706,165</u>	<u>591,584</u>	<u>1,208,556</u>	<u>901,382</u>	<u>886,836</u>
<b>Non-current</b>						
<b>Secured:-</b>						
Term loan (I)	2,665,639	2,921,970	2,748,709	2,936,625	3,186,650	3,418,479
Term loan (III)	3,324,374	3,658,008	3,437,090	-	-	-
	<u>5,990,013</u>	<u>6,579,978</u>	<u>6,185,799</u>	<u>2,936,625</u>	<u>3,186,650</u>	<u>3,418,479</u>
	<u>6,877,937</u>	<u>8,286,143</u>	<u>6,777,383</u>	<u>4,145,181</u>	<u>4,088,032</u>	<u>4,305,315</u>

(a) The term loans are secured by:-

- (i) legal charge over the freehold land and freehold factory building of the Group with carrying amount of RM16,867,243 (30.4.2018: 13,411,216, 31.12.2018: 16,927,593, 31.12.2017: RM6,711,962, 31.12.2016: RM6,812,895 and 31.12.2015: RM7,715,029) as disclosed in Note 4 to the combined financial statements; and
- (ii) jointly and severally guaranteed by the Directors of the Group.

The term loans are repayable as follows:-

	<u>No of installments</u>	<u>Monthly repayment</u>	<u>Commencement date</u>
Term loan (I)	180	RM32,000	October 2013
Term loan (II)	36	RM14,903	April 2013/fully settled in March 2016
Term loan (III)	120	RM41,167	April 2018

The term loans bear interest at an effective rate of 4.35% to 4.54% (30.4.2018: 4.60% to 4.79%, 31.12.2018: 4.60% to 4.79%, 31.12.2017: 4.40%, 31.12.2016: 4.65% and 31.12.2015: 4.65% to 6.35%) per annum.

(b) The bank overdrafts are secured by:-

- (i) legal charge over the properties of the Group with carrying amount of RM18,415,558 (30.4.2018: RM9,225,846, 31.12.2018: RM18,529,335, 31.12.2017: RM9,253,393, 31.12.2016: RM9,430,668 and 31.12.2015: RM9,871,039) as disclosed in Note 4 to the combined financial statements;
- (ii) legal charge over the property of a related party; and
- (iii) jointly and severally guaranteed by the Directors of the Group.

The bank overdrafts bear interest at effective rates Nil% (31.4.2018: Nil%, 31.12.2018: Nil%, 31.12.2017: 7.85% to 8.05%, 31.12.2016 and 31.12.2015: 7.85% to 8.85%) per annum and repayable on demand.

**12. ACCOUNTANTS' REPORT (Cont'd)****13. BORROWINGS (CONT'D)**

(c) The bankers' acceptances are secured by:-

- (i) legal charge over the properties of the Group with carrying amounts of RM18,415,558 (30.4.2018: RM9,225,846, 31.12.2018: RM18,529,335, 31.12.2017: RM9,253,393, 31.12.2016: RM9,430,668 and 31.12.2015: RM9,871,039) as disclosed in Note 4 to the combined financial statements; and
- (ii) jointly and severally guaranteed by the Directors of the Group.

The bankers' acceptances bear interest at effective rates ranging from 4.80% (30.4.2018: 3.63% to 4.82%, 31.12.2018: Nil%, 31.12.2017: Nil%, 31.12.2016: 3.30% to 4.58% and 31.12.2015: 3.30% to 4.75%) per annum and is repayable upon the maturity date within 120 days.

**14. DEFERRED TAX LIABILITIES**

	Audited	Unaudited	← Audited →			
	30.4.2019	30.4.2018	31.12.2018	31.12.2017	31.12.2016	31.12.2015
	RM	RM	RM	RM	RM	RM
Brought forward	2,599,615	439,000	439,000	321,000	367,000	317,613
(Over)/Under provision in prior year	(86,000)	-	17,000	-	-	-
Recognised within equity through other comprehensive income	-	-	2,127,560	-	-	-
Crystallisation of deferred tax liabilities arising from revaluation reserve (Note 20)	(13,296)	-	(19,945)	-	-	-
Recognised in profit or loss (Note 20)	240,000	-	36,000	118,000	(46,000)	49,387
Carried forward	<u>2,740,319</u>	<u>439,000</u>	<u>2,599,615</u>	<u>439,000</u>	<u>321,000</u>	<u>367,000</u>

The components of deferred tax liabilities are made up of temporary differences arising from:-

	Audited	Unaudited	← Audited →			
	30.4.2019	30.4.2018	31.12.2018	31.12.2017	31.12.2016	31.12.2015
	RM	RM	RM	RM	RM	RM
Carrying amount of qualifying property, plant and equipment in excess of their tax base	754,000	436,000	602,000	436,000	453,000	427,000
Revaluation reserve on land and buildings	2,094,319	-	2,107,615	-	-	-
Others	(108,000)	3,000	(110,000)	3,000	(132,000)	(60,000)
	<u>2,740,319</u>	<u>439,000</u>	<u>2,599,615</u>	<u>439,000</u>	<u>321,000</u>	<u>367,000</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****15. TRADE PAYABLES**

(a) Trade payables are unsecured, non-interest bearing and the normal credit term granted by the suppliers ranging from 30 to 90 (30.4.2018, 31.12.2018, 31.12.2017, 31.12.2016 and 31.12.2015: 30 to 90) days.

(b) The foreign currency risk exposure of trade payables are as follows:-

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited →			
			31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
United States Dollar ("USD")	400,934	455,140	246,925	-	-	-

**16. OTHER PAYABLES**

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited →			
			31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
Accruals*	633,933	516,491	623,776	444,455	400,886	342,264
Non-trade payables	466,944	406,439	311,131	204,639	46,457	351,206
Contract liabilities^	425,993	349,208	423,441	101,172	283,800	-
	<u>1,526,870</u>	<u>1,272,138</u>	<u>1,358,348</u>	<u>750,266</u>	<u>731,143</u>	<u>693,470</u>

\*Consisting mainly of accrued salaries and staff allowances.

^Contract liabilities represent advance payments from customer for future sales obligation.

Included in non-trade payables is an amount of RMNil (30.4.2018: RMNil, 31.12.2018: RM11,114, 31.12.2017: RMNil, 31.12.2016: RM14,000 and 31.12.2015: RM7,000) due to a company in which the Directors have interest. These amounts are unsecured, non-interest bearing and repayable on demand.

The foreign currency risk exposure of other payables is as follows:-

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited →			
			31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
United States Dollar ("USD")	49,121	-	115,632	101,172	283,800	142,425

**17. FINANCE LEASE LIABILITIES**

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited →			
			31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
Minimum lease payments						
- Within 1 year	-	-	-	-	-	61,472
Less: Interest-in-suspense	-	-	-	-	-	(1,018)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,454</u>
Present value of finance lease liabilities						
- Within 1 year	-	-	-	-	-	60,454

The effective interest of finance lease liabilities is charged at the rates ranging from Nil% (30.4.2018: Nil%, 31.12.2018: Nil%, 31.12.2017 and 31.12.2016: Nil% and 31.12.2015: 5.10%) per annum.

**12. ACCOUNTANTS' REPORT (Cont'd)****18. REVENUE**

Revenue represents invoiced value of furniture manufactured, net of discounts and returns.

The Group's revenue disaggregated by primary geographical markets are as disclosed in Note 25 to the combined financial statements.

The Group's revenue disaggregated by pattern of revenue recognition is as follows:-

	Audited	Unaudited	Audited			
	1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Sales of goods at a point in time on delivery	<u>18,296,970</u>	<u>15,626,316</u>	<u>50,381,862</u>	<u>48,276,443</u>	<u>41,287,223</u>	<u>36,424,464</u>

**19. PROFIT BEFORE TAX**

Profit before tax has been determined after charging/(crediting), amongst other items, the following:-

	Audited	Unaudited	Audited			
	1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Depreciation	514,695	521,290	1,903,637	1,850,377	1,602,002	1,277,326
Rental expenses	7,870	-	7,089	168,000	168,000	84,000
Loss/(Gain) on foreign exchange:-						
- unrealised	(70,176)	(19,442)	50,593	93,104	(119,751)	(53,855)
- realised	15,457	136,347	94,145	818,809	(439,195)	34,202
Interest expenses:-						
- bankers' acceptances	3,432	9,828	29,794	-	11,441	28,336
- term loan	103,182	63,902	283,029	82,163	91,512	112,463
- bank overdrafts	134	32	2,994	711	11,784	15,434
- finance lease liabilities	-	-	-	-	1,018	42,302
Interest income	(28,441)	(43,805)	(76,209)	(40,991)	(15,805)	(1,931)
Fair value loss/(gain) on derivative financial instruments	111,486	6,666	88,614	(677,864)	257,558	126,154
Impairment loss on revaluation of property, plant and equipment measured	-	-	1,519,796	-	-	-
Gain on disposal of property, plant and equipment	-	-	(765,827)	-	-	(13,000)

**12. ACCOUNTANTS' REPORT (Cont'd)****20. TAX EXPENSE**

	Audited 1.1.2019 to 30.4.2019 RM	Unaudited 1.1.2018 to 30.4.2018 RM	← Audited → 1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	Audited 1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Current financial period/year provision	396,082	640,000	2,211,752	2,162,000	2,164,952	880,839
(Over)/Under provision in prior year	-	-	(40,810)	2,238	488	(20,220)
(Over)/Under provision of deferred tax in prior year	(86,000)	-	17,000	-	-	-
Deferred tax liabilities	240,000	-	36,000	118,000	(46,000)	49,387
Crystallisation of deferred tax upon depreciation of revalued assets	(13,296)	-	(19,945)	-	-	-
	<u>536,786</u>	<u>640,000</u>	<u>2,203,997</u>	<u>2,282,238</u>	<u>2,119,440</u>	<u>910,006</u>

Malaysian income tax is calculated at the statutory tax rate of 24% (30.4.2018: 24%, 31.12.2018: 24%, 31.12.2017 and 31.12.2016: 24% and 31.12.2015: 25%) of the estimated assessable profit for the financial year.

A reconciliation of income tax expense applicable to profit before tax at statutory tax rate to income tax expense at the effective tax rate of the Group is as follows:-

	Audited 1.1.2019 to 30.4.2019 RM	Unaudited 1.1.2018 to 30.4.2018 RM	← Audited → 1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	Audited 1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Profit before tax	3,113,371	2,375,692	8,432,961	10,142,143	9,593,902	8,103,737
Tax at Malaysia statutory tax rate of 24% (30.4.2018:24%, 31.12.2018:24%, 31.12.2017:24%, 31.12.2016:24% and 31.12.2015:25%)	747,209	570,166	2,023,911	2,434,114	2,302,536	2,025,934
<u>Tax effects in respect of:</u>						
Expenses not deductible for tax	49,517	281,336	513,434	60,266	35,935	21,661
Income not subject to tax	(28,985)	(156,237)	(183,798)	-	-	(3,249)
Utilisation of reinvestment allowance	-	-	-	(184,380)	(194,519)	(1,089,120)
(Over)/Under provision of deferred tax in prior year	(86,000)	-	17,000	-	-	-
(Over)/Under provision of tax expense in prior year	-	-	(40,810)	2,238	488	(20,220)
Tax savings for the first tranche of chargeable income	(35,000)	(30,000)	(30,000)	(30,000)	(25,000)	(25,000)
Utilisation of increased exports claim	(96,659)	(25,265)	(75,795)	-	-	-
Crystallisation of deferred tax upon depreciation of revalued assets	(13,296)	-	(19,945)	-	-	-
Effective tax expense	<u>536,786</u>	<u>640,000</u>	<u>2,203,997</u>	<u>2,282,238</u>	<u>2,119,440</u>	<u>910,006</u>

However, the above amounts are subject to the approval of the Inland Revenue Board of Malaysia.

**12. ACCOUNTANTS' REPORT (Cont'd)****21. EARNINGS PER SHARE**Basic earnings per share

Basic earnings per share is calculated by dividing net profit for the financial year attributable to ordinary equity holders of the Group over the weighted average number of ordinary shares in issue during the financial year as follows:

	Audited	Unaudited	Audited			
	1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Net profit for the year attributable to ordinary equity holders of the Group	2,576,585	1,735,692	6,228,964	7,859,905	7,474,462	7,193,731
Weighted average number of ordinary shares in issue	500,200	500,010	500,138	500,000	500,000	500,000
Basic earnings per share (sen)	515.11	374.13	1,245.45	1,571.98	1,494.89	1,438.75

Diluted earnings per share

Diluted earnings per share is not applicable as the Group does not have potential dilutive equity instruments that would give a diluted effect to the basic earnings per share.

**22. DIVIDENDS**

	Audited	Unaudited	Audited			
	1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
<u>In respect of the financial year ended 31 December 2015:-</u>						
First interim single tier dividend of RM1.00 per share declared on 2 July 2015	-	-	-	-	-	500,000
Second interim single tier dividend of RM2.00 per share declared on 16 November 2015	-	-	-	-	-	1,000,000
Third interim single tier dividend of RM4.00 per share declared on 11 February 2016	-	-	-	-	2,000,000	-
Fourth interim single tier dividend of RM4.00 per share declared on 5 April 2016	-	-	-	-	2,000,000	-
<u>In respect of the financial year ended 31 December 2016:-</u>						
First interim single tier dividend of RM3.60 per share declared on 1 July 2016	-	-	-	-	1,800,000	-
<u>In respect of the financial year ended 31 December 2017:-</u>						
Special single tier dividend of RM9.00 per share declared on 25 April 2018	-	4,500,000	4,500,000	-	-	-
	-	4,500,000	4,500,000	-	5,800,000	1,500,000

**12. ACCOUNTANTS' REPORT (Cont'd)****23. EMPLOYEES BENEFIT EXPENSES**

	Audited	Unaudited	Audited			
	1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Salaries, bonus, overtime and allowances	2,467,456	1,900,197	5,970,373	5,155,453	4,276,978	3,749,175
Defined contribution plan	130,969	118,382	331,698	241,716	231,012	202,388
Social contribution plan	8,843	5,876	18,364	13,830	10,802	11,311
Other benefits	79,332	33,825	217,440	121,372	152,514	131,032
	<u>2,686,600</u>	<u>2,058,280</u>	<u>6,537,875</u>	<u>5,532,371</u>	<u>4,671,306</u>	<u>4,093,906</u>

Employee benefit and expenses includes Directors' remuneration as follows:-

	Audited	Unaudited	Audited			
	1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
<b>Directors' remuneration</b>						
Salaries, bonus, overtime and allowances	300,000	300,000	900,000	660,000	660,000	600,000
Defined contribution plan	60,000	60,000	180,000	132,000	132,000	120,000
Social contribution plan	616	616	1,847	1,658	1,658	1,240
	<u>360,616</u>	<u>360,616</u>	<u>1,081,847</u>	<u>793,658</u>	<u>793,658</u>	<u>721,240</u>

**24. RELATED PARTY DISCLOSURES****(a) Related party transactions**

Significant related party transactions during the financial period/year are as follows:-

	Audited	Unaudited	Audited			
	1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
Dividends paid to Directors	-	(4,500,000)	(4,500,000)	-	(5,800,000)	(1,500,000)
Rental paid to a company in which the Directors have interests	-	-	-	(168,000)	(168,000)	(84,000)
Purchase of land from a company in which Directors have interest	-	-	(2,100,000)	-	-	-
Sales of land to a company in which Directors have interest	-	-	2,100,000	-	-	-
Interest charged to a company in which Directors have interest	-	-	7,595	-	-	-
	<u>-</u>	<u>-</u>	<u>7,595</u>	<u>-</u>	<u>-</u>	<u>-</u>



**12. ACCOUNTANTS' REPORT (Cont'd)****24. RELATED PARTY DISCLOSURES (CONT'D)**

- (b) Key management personnel is defined as the person having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly.

The Group has no other members of key management personnel other than the Board of Directors. Remuneration of key management personnel is disclosed as Directors' remuneration in Note 23 to the combined financial statements.

- (c) Outstanding balances arising from related party transactions are as disclosed in Note 16 to the combined financial statements.

**25. SEGMENTAL REPORTING - GROUP**

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.

**Geographical segments**

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:

	Audited	Unaudited	Audited			
	1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
<b>Revenue from external customers</b>						
Middle East	11,645,515	7,056,033	25,656,623	23,256,451	17,746,880	12,227,469
Asia Pacific	6,166,565	7,270,492	21,155,605	20,985,377	19,194,578	17,845,290
North America and Latin America	391,847	739,700	3,007,998	2,815,751	1,658,471	2,835,805
Africa	93,043	249,603	88,845	908,849	2,036,177	2,937,883
Europe	-	310,488	472,791	310,015	651,117	578,017
	<u>18,296,970</u>	<u>15,626,316</u>	<u>50,381,862</u>	<u>48,276,443</u>	<u>41,287,223</u>	<u>36,424,464</u>

**Major customers**

The followings are the major customers with revenue equal or more than 10% of the Group's revenue:-

Segment	Audited	Unaudited	Revenue			
			Audited			
	1.1.2019 to 30.4.2019 RM	1.1.2018 to 30.4.2018 RM	1.1.2018 to 31.12.2018 RM	1.1.2017 to 31.12.2017 RM	1.1.2016 to 31.12.2016 RM	1.1.2015 to 31.12.2015 RM
RNA Resources Group Ltd	11,645,514	5,890,236	21,235,810	19,940,962	15,285,047	6,055,952
Praxis Homp Retail Limited (formerly known as Future Retail Ltd.)	2,089,446	2,513,504	3,997,250	8,468,591	3,828,199	1,382,116
Nitori Co., Ltd	981,613	1,374,529	3,034,500	4,311,575	5,680,610	6,998,562

**12. ACCOUNTANTS' REPORT (Cont'd)****26. COMMITMENTS****26.1 Operating lease commitments**

The future lease payable under non-cancellable operating leases pertaining to the Group in respect of rental of premises are as follows:-

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited → 31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
Not later than one year	-	-	-	168,000	168,000	84,000
Later than one year but not later than five years	-	-	-	-	168,000	-
	-	-	-	168,000	336,000	84,000

**26.2 Capital commitment**

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← Audited → 31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
<u>Authorised and contracted for:-</u>						
Purchase of access road	260,000	260,000	260,000	260,000	-	-
Purchases of freehold land	-	-	-	5,488,560	-	-
Purchases of machineries	994,049	-	1,538,630	-	-	-
Purchases of computer system	-	-	15,000	-	-	-

**27. FINANCIAL INSTRUMENTS****Categories of financial instruments**

The table below provides an analysis of financial instruments categorised as follows:-

- (a) Financial assets measured at amortised cost ("FAAC");
- (b) Fair value through profit or loss ("FVTPL"); and
- (c) Other liabilities measured at amortised cost ("OFL").

	Carrying amount RM	FAAC RM	FVTPL RM	OFL RM
<b>Audited</b>				
<b>30.4.2019</b>				
<b>Financial assets</b>				
Trade receivables	3,907,086	3,907,086	-	-
Other receivables	2,171,243	2,171,243	-	-
Fixed deposits with licensed banks	3,285,219	3,285,219	-	-
Cash and bank balances	3,114,288	3,114,288	-	-
	<u>12,477,836</u>	<u>12,477,836</u>	<u>-</u>	<u>-</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Categories of financial instruments (cont'd)**

The table below provides an analysis of financial instruments categorised as follows (cont'd):-

- (a) Financial assets measured at amortised cost ("FAAC");  
 (b) Fair value through profit or loss ("FVTPL"); and  
 (c) Other liabilities measured at amortised cost ("OFL").

	Carrying amount RM	FAAC RM	FVTPL RM	OFL RM
<b>Audited (cont'd)</b>				
<u>30.4.2019 (cont'd)</u>				
<b>Financial liabilities</b>				
Trade payables	4,568,738	-	-	4,568,738
Other payables	1,100,877	-	-	1,100,877
Derivative financial instruments	94,196	-	94,196	-
Borrowings	6,877,937	-	-	6,877,937
	<u>12,641,748</u>	<u>-</u>	<u>94,196</u>	<u>12,547,552</u>
 <u>31.12.2018</u>				
<b>Financial assets</b>				
Trade receivables	5,854,323	5,854,323	-	-
Other receivables	551,531	551,531	-	-
Derivative financial instruments	17,290	-	17,290	-
Fixed deposits with licensed banks	1,400,604	1,400,604	-	-
Cash and bank balances	2,271,462	2,271,462	-	-
	<u>10,095,210</u>	<u>10,077,920</u>	<u>17,290</u>	<u>-</u>
 <b>Financial liabilities</b>				
Trade payables	2,912,050	-	-	2,912,050
Other payables	934,907	-	-	934,907
Borrowings	6,777,383	-	-	6,777,383
	<u>10,624,340</u>	<u>-</u>	<u>-</u>	<u>10,624,340</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Categories of financial instruments (cont'd)**

The table below provides an analysis of financial instruments categorised as follows (cont'd):-

- (a) Financial assets measured at amortised cost ("FAAC");  
 (b) Fair value through profit or loss ("FVTPL"); and  
 (c) Other liabilities measured at amortised cost ("OFL").

	Carrying amount RM	FAAC RM	FVTPL RM	OFL RM
<b>Audited (cont'd)</b>				
<u>31.12.2017</u>				
<b>Financial assets</b>				
Trade receivables	4,063,982	4,063,982	-	-
Other receivables	1,084,079	1,084,079	-	-
Derivative financial instruments	105,904	-	105,904	-
Fixed deposits with licensed banks	2,302,712	2,302,712	-	-
Cash and bank balances	3,545,856	3,545,856	-	-
	<u>11,102,533</u>	<u>10,996,629</u>	<u>105,904</u>	<u>-</u>
<b>Financial liabilities</b>				
Trade payables	1,929,443	-	-	1,929,443
Other payables	649,094	-	-	649,094
Borrowings	4,145,181	-	-	4,145,181
	<u>6,723,718</u>	<u>-</u>	<u>-</u>	<u>6,723,718</u>
<u>31.12.2016</u>				
<b>Financial assets</b>				
Trade receivables	5,289,695	5,289,695	-	-
Other receivables	117,037	117,037	-	-
Fixed deposits with licensed banks	1,100,000	1,100,000	-	-
Cash and bank balances	1,179,833	1,179,833	-	-
	<u>7,686,565</u>	<u>7,686,565</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities</b>				
Trade payables	2,251,112	-	-	2,251,112
Other payables	447,343	-	-	447,343
Derivative financial instruments	571,960	-	571,960	-
Borrowings	4,088,032	-	-	4,088,032
	<u>7,358,447</u>	<u>-</u>	<u>571,960</u>	<u>6,786,487</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Categories of financial instruments (cont'd)**

The table below provides an analysis of financial instruments categorised as follows (cont'd):-

- (a) Financial assets measured at amortised cost ("FAAC");  
 (b) Fair value through profit or loss ("FVTPL"); and  
 (c) Other liabilities measured at amortised cost ("OFL").

	Carrying amount RM	FAAC RM	FVTPL RM	OFL RM
<b>Audited (cont'd)</b>				
<u>31.12.2015</u>				
<b>Financial assets</b>				
Trade receivables	4,477,064	4,477,064	-	-
Other receivables	92,091	92,091	-	-
Fixed deposits with licensed banks	450,000	450,000	-	-
Cash and bank balances	506,359	506,359	-	-
	<u>5,525,514</u>	<u>5,525,514</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities</b>				
Trade payables	1,925,627	-	-	1,925,627
Other payables	693,470	-	-	693,470
Derivative financial instruments	314,402	-	314,402	-
Finance lease liabilities	60,454	-	-	60,454
Borrowings	4,305,315	-	-	4,305,315
	<u>7,299,268</u>	<u>-</u>	<u>314,402</u>	<u>6,984,866</u>
<b>Unaudited</b>				
<u>30.4.2018</u>				
<b>Financial assets</b>				
Trade receivables	4,871,996	4,871,996	-	-
Other receivables	899,386	899,386	-	-
Derivative financial instrument	99,238	-	99,238	-
Fixed deposits with licensed banks	-	-	-	-
Cash and bank balances	1,724,741	1,724,741	-	-
	<u>7,595,361</u>	<u>7,496,123</u>	<u>99,238</u>	<u>-</u>
<b>Financial liabilities</b>				
Trade payables	2,309,435	-	-	2,309,435
Other payables	922,930	-	-	922,930
Borrowings	8,286,143	-	-	8,286,143
	<u>11,518,508</u>	<u>-</u>	<u>-</u>	<u>11,518,508</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Financial risk management objectives and policies****Financial risks**

The Group is exposed to financial risks arising from its operations and the use of financial instruments. Financial risk management policy is established to ensure that adequate resources are available for the development of the Group's business whilst managing its risks. The Group operates within clearly defined policies and procedures that are approved by the Board of Directors to ensure the effectiveness of the risk management process.

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows:-

**(a) Credit risk**

Credit risk refers to the risk that a counter party will default in its contractual obligations resulting in financial loss to the Group. The Group adopts the policy of dealing with customers of appropriate standing to mitigate credit risk and customers who wish to trade on credit terms are subject to credit evaluation. Receivables are monitored on an ongoing basis to mitigate risk of bad debts. For other financial assets, the Group adopts the policy of dealing with reputable institutions.

Exposure to Credit Risk

The Group's maximum exposure to credit risk is represented by the carrying amount of financial assets recognised at the reporting date, as summarised below:-

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	← 31.12.2018 RM	Audited → 31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
<b>Classes of financial assets:-</b>						
Trade receivables	3,907,086	4,871,996	5,854,323	4,063,982	5,289,695	4,477,064
Other receivables	2,171,243	899,386	551,531	1,084,079	117,037	92,091
Derivative financial instruments	-	99,238	17,290	105,904	-	-
Fixed deposits with a licensed bank	3,285,219	-	1,400,604	2,302,712	1,100,000	450,000
Cash and bank balances	<u>3,114,288</u>	<u>1,724,741</u>	<u>2,271,462</u>	<u>3,545,856</u>	<u>1,179,833</u>	<u>506,359</u>
Carrying amount	<u>12,477,836</u>	<u>7,595,361</u>	<u>10,095,210</u>	<u>11,102,533</u>	<u>7,686,565</u>	<u>5,525,514</u>

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used.

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Financial risk management objectives and policies (cont'd)****Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows (cont'd):-

**(a) Credit risk (cont'd)**Exposure to Credit Risk (cont'd)

The Group's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality. None of the Group's financial assets are secured by collateral or other credit enhancements and none of the carrying amount of financial assets whose terms have been renegotiated that would otherwise be past due or impaired.

**Receivables**Concentration of credit risk

Concentration of credit risk exists when changes in economic, industry and geographical factors similarly affect the group of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's portfolio of financial instrument is broadly diversified along geographical lines and transactions are entered into with diverse creditworthy counterparties, thereby mitigate any significant concentration of credit risk.

In respect of trade receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or a group of counterparties having similar characteristics except for 67% (30.4.2018: 65%, 31.12.2018: 49%, 31.12.2017: 61%, 31.12.2016: 73% and 31.12.2015: 74%) of total Group's trade receivables was due from 1 (30.4.2018: 2, 31.12.2018: 2, 31.12.2017: 2, 2016: 3 and 31.12.2015: 5) major customers.

In respect of other receivables, the Group is not subjected to any significant credit risk exposure to any single counterparty or a group of counterparties having similar characteristics.

The net carrying amount of receivables is considered a reasonable approximate of its fair value. The maximum exposure to credit risk is the carrying value of each class of receivables as disclosed in Notes 6 and 7 to the Financial Statements.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group does not offer credit terms without the approval of the head of credit control.

With a credit policy in place to ensure the credit risk is monitored on an ongoing basis, the management has taken reasonable steps to ensure that receivables are stated at their realisable values. A significant portion of the receivables are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than credit terms granted are deemed to have higher credit risk, and are monitored individually.

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Financial risk management objectives and policies (cont'd)****Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows (cont'd):-

**(a) Credit risk (cont'd)****Cash and bank balances and fixed deposits with licensed banks**

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable licensed financial institutions with high quality external credit ratings.

**Financial guarantees**

The maximum exposure to credit risks amounts to RM630,000 (30.4.2018: RM1,130,000 31.12.2018: RM1,130,000, 31.12.2017: RM1,630,000, 31.12.2016: RM1,630,000 and 31.12.2015: RM130,000) representing the outstanding banking facilities of the Group as at end of reporting date.

The Group provides unsecured corporate guarantees to a supplier in respect of electricity supplies. The Group monitors on an ongoing basis the repayment made to the supplier.

**(b) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due, due to shortage of funds.

In managing its exposures to liquidity risk arises principally from its various payables, lease liabilities and borrowings, the Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

The Group aims at maintaining a balance of sufficient cash and deposits and flexibility in funding by keeping diverse sources of committed and uncommitted credit facilities from various banks.

The summary of the maturity profile based on the contractual undiscounted repayment obligations are as below:-

	Less than <u>1 year</u> RM	2-5 <u>years</u> RM	More than <u>5 years</u> RM	<u>Total</u> RM
<b>Audited</b>				
<b><u>30.4.2019</u></b>				
Trade payables	4,568,738	-	-	4,568,738
Other payables	1,100,877	-	-	1,100,877
Derivative financial instruments	94,196	-	-	94,196
Borrowings	<u>1,168,004</u>	<u>3,512,016</u>	<u>3,636,311</u>	<u>8,316,331</u>
Total undiscounted financial liabilities	<u>6,931,815</u>	<u>3,512,016</u>	<u>3,636,311</u>	<u>14,080,142</u>
Financial guarantee	<u>630,000</u>	<u>-</u>	<u>-</u>	<u>630,000</u>



**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Financial risk management objectives and policies (cont'd)****Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows (cont'd):-

**(b) Liquidity risk (cont'd)**

The summary of the maturity profile based on the contractual undiscounted repayment obligations are as below (cont'd):-

	Less than 1 year RM	2-5 years RM	More than 5 years RM	Total RM
<b>Audited (cont'd)</b>				
<b>31.12.2018</b>				
Trade payables	2,912,050	-	-	2,912,050
Other payables	934,907	-	-	934,907
Borrowings	<u>878,004</u>	<u>3,512,016</u>	<u>3,886,837</u>	<u>8,276,857</u>
Total undiscounted financial liabilities	<u>4,724,961</u>	<u>3,512,016</u>	<u>3,886,837</u>	<u>12,123,814</u>
Financial guarantee	<u>1,130,000</u>	<u>-</u>	<u>-</u>	<u>1,130,000</u>
<b>31.12.2017</b>				
Trade payables	1,929,443	-	-	1,929,443
Other payables	649,094	-	-	649,094
Borrowings	<u>1,221,808</u>	<u>1,257,779</u>	<u>1,886,669</u>	<u>4,366,256</u>
Total undiscounted financial liabilities	<u>3,800,345</u>	<u>1,257,779</u>	<u>1,886,669</u>	<u>6,944,793</u>
Financial guarantee	<u>1,630,000</u>	<u>-</u>	<u>-</u>	<u>1,630,000</u>
<b>31.12.2016</b>				
Trade payables	2,251,112	-	-	2,251,112
Other payables	447,343	-	-	447,343
Derivative financial instruments	571,960	-	-	571,960
Borrowings	<u>932,378</u>	<u>1,257,779</u>	<u>2,201,114</u>	<u>4,391,271</u>
Total undiscounted financial liabilities	<u>4,202,793</u>	<u>1,257,779</u>	<u>2,201,114</u>	<u>7,661,686</u>
Financial guarantee	<u>1,630,000</u>	<u>-</u>	<u>-</u>	<u>1,630,000</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Financial risk management objectives and policies (cont'd)****Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows (cont'd):-

**(b) Liquidity risk (cont'd)**

The summary of the maturity profile based on the contractual undiscounted repayment obligations are as below (cont'd):-

	Less than 1 year RM	2-5 years RM	More than 5 years RM	Total RM
<b>Audited (cont'd)</b>				
<u>31.12.2015</u>				
Trade payables	1,925,627	-	-	1,925,627
Other payables	693,470	-	-	693,470
Derivative financial instruments	314,402	-	-	314,402
Finance lease liabilities	61,472	-	-	61,472
Borrowings	925,309	1,259,188	2,515,558	4,700,055
Total undiscounted financial liabilities	<u>3,920,280</u>	<u>1,259,188</u>	<u>2,515,558</u>	<u>7,695,026</u>
Financial guarantee	<u>130,000</u>	-	-	<u>130,000</u>
<b>Unaudited</b>				
<u>30.4.2018</u>				
Trade payables	2,309,435	-	-	2,309,435
Other payables	922,930	-	-	922,930
Borrowings	2,020,637	3,512,016	4,514,315	10,046,968
Total undiscounted financial liabilities	<u>5,253,002</u>	<u>3,512,016</u>	<u>4,514,315</u>	<u>13,279,333</u>
Financial guarantee	<u>1,130,000</u>	-	-	<u>1,130,000</u>

The above amounts reflect the contractual undiscounted cash flows, which may differ from the carrying values of financial liabilities as at the reporting date.

**(c) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

The Group's fixed rate instruments are exposed to a risk of change in their fair value due to changes in interest rates. The Group's variable rate instruments are exposed to a risk of change in cash flows due to changes in interest rates.

The Group's interest rate management objective is to manage the interest expenses consistent with maintaining an acceptable level of exposure to interest rate fluctuation. In order to achieve this objective, the Group targets a mix of fixed and floating debt based on assessment of its existing exposure and desired interest rate profile.

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Financial risk management objectives and policies (cont'd)****Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows (cont'd):-

**(c) Interest rate risk (cont'd)**

The interest rate profile of the Group's significant interest-bearing financial instruments, based on carrying amounts as at the reporting date are as follows:-

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	Audited			
			31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
<b>Fixed rate instruments</b>						
<b>Financial asset</b>						
Fixed deposits with licensed banks	3,285,219	-	1,400,604	2,302,712	1,100,000	450,000
<b>Financial liabilities</b>						
Finance lease liabilities	-	-	-	-	-	(60,454)
Bankers' acceptances	(290,000)	(1,142,633)	-	-	(440,000)	(400,000)
<b>Net financial asset/ (liabilities)</b>	<b>2,995,219</b>	<b>(1,142,633)</b>	<b>1,400,604</b>	<b>2,302,712</b>	<b>660,000</b>	<b>(10,454)</b>
<b>Floating rate instruments</b>						
<b>Financial liabilities</b>						
Bank overdrafts	-	-	-	(907,363)	(176,524)	(168,577)
Term loans	(6,587,937)	(7,143,510)	(6,777,383)	(3,237,818)	(3,471,508)	(3,736,738)
<b>Net financial liabilities</b>	<b>(6,587,937)</b>	<b>(7,143,510)</b>	<b>(6,777,383)</b>	<b>(4,145,181)</b>	<b>(3,648,032)</b>	<b>(3,905,315)</b>

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

The following table illustrates the sensitivity of profit to a reasonably possible change in interest rates of +/- 25 (30.4.2018, 31.12.2018, 31.12.2017, 31.12.2016 and 31.12.2015: +/- 25) basis points ("bp"). These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

	Audited 30.4.2019 RM	Unaudited 30.4.2018 RM	Audited			
			31.12.2018 RM	31.12.2017 RM	31.12.2016 RM	31.12.2015 RM
Effect on profit for the financial period/year	(16,470)	(17,859)	(16,943)	(10,363)	(9,120)	(9,763)

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Financial risk management objectives and policies (cont'd)****Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows (cont'd):-

**(d) Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to foreign currency risk on trade receivables, other payables and cash and bank balances that are denominated in a currency other than the functional currency of the Group. The currencies giving rise to this risk are primarily USD and SGD.

The Group uses forward currency contracts to hedge its foreign currency risk and these forward currency contracts have maturity of less than one year from the reporting date. Where necessary the forward currency contracts are rolled over at maturity.

Carrying amounts of the Group's exposure to foreign currency risk are as follows:-

	<u>USD</u> RM	<u>SGD</u> RM
<b>Audited</b>		
<u>30.4.2019</u>		
Trade receivables	3,789,581	117,505
Derivative financial instruments	(94,196)	-
Cash and bank balances	1,136,911	29,205
Trade payables	(400,934)	-
Other payables	(49,121)	-
Net exposure	<u>4,382,241</u>	<u>146,710</u>
<u>31.12.2018</u>		
Trade receivables	5,625,985	228,338
Derivative financial instruments	17,290	-
Cash and bank balances	1,278,176	41,113
Trade payables	(246,925)	-
Other payables	(115,632)	-
Net exposure	<u>6,558,894</u>	<u>269,451</u>
<u>31.12.2017</u>		
Trade receivables	3,788,743	275,239
Derivative financial instruments	105,904	-
Cash and bank balances	2,195,904	35,416
Other payables	(101,172)	-
Net exposure	<u>5,989,379</u>	<u>310,655</u>

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Financial risk management objectives and policies (cont'd)****Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows (cont'd):-

**(d) Foreign currency risk (cont'd)**

Carrying amounts of the Group's exposure to foreign currency risk are as follows (cont'd):-

	<u>USD</u> RM	<u>SGD</u> RM
<b>Audited (cont'd)</b>		
<u>31.12.2016</u>		
Trade receivables	5,072,609	217,086
Cash and bank balances	964,428	-
Derivative financial instruments	(571,960)	-
Other payables	(283,800)	-
	<u>5,181,277</u>	<u>217,086</u>
Net exposure		
<u>31.12.2015</u>		
Trade receivables	4,343,934	133,130
Cash and bank balances	492,704	8,814
Derivative financial instruments	(314,402)	-
Other payables	(142,425)	-
	<u>4,379,811</u>	<u>141,944</u>
Net exposure		
<b>Unaudited</b>		
<u>30.4.2018</u>		
Trade receivables	4,751,703	120,293
Derivative financial instruments	99,238	-
Cash and bank balances	1,661,067	43,404
Trade payables	(455,140)	-
	<u>6,056,868</u>	<u>163,697</u>
Net exposure		

**Foreign currency sensitivity analysis**

The following table illustrates the sensitivity of the Group's profit to a reasonable possible changes in RM/USD exchange rate and the RM/SGD exchange rate in which 'all other things being equal'.

It assumes a +/- 1% (30.4.2018: 1%, 31.12.2018: 1%, 31.12.2017: 1%, 31.12.2016 and 31.12.2015: 3%) change of the RM/USD exchange rate and a +/- 1% (2017: 1%, 2016 and 2015: 2%) change of the RM/SGD exchange rate for the period ended is deemed possible. The percentage has been determined based on average market volatility in exchange rates in previous 12 months. The sensitivity analysis is based on the Group's foreign currency profile.

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Financial risk management objectives and policies (cont'd)****Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows (cont'd):-

**(d) Foreign currency risk (cont'd)**Foreign currency sensitivity analysis (cont'd)

If the RM had strengthened against the USD and SGD, then the impact would be as follows:-

	Audited	Unaudited	Audited			
	30.4.2019	30.4.2018	31.12.2018	31.12.2017	31.12.2016	31.12.2015
	RM	RM	RM	RM	RM	RM
Effect on profit for the financial year						
- USD	(43,822)	(58,769)	(65,589)	(59,894)	(155,438)	(131,394)
- SGD	<u>(1,467)</u>	<u>(1,637)</u>	<u>(2,695)</u>	<u>(3,107)</u>	<u>(4,342)</u>	<u>(2,839)</u>

If RM had weakened against the USD and SGD then the impact to profit for the financial period would be the opposite effect.

Exposures to foreign exchange rate vary during the period depending on the amount outstanding. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

**Fair value of financial instruments**

The carrying amounts of financial assets and liabilities of the Group at the reporting date approximate their fair values due to their short term nature and insignificant impact of discounting or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, group into Level 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include input for asset or liability that are not based on observable market data (unobservable inputs).

**12. ACCOUNTANTS' REPORT (Cont'd)****27. FINANCIAL INSTRUMENTS (CONT'D)****Fair value of financial instruments (cont'd)**

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their values and carrying amounts shown in the statement of financial position.

	Level 2 RM	Carrying amount RM
<b>30.4.2019</b>		
<b>Financial liability</b>		
Derivative financial instruments	<u>94,196</u>	<u>94,196</u>
<b>30.4.2018</b>		
<b>Financial asset</b>		
Derivative financial instruments	<u>99,283</u>	<u>99,283</u>
<b>31.12.2018</b>		
<b>Financial asset</b>		
Derivative financial instruments	<u>17,290</u>	<u>17,290</u>
<b>31.12.2017</b>		
<b>Financial asset</b>		
Derivative financial instruments	<u>105,904</u>	<u>105,904</u>
<b>31.12.2016</b>		
<b>Financial liability</b>		
Derivative financial instruments	<u>571,960</u>	<u>571,960</u>
<b>31.12.2015</b>		
<b>Financial liability</b>		
Derivative financial instruments	<u>314,402</u>	<u>314,402</u>

There has been no transfer between Level 1 and Level 2 fair value during the financial period (financial years ended 31.12.2017, 31.12.2016 and 31.12.2015: no transfer in either direction).

The fair value of the forward currency contract is estimated by reference to the difference between the contractual forward price and the current forward price provided by financial institutions.

**12. ACCOUNTANTS' REPORT (Cont'd)****28. FAIR VALUE MEASUREMENT****Non-financial assets**

The following table summaries the valuation method used by the Directors in determining the fair value of non-financial instruments on a recurring basis at year end.

<b>Non-financial assets</b>	<b>Carrying amount as at 30.4.2019 RM</b>	<b>Fair value as at 31.12.2018 RM</b>	<b>Fair value hierarchy</b>	<b>Valuation techniques and key inputs</b>
The freehold land, leasehold land and buildings and freehold factory buildings	Land and buildings 27,686,715	Land and buildings 27,819,277	Level 2	<u>Land and buildings</u> Comparison approach reflecting the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence.

**29. CAPITAL MANAGEMENT**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. There were no changes in the Group's approach to capital management during the financial periods/years.

**30. EVENTS DURING AND AFTER REPORTING PERIOD****Initial Public Offering ("IPO")**

In conjunction with the IPO of the Company which entails public issue of 97,687,000 new ordinary shares ("Shares") in the Company of which 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 of the Group as well as persons who have contributed to the success of the Group and 72,745,800 new shares by way of private placement to Bumiputera investors approved by the Ministry of International Trade and Industry and selected investors.

Besides that, the Company also offers for sale of 27,019,000 existing shares by way of private placement to selected investors.

All the shares were issued or offered at RM0.25 per share, payable in full upon application.

On 26 December 2018, the Company had submitted the initial listing application to Bursa Malaysia Securities Berhad ("Bursa Securities") in relation to the admission of Company to the Official List and the listing of and quotation for the entire enlarged share capital of the Company on the ACE Market of Bursa Securities. Bursa Securities had, vide its letter dated 18 April 2019, approved the admission to the Official List and listing of and quotation for the entire enlarged issued share capital of the Company on ACE Market of Bursa Securities.



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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**30. EVENTS DURING AND AFTER REPORTING PERIOD (CONT'D)**

Acquisition of Spring Art Industries Sdn Bhd ("SAISB") ("Acquisition of SAISB")

On 16 November 2018, the Company entered into a conditional share sale agreement with the shareholders of SAISB to acquire the entire equity interest in SAISB comprising 500,000 ordinary shares for a total purchase consideration of RM31,799,980. The total purchase consideration of RM31,799,980 for the Acquisition of SAISB was arrived after taking into consideration the audited net assets of SAISB as at 30 June 2018 of RM31,800,372.

The purchase consideration for the Acquisition of SAISB was satisfied by the issuance of 317,999,800 new shares in the Company to the shareholders of SAISB at an issue price of RM0.10 each. The Acquisition of SAISB was completed on 31 July 2019 and resulted in SAISB becoming a wholly-owned subsidiary of the Company.

Declaration of dividend

On 23 May 2019, the Directors declared a special single tier dividend of RM2 per share in SAISB in respect of the financial year ending 31 December 2019 amounting to RM1,000,000.

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**12. ACCOUNTANTS' REPORT (Cont'd)**

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**SPRING ART HOLDINGS BERHAD**  
(Incorporated in Malaysia)

**STATEMENT BY DIRECTORS**

We, the undersigned, being the Directors of the Group, do hereby state that, in our opinion, the accompanying combined financial statements set out on pages 4 to 63 are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the combined financial position as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018, 30 April 2018, 30 April 2019 and of its combined financial performance and cash flows for the financial years ended 31 December 2015, 31 December 2016, 31 December 2017, 31 December 2018 and financial period ended 30 April 2018 and 30 April 2019.



.....  
LIM KOK ENG



.....  
KWAN CHIAN POH

Kuala Lumpur  
17 September 2019

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED  
STATEMENTS OF FINANCIAL POSITION**

**SPRING ART HOLDINGS BERHAD**  
**(Company No.: 1278159-A)**  
(Incorporated in Malaysia)

**PRO FORMA COMBINED  
STATEMENTS OF FINANCIAL POSITION  
AS AT 30 APRIL 2019**

**GRANT THORNTON MALAYSIA**  
**CHARTERED ACCOUNTANTS**

**Member Firm of Grant Thornton International Ltd.**

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**



**REPORTING ACCOUNTANTS' ASSURANCE REPORT ON COMPILATION OF PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION INCLUDED IN A PROSPECTUS**

Date: 17 September 2019

The Board of Directors  
**Spring Art Holdings Berhad**  
Lot Plo 49  
Jalan Rami 4  
Kawasan Perindustrian Bukit Pasir  
84300 Bukit Pasir, Muar  
Johor Darul Takzim

**Grant Thornton Malaysia**  
(AF:0737)

Level 11, Sheraton Imperial Court  
Jalan Sultan Ismail  
50250 Kuala Lumpur  
Malaysia

T +603 2692 4022  
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Dear Sirs,

**REPORT ON THE COMPILATION OF PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION INCLUDED IN A PROSPECTUS**

We have completed our assurance engagement to report on the compilation of Pro Forma Combined Statements of Financial Position of Spring Art Holdings Berhad ("Spring Art" or "the Company") and its subsidiary ("Spring Art Group" or "the Group") as at 30 April 2019.

The Pro Forma Combined Statements of Financial Position has been compiled by the Directors based on the applicable criteria as specified in the Prospectus Guidelines issued by the Securities Commission ("Prospectus Guidelines") and described in the notes as set out in Basis of Preparation of Pro Forma Combined Statements of Financial Position ("Applicable Criteria").

The Pro Forma Combined Statements of Financial Position have been compiled by the Directors for illustrative purposes only and for inclusion into the prospectus of Spring Art Group in connection with the listing of and quotation for the entire enlarged issued share capital of Spring Art Group on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Proposed Listing").

As part of this process, information about the Group's combined financial position has been extracted by the Directors from the Group's audited combined statements of financial position as at 30 April 2019, on which was reported by us to the members of Spring Art on 17 September 2019 without any modification.

**Directors' Responsibility for the Pro Forma Combined Statements of Financial Position**

The Directors are responsible for compiling the Pro Forma Combined Statements of Financial Position on the basis of the Applicable Criteria.

### 13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (*Cont'd*)



An instinct for growth™

#### Our Independence and Quality Control

We are independent in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants (“By-Laws”) and the International Ethics Standards Board of Accountants’ Code of Ethics for Professional Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Our firm applies *International Standard on Quality Control (“ISQC”) 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### Our Responsibility

Our responsibility is to express an opinion as required by the Securities Commission, about whether the Pro Forma Combined Statements of Financial Position has been properly compiled, in all material respects, by the Directors on the basis of the Applicable Criteria.

We conducted our engagement in accordance with *International Standard on Assurance Engagements (“ISAE”) 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the Pro Forma Combined Statements of Financial Position on the basis of the Applicable Criteria.

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Combined Statements of Financial Position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Combined Statements of Financial Position.

The purpose of the Pro Forma Combined Statements of Financial Position included in the Prospectus is solely to illustrate the impact of a significant event or transaction or unadjusted financial information on the entity as if the events had occurred or the transactions had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Combined Statements of Financial Position have been compiled, in all material respects, on the basis of the Applicable Criteria involves performing procedures to assess whether the Applicable Criteria used by the Directors in the compilation of the Pro Forma Combined Statements of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether:-

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Combined Statements of Financial Position reflects the proper application of those adjustments to the unadjusted financial information.

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**



**Our Responsibility (cont'd)**

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the event or transaction in respect of which the Pro Forma Combined Statements of Financial Position has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Combined Statements of Financial Position.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Pro Forma Combined Statements of Financial Position have been compiled, in all material respects, on the basis of the Applicable Criteria.

**Other matters**

This letter has been prepared at your request for inclusion in the Prospectus of Spring Art in connection with the Proposed Listing. It is not intended to be used for any other purposes. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary to the aforesaid purpose.

Yours faithfully,

A large, stylized signature in black ink, consisting of several sweeping lines.

GRANT THORNTON MALAYSIA  
(NO. AF: 0737)  
CHARTERED ACCOUNTANTS

Kuala Lumpur

A handwritten signature in black ink, appearing to be "OOI POH LIM".

OOI POH LIM  
(NO: 3087/10/19(J))  
CHARTERED ACCOUNTANT

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)****SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARY  
PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019**

The Pro Forma Combined Statements of Financial Position of Spring Art Holdings Berhad ("Spring Art" or "the Company") and its subsidiary ("Spring Art Group" or "the Group") as at 30 April 2019 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 2 to the Pro Forma Combined Statements of Financial Position on the assumption that these transactions were completed on 30 April 2019, and should be read in conjunction with the notes accompanying to the Pro Forma Combined Statements of Financial Position.

	At 30.4.2019	RM	Adjustments for Acquisition and Subsequent Event	RM	Pro forma I After Acquisition and Subsequent Event	RM	Adjustments for Proposed Public Issue ("IPO")	RM	Pro forma II After Proposed Public Issue ("IPO")	RM	Adjustments for Proposed Utilisation of Proceeds from IPO	RM	Pro forma III After Proposed Utilisation of Proceeds from IPO	RM
<b>ASSETS</b>														
<b>Non-current asset</b>														
Property, plant and equipment	3.01	-	31,360,878	31,360,878	31,360,878	-	-	31,360,878	31,360,878	24,503,000	24,503,000	55,863,878	55,863,878	
<b>Total non-current asset</b>		-	31,360,878	31,360,878	31,360,878	-	-	31,360,878	31,360,878	24,503,000	24,503,000	55,863,878	55,863,878	
<b>Current assets</b>														
Inventories	3.02	-	8,747,283	8,747,283	8,747,283	-	-	8,747,283	8,747,283	-	-	8,747,283	8,747,283	
Trade receivables	3.03	-	3,907,086	3,907,086	3,907,086	-	-	3,907,086	3,907,086	-	-	3,907,086	3,907,086	
Other receivables	3.04	128,364	4,174,525	4,302,889	4,302,889	-	-	4,302,889	4,302,889	(1,146,214)	(1,146,214)	3,156,675	3,156,675	
Fixed deposits with licensed banks	3.05	-	3,285,219	3,285,219	3,285,219	-	-	3,285,219	3,285,219	-	-	3,285,219	3,285,219	
Cash and cash equivalents	3.06	31,613	2,082,675	2,114,288	2,114,288	24,421,750	24,421,750	26,536,038	26,536,038	(20,756,786)	(20,756,786)	5,779,252	5,779,252	
<b>Total current assets</b>		159,977	22,196,788	22,356,765	22,356,765	24,421,750	24,421,750	46,778,515	46,778,515	(21,903,000)	(21,903,000)	24,875,515	24,875,515	
<b>Total assets</b>		159,977	53,557,666	53,717,643	53,717,643	24,421,750	24,421,750	78,139,393	78,139,393	2,600,000	2,600,000	80,739,393	80,739,393	
<b>EQUITY AND LIABILITIES</b>														
<b>EQUITY</b>														
Share capital	3.07	20	31,799,980	31,800,000	31,800,000	24,421,750	24,421,750	56,221,750	56,221,750	(800,000)	(800,000)	55,421,750	55,421,750	
Revaluation reserve	3.08	-	7,375,173	7,375,173	7,375,173	-	-	7,375,173	7,375,173	-	-	7,375,173	7,375,173	
Merger deficit	3.09	-	(31,299,980)	(31,299,980)	(31,299,980)	-	-	(31,299,980)	(31,299,980)	-	-	(31,299,980)	(31,299,980)	
(Accumulated losses)/Retained earnings	3.10	(60,263)	29,814,998	29,754,735	29,754,735	-	-	29,754,735	29,754,735	(2,400,000)	(2,400,000)	27,354,735	27,354,735	
<b>Total equity</b>		(60,243)	37,690,171	37,629,928	37,629,928	24,421,750	24,421,750	62,051,678	62,051,678	(3,200,000)	(3,200,000)	58,851,678	58,851,678	

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17 SEP 2019

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**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)****SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARY  
PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019**

The Pro Forma Combined Statements of Financial Position of Spring Art Holdings Berhad ("Spring Art" or "the Company") and its subsidiary ("Spring Art Group" or "the Group") as at 30 April 2019 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 2 to the Pro Forma Combined Statements of Financial Position on the assumption that these transactions were completed on 30 April 2019, and should be read in conjunction with the notes accompanying to the Pro Forma Combined Statements of Financial Position (cont'd).

	At 30.4.2019		Pro forma I		Pro forma II		Pro forma III	
	RM	RM	RM	RM	RM	RM	RM	RM
<b>EQUITY AND LIABILITIES (CONT'D)</b>								
<b>LIABILITIES</b>								
<b>Non-current liabilities</b>								
Borrowings	3.11	-	5,990,013	-	5,990,013	-	5,800,000	11,790,013
Deferred tax liabilities	3.12	-	2,740,319	-	2,740,319	-	-	2,740,319
<b>Total non-current liabilities</b>		-	8,730,332	-	8,730,332	-	5,800,000	14,530,332
<b>Current liabilities</b>								
Trade payables	3.13	-	4,568,738	-	4,568,738	-	-	4,568,738
Other payables	3.14	220,220	1,306,650	-	1,526,870	-	-	1,526,870
Derivative financial instruments	3.15	-	94,196	-	94,196	-	-	94,196
Borrowings	3.11	-	887,924	-	887,924	-	-	887,924
Tax payable	3.16	-	279,655	-	279,655	-	-	279,655
<b>Total current liabilities</b>		220,220	7,137,163	-	7,357,383	-	-	7,357,383
<b>Total liabilities</b>		220,220	15,867,495	-	16,087,715	-	5,800,000	21,887,715
<b>Total equity and liabilities</b>		159,977	53,557,666	24,421,750	78,139,393	2,600,000	80,739,393	
Issued ordinary share capital (Unit)	3.07	200	317,999,800	97,687,000	415,687,000	-	-	415,687,000
Net (liabilities)/assets per share (RM)		(301.22)	0.12	0.15	0.14			
Borrowings (RM)		-	6,877,937	6,877,937	12,677,937			
Gearing (Times)		-	0.18	0.11	0.22			

Stamped for the purpose of identification on:

17 SEP 2019

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### 13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)

#### SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARIES

#### PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019

##### 1. BASIS OF PREPARATION

The Pro Forma Combined Statements of Financial Position of Spring Art has been prepared for illustrative purposes and on the assumptions that all the transactions mentioned as per Note 2 to the Pro Forma Combined Statements of Financial Position had taken place on 30 April 2019.

The Pro Forma Combined Statements of Financial Position have been prepared based on accounting policies and basis which are consistent with those disclosed in the audited Combined Financial Statements of Spring Art for the financial year ended 30 April 2019 and in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Prospectus Guidelines, except for the adoption of the following new accounting policy:-

##### **Merger method of accounting**

The pro forma combined statements of financial position are combined using the merger method as these companies are under the common control by the same party both before and after the acquisition of the Group. When the merger method is used, the difference between the cost of investment recorded by Spring Art and the share capital of the subsidiary are accounted for as merger deficit in the pro forma combined statements of financial position.

The Group is regarded as a continuing entity resulting from the reorganisation exercise because the management of all the entities within the Group, which participated in the reorganisation exercise was under common control before and immediately after the reorganisation exercise. The Group has applied the merger method of accounting on a retrospective basis and restated its comparative as if the consolidation had taken place before the state of the earliest period presented in the financial statements.

##### 2. LISTING SCHEME

##### (i) Pro Forma I: Acquisition of Spring Art Industries Sdn. Bhd. ("SAISB") and Subsequent Event

##### Acquisition of SAISB

Acquisition entails acquiring the entire equity interest of SAISB., for a total purchase consideration of RM31,799,980 to be satisfied via the issuance of 317,999,800 new shares at an issue price of RM0.10 per share. The acquisition was completed on 31 July 2019.

##### Subsequent Event – Dividend paid

On 23 May 2019, the Directors declared a special single tier dividend of RM2 per share in SAISB in respect of the financial year ending 31 December 2019 amounting to RM1,000,000.

##### (ii) Pro Forma II: Proposed Public Issue ("IPO")

The IPO involves a public issue of 97,687,000 new ordinary shares in Spring Art at an offer price of RM0.25 per share.

In conjunction with the IPO, the Company would seek the listing and quotation of its entire enlarged issued share capital comprising 415,687,000 ordinary shares in Spring Art on the ACE Market of Bursa Malaysia Securities Berhad.

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

**SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARIES**

**PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019**

**2. LISTING SCHEME (CONT'D)**

**(iii) Pro Forma III: Proposed Utilisation of Proceeds from IPO**

Gross proceeds from the IPO of RM24,421,750 are expected to be utilised as follows:

<b>Details of utilisation</b>	<b>Estimated timeframe for utilisation</b>	<b>RM</b>	<b>%</b>
Machinery for new factory#	24 months <sup>(1)</sup>	17,550,000	71.90%
General working capital	24 months <sup>(2)</sup>	3,671,750	15.00%
Estimated listing expenses*	1 month <sup>(2)</sup>	3,200,000	13.10%
<b>Total estimated proceeds</b>		<b>24,421,750</b>	<b>100%</b>

<sup>(1)</sup> From the date of conversion of the land use of Lot 343 from agriculture to industrial.

<sup>(2)</sup> From the date of listing of the Shares.

\*If actual listing expenses are higher than budgeted, the deficit will be funded out of portion allocated for working capital. Conversely, if the actual listing expenses are lower than budgeted the excess will be utilised for working capital purposes.

The listing expenses are estimated at RM3,200,000 and will be set off against the share capital and profit or loss accordingly. The apportionment is disclosed in Notes 3.06 and 3.10.

#The Group intends to utilise the proceeds from IPO of RM17,550,000 to purchase machines for the new factory. The construction cost of new factory is RM6,953,000 of which RM5,800,000 will be financed via bank borrowings based on indicative letter of offer from a licensed bank and balance of RM1,153,000 to be financed via internally generated funds. Therefore, the total capital expenditure for the new factory which includes construction cost and machinery cost amounts to RM24,503,000.

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

**SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARIES**

**PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019**

**3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION**

**3.01 PROPERTY, PLANT AND EQUIPMENT**

The movements of the property, plant and equipment are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>31,360,878</u>
As per Pro Forma I to II	31,360,878
Pursuant to Utilisation of Proceeds from IPO - Capital expenditure	<u>24,503,000</u>
As per Pro Forma III	<u>55,863,878</u>

**3.02 INVENTORIES**

The movements of the inventories are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>8,747,283</u>
As per Pro Forma I to III	<u>8,747,283</u>

**3.03 TRADE RECEIVABLES**

The movements of the trade receivables are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>3,907,086</u>
As per Pro Forma I to III	<u>3,907,086</u>

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

**SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARIES**

**PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019**

**3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

**3.04 OTHER RECEIVABLES**

The movements of the other receivables are as follows:

	RM
At 30 April 2019	128,364
Pursuant to Acquisition	<u>4,174,525</u>
As per Pro Forma I to II	4,302,889
Pursuant to Utilisation of Proceeds from IPO - Listing expenses*	<u>(1,146,214)</u>
As per Pro Forma III	<u>3,156,675</u>

\*The estimated listing expenses prepaid as at 30 April 2019 totaling RM1,146,214 comprise professional fees and miscellaneous expenses for the proposed initial public offering.

**3.05 FIXED DEPOSITS WITH LICENSED BANKS**

The movements of the fixed deposits with licensed banks are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>3,285,219</u>
As per Pro Forma I to III	<u>3,285,219</u>

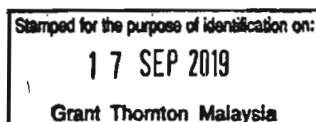
**3.06 CASH AND BANK BALANCES**

The movements of cash and bank balances are as follows:

	RM
At 30 April 2019	31,613
Pursuant to Acquisition and Subsequent Event - Acquisition of SAISB - Dividend paid	<u>3,082,675</u> <u>(1,000,000)</u>
As per Pro Forma I Pursuant to Proposed Public Issue ("IPO")	<u>2,114,288</u> <u>24,421,750</u>
As per Pro Forma II Pursuant to Utilisation of Proceeds from IPO* Estimated listing expenses prepaid as at 30 April 2019 Construction cost of new factory finance via internally generated funds	<u>26,536,038</u> <u>(20,750,000)</u> <u>1,146,214</u> <u>(1,153,000)</u>
As per Pro Forma III	<u>5,779,252</u>

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**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

**SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARIES**

**PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019**

**3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

**3.06 CASH AND BANK BALANCES (CONT'D)**

\*Breakdown of IPO proceeds to be utilised are as follows:

	RM
Machinery for new factory	17,550,000
Estimated listing expenses	<u>3,200,000</u>
	<u>20,750,000</u>

**3.07 SHARE CAPITAL**

The movements of the issued share capital are as follows:

	<u>No. of Shares</u>	RM
At 30 April 2019	200	20
Pursuant to Acquisition	<u>317,999,800</u>	<u>31,799,980</u>
As per Pro Forma I	318,000,000	31,800,000
Pursuant to Proposed Public Issue ("IPO")	<u>97,687,000</u>	<u>24,421,750</u>
As per Pro Forma II	415,687,000	56,221,750
Pursuant to Utilisation of Proceeds from IPO*	<u>-</u>	<u>(800,000)</u>
As per Pro Forma III	<u>415,687,000</u>	<u>55,421,750</u>

\*The estimated listing expenses totaling RM3,200,000 comprise brokerage, underwriting and placement fees, professional fees and miscellaneous expenses. The allocation of listing expenses to share capital of RM800,000 comprise of incremental costs that are directly attributable to issuing of new shares and apportionment of cost that relates to share issuance and listing on the proportion of new shares issued to the total number of enlarged share capital after IPO.

**3.08 REVALUATION RESERVES**

The movements of revaluation reserves are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>7,375,173</u>
As per Pro Forma I to III	<u>7,375,173</u>

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

**SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARIES**

**PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019**

**3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

**3.09 MERGER DEFICIT**

The movements of the merger deficit are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>(31,299,980)</u>
As per Pro Forma I to III	<u>(31,299,980)</u>

**3.10 (ACCUMULATED LOSSES)/RETAINED EARNINGS**

The movements of the (accumulated losses)/retained earnings are as follows:

	RM
At 30 April 2019	(60,263)
Pursuant to Acquisition and Subsequent Event	
- Acquisition of SAISB	30,814,998
- Dividend paid	<u>(1,000,000)</u>
As per Pro Forma I and II	29,754,735
Pursuant to Utilisation of Proceeds from IPO	
- Estimated listing expenses*	<u>(2,400,000)</u>
As per Pro Forma I to III	<u>27,354,735</u>

\*The estimated listing expenses totaling RM3,200,000 comprise brokerage, underwriting and placement fees, professional fees and miscellaneous expenses. The allocation of RM2,400,000 of listing expenses to retained earnings comprise of cost that relate to the stock market listing which are neither incremental nor directly attributable to issuing of new shares.

**3.11 BORROWINGS**

The movements of the borrowings are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	
- Non-current liabilities	5,990,013
- Current liabilities	<u>887,924</u>
As per Pro Forma I to II	6,877,937
Pursuant to Utilisation of Proceeds from IPO	
- Drawdown of term-loan for the construction of new factory	<u>5,800,000</u>
As per Pro Forma III	<u>12,677,937</u>

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

**SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARIES**

**PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019**

**3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

**3.12 DEFERRED TAX LIABILITIES**

The movements of the deferred tax liabilities are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>2,740,319</u>
As per Pro Forma I to III	<u>2,740,319</u>

**3.13 TRADE PAYABLES**

The movements of the trade payables are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>4,568,738</u>
As per Pro Forma I to III	<u>4,568,738</u>

**3.14 OTHER PAYABLES**

The movements of the other payables are as follows:

	RM
At 30 April 2019	220,220
Pursuant to Acquisition	<u>1,306,650</u>
As per Pro Forma I to III	<u>1,526,870</u>

**3.15 DERIVATIVE FINANCIAL INSTRUMENTS**

The movements of the derivative financial instruments are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>94,196</u>
As per Pro Forma I to III	<u>94,196</u>

**13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (Cont'd)**

**SPRING ART HOLDINGS BERHAD AND ITS SUBSIDIARIES**

**PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 APRIL 2019**

**3. NOTES TO PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

**3.16 TAX PAYABLE**

The movements of the tax payable are as follows:

	RM
At 30 April 2019	-
Pursuant to Acquisition	<u>279,655</u>
As per Pro Forma I to III	<u>279,655</u>



## **14. STATUTORY AND OTHER INFORMATION**

### **14.1 SHARE CAPITAL**

- (a) As at the date of this Prospectus, we only have 1 class of shares, namely, ordinary shares, all of which rank equally with one another. There are no special rights attached to our Shares.
- (b) Save for 4,156,800 Shares under the Pink Form Allocations as disclosed in Sections 4.4.1(b),
  - (i) no Director, employee or business associate of our Group has been or is entitled to be given or has exercised any option to subscribe for any share of our Company or our subsidiary; and
  - (ii) there is no scheme involving the employees of our Group in the shares of our Company or our subsidiary.
- (c) Save for the new Shares issued and to be issued pursuant to the Acquisition of Spring Art, the Public Issue as disclosed in Sections 6.2 and 4.4.1 respectively and the 200 Shares subscribed by Abdul Hadi Bin Nordin and Majelis Bin Majid, no shares of our Company or our subsidiary have been issued or are proposed to be issued as fully or partly paid-up, in cash or otherwise, within the past 2 years immediately preceding the date of this Prospectus.
- (d) Other than our Public Issue as disclosed in Section 4.4.1, there is no intention on the part of our Directors to further issue any Shares.
- (e) As at the date of this Prospectus, we do not have any outstanding convertible debt securities.

### **14.2 CONSTITUTION**

The following provisions are extracted from our Company's Constitution. Terms defined in our Constitution shall have the same meanings when used here unless they are otherwise defined here or the context otherwise requires. The following provisions extracted from our Company's Constitution are based on the current Listing Requirements and the Act.

#### **(1) Remuneration, voting and borrowing power of Directors**

The provisions in our Constitution dealing with remuneration, voting and borrowing power of Directors are as follows:

##### **Clause 100 - Directors' remuneration**

The Directors shall be paid by way of fees for their services. Such fixed sum (if any) as shall from time to time be determined by the Company in general meeting and such fees shall be divided among the Directors in such proportions and manner as the Directors may determine (or failing agreement, equally), PROVIDED ALWAYS that:-

- (a) fee payable to Directors who hold non-executive office in the Company shall be paid by a fixed sum and not by a commission on or percentage of profits or turnover.

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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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- (b) salaries payable to Directors who hold executive office in the Company may not include a commission on or percentage of turnover.
- (c) fees and any benefits payable to Directors shall be subject to annual shareholder approval at a general meeting.
- (d) any fee paid to an alternate Director shall be such as shall be agreed between himself and the Director nominating him and shall be paid out of the remuneration of the latter.

**Clause 101 - Reimbursement of expenses**

- (1) The Directors shall be paid all their travelling and other expenses properly and necessarily expended by them in and about the business of the Company including their travelling and other expenses incurred in attending meetings of the Directors or any committee of the Directors of the Company.
- (2) If any Director being willing shall be called upon to perform extra services or to make any special exertions in going or residing away from his usual place of business or residence for any of the purposes of the Company or in giving special attention to the business of the Company as a member of a committee of Directors, the Company may remunerate the Director so doing either by a fixed sum or otherwise (other than by a sum to include a commission on or percentage of turnover) as may be determined by the Board of Directors provided that in the case of Non-Executive Directors of the Company, the said remuneration shall not include a commission on or percentage of profits or turnover. In the case of an Executive Director, such fee may be either in addition to or in substitution for his share in the fee from time to time provided for the Directors.

**Clause 113 - Director may act in his professional capacity**

Any Director may act by himself or his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director, provided that nothing herein contained shall authorise a Director or his firm to act as auditor of the Company and provided further that such shall be at normal commercial terms.

**Clause 126 – Alternate Director**

- (1)(d) Each Director shall have power from time to time to nominate any person (not being a Director) to act as his alternate Director and at his discretion remove such alternate Director, but the appointment of such alternate Director shall not take effect until approved by a majority of the other Directors PROVIDED ALWAYS that any fee paid by the Company to an alternate Director shall be deducted from that Director's remuneration.

**Clause 128 – Remuneration of Director holding executive office**

The remuneration of a Director holding an executive office pursuant to our Constitution shall be fixed by the Directors and may be by way of salary or commission or participation in profits or otherwise or by any or all of these modes but shall not include a commission on or percentage of turnover.

**14. STATUTORY AND OTHER INFORMATION (Cont'd)****Clause 130 – Power of Directors to appoint committees**

The Directors may establish any committees, local boards or agencies comprising 2 or more persons, for managing any other affairs of the Company either in Malaysia or elsewhere, and may lay down, vary or annul such rules and regulations as they may think fit for the conduct of the business thereof, and may appoint any person or persons to be the member or members of any such committee or local board or agency and may fix their remuneration and may delegate to any such committee or local board or agency any of the powers, authorities and discretion vested in the Directors, with power to sub-delegate, and may authorise the member or members of any such committee or local board or agency or any of them, to fill any vacancies therein, and to act notwithstanding vacancies, and any such appointment or delegation may be made upon such terms and subject to such conditions as the Director may think fit, and the Directors may remove any person so appointed, and may annul or vary any such delegation, but no persons dealing in good faith and without notice of any such annulment or variation shall be affected thereby. The regulations for the proceedings of Directors shall so far as not altered by any regulations made by the Directors apply also to the meetings and proceedings of any committee.

**Clause 106 – Power to maintain pension fund**

The Directors may establish or arrange any contributory or non-contributory pension or superannuation scheme for the benefit of, or pay a gratuity, pension or emolument to any person who is or has been employed by or in the service of the Company or any subsidiary of the Company, or to any person who is or has been a Director or other officer of and holds or has held salaried employment in the Company or any such subsidiary, and the widow, family or dependants of any such person. The Directors may also subscribe to any association or fund which they consider to be for the benefit of the Company or any such subsidiary or any such person as aforesaid and make payments for or towards any hospital or scholastic expenses and any Director holding such salaried employment shall be entitled to retain any benefit received by him hereunder subject only, where the Act requires, to proper disclosure to the Members and the approval of the Company in general meeting.

**Clause 105 – Directors' borrowing powers**

- (1) The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge the Company's or the subsidiaries' undertaking, property and uncalled capital or any part thereof and to issue debentures and other securities, whether outright or as security for any debt, liability or obligation of the Company or its subsidiaries as may be thought fit.
- (2) The Directors shall not borrow any money or mortgage or charge any of the Company's or the subsidiaries' undertaking, property or any uncalled capital, or to issue debentures and other securities whether outright or as security for any debt, liability or obligation of an unrelated third party.
- (3) The Directors may borrow or raise any such money as aforesaid upon or by the issue or sale of any bonds, debentures, debenture stock, or securities, and upon such terms as to time of repayment, rate of interest, price of issue or sale; payment of premium or bonus upon redemption or repayment or upon any other terms as they may think proper.

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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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- (4) Any debenture or other security may be issued at a discount, with any special privilege as to allotment of shares, attending and voting at general meetings of the Company, appointment of Directors or otherwise.

**Clause 121 – Disclosure of interest**

Every Director shall comply with the provisions of Sections 219 and 221 of the Act in connection with the disclosure of his shareholding and interests in the Company and his interest in any contract or proposed contract with the Company and in connection with the disclosure, every Director shall state the fact and the nature, character and extent of any office or possession of any property whereby whether directly or indirectly, duties or interests might be created in conflict with his duty or interest as a Director of the Company.

**Clause 122 – Restriction on voting**

A Director may contract with and be interested in any contract or proposed contract with the Company and shall not be liable to account for any profit made by him by reason of any such contract; PROVIDED ALWAYS THAT the nature of the interest of the Director in any such contract be declared at a meeting of the Directors as required by Section 221 of the Act. A Director shall not vote in respect of any contract or proposed contract or arrangement in which he has directly or indirectly an interest (and if he shall do so his vote shall not be counted), nor shall he be counted for the purpose of any resolution regarding the same, in the quorum present at the meeting.

**Clause 123 – Relaxation of restriction of voting**

A Director notwithstanding his interest may, provided that none of the other Directors present disagree, be counted in the quorum present at any meeting whereat he or any other Director is appointed to hold any office or place of profit under the Company or whereat the Directors resolve to exercise any of the rights of the Company (whether by the exercise of voting rights or otherwise) to appoint or concur in the appointment of a Director to hold any office or place of profit under any other company, or whereat any decision is taken upon any contract or arrangement in which he is in any way interested PROVIDED ALWAYS that he has complied with Section 221 and all other relevant provisions of the Act and of this Construction.

**Clause 124**

A Director may vote in respect of: -

- (a) any arrangement for giving the Director himself or any other Directors any security or indemnity or any other Directors any security or indemnity in respect of money lent by him to or obligations undertaken by him for the benefit of the Company;
- (b) any arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company for which the Director himself or any other Director has assumed responsibility in whole or in part, under a guarantee or indemnity or by the deposit of a security.

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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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**Clause 125 – Directors may become Directors of other corporation**

A Director of the Company may be or become a Director or other officer of or otherwise interested in any corporation promoted by the Company or in which the Company may be interested as shareholder or otherwise or any corporation which is directly or indirectly interested in the Company as shareholder or otherwise and no such Director shall be accountable to the Company for an remuneration or other benefit received by him as a Director or officer of, or from his interest in, such corporation unless the Company otherwise directs at the time of his appointment. The Directors may exercise the voting power conferred by the shares or other interest in any such other corporation held or owned by the Company, or exercisable by them as Directors of such other corporation, in such manner and in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of the Directors or other officers of such corporation), and any Director may vote in favour of the exercise of such voting rights in manner aforesaid, notwithstanding that he may be or is about to be appointed a Director or other officer of such corporation and as such is or may become interested in the exercise of such voting rights in manner aforesaid.

**(2) Changes to Share Capital**

The provisions in our Constitution dealing with changes to share capital and variation of class rights are as follows:

**Clause 6 - Power to issue shares with special rights**

Without prejudice to any special rights previously conferred on the holders of any existing shares but subject to Section 75(2) of the Act and to our Constitution, the Directors shall only upon prior approval by way of resolution by the Members, exercise any power to:

- (a) allot shares in the Company;
- (b) grant rights to subscribe for shares in the Company;
- (c) convert any security into shares in the Company; or
- (d) allot shares under an agreement or option or offer.

Any such shares may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital, or otherwise as the Directors may determine.

**Clause 7 - Allotment of Shares to directors, etc**

The Company shall not issue shares or other convertible securities to the Directors or major shareholder or chief executive of the Company and/or its holding company or the person(s) connected to them unless the Members in the general meeting have approved the specific allotment to be made to such persons.

**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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**Clause 8 - Offer of unissued original shares and new shares**

Subject to any direction to the contrary that may be given by the Company in a general meeting, all new shares or other convertible securities shall, before issue, be offered to such persons as at the date of the offer are entitled to receive notices from the Company of general meetings in proportion, as nearly as the circumstances admit, to the amount of the existing shares or securities to which they are entitled. Such offer shall be made by notice specifying the number of shares or securities offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and after the expiration of that time, or on the receipt of any intimation from the person to whom the offer is made that he declines to accept the shares or securities offered, the Directors may dispose of those shares or securities in such manner as they think most beneficial to the Company. The Directors may likewise also dispose of any new shares or securities which (by reason of the ratio which the new shares or securities bear to shares or securities held by persons entitled to an offer of new shares or securities) cannot, in the opinion of the Directors, be conveniently offered in the manner provided under our Constitution.

**Clause 9 - General mandate for issue of securities**

Notwithstanding the existence of a resolution pursuant to Section 76 of the Act, but subject always to the Listing Requirements, the Company may obtain members' approval for further issues of shares where the aggregate issues during the preceding 12 months do not exceed 10% of the issued capital (excluding the treasury shares) of the Company and where, in accordance with the provisions of Section 75 of the Act, there is still in effect a resolution approving the issue of shares by the Company.

**Clause 12 – Repayment of preference capital**

Notwithstanding Clause 13, the repayment of preference share capital other than redeemable preference shares, or any alteration of preference shareholder's rights may only be made pursuant to a special resolution of the preference shareholders concerned PROVIDED ALWAYS that where the necessary majority for such a special resolution is not obtained at the meeting, consent in writing representing not less than 75% of the total voting rights of the preference shareholders concerned obtained within 2 months of the meeting, shall be as valid and effectual as a special resolution carried at the meeting.

**Clause 13 - Modification of class rights**

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied with the consent in writing of the holders representing not less than 75% of the total voting rights of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class pursuant to the provisions of Section 292 of the Act. To every such separate general meeting, the provisions of our Constitution relating to general meetings shall mutatis mutandis apply, except the necessary quorum shall be 2 persons.

**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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**Clause 14 - Ranking of class rights**

The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or in all respects *pari passu* therewith.

**Clause 15 - Commission on subscription of shares**

The Company may exercise the powers of paying commission conferred by the Act, provided that the rate per cent or the amount of the commission paid or agreed to be paid shall be disclosed in the manner required by the Act, and the rate of the commission shall not exceed the rate of 10% of the price at which the shares in respect whereof the same is paid are issued or an amount equal to 10% of that price (as the case may be). Such commission may be satisfied by the payment of cash or the allotment of fully or partly paid shares or partly in one way and partly in the other. The Company may also on any issue of shares pay such brokerage as may be lawful.

**Clause 16 - Trusts not to be recognised**

Except as required by law, no person shall be recognised by the Company as holding any share upon any trust, and the Company shall not be bound by or be compelled in any way to recognise (even with notice thereof) any equitable, contingent, future or partial interest in any share or any unit of share or (except only as by our Constitution or by law otherwise provided) any other right in respect of any shares, except an absolute right to the entirety thereof in the registered holder.

**Clause 17 - Issue of Securities**

A company must ensure that all new issues of securities for which listing is sought are made by way of crediting the securities accounts of the allottees with such securities save and except where it is specifically exempted from compliance with section 38 of the Central Depositories Act, in which event it shall so similarly be exempted from compliance with this Requirement. For this purpose, the Company must notify the Depository of the names of the allottees and all such particulars required by the Depository, to enable the Depository to make the appropriate entries in the securities accounts of such allottees.

**Clause 18 - Allotment of Securities and dispatch notices**

Subject to the provisions of the Act, the Central Depositories Act and the Rules, the Company shall allot and/or issue securities, despatch notices of allotment to the successful allottees and make an application for the quotation of such securities:

- (a) Within 8 Market Days of the final application closing date for a rights issue or such other period as may be prescribed by the Exchange;
- (b) Within 8 Market Days of the Books Closing Date for a bonus issue or such other period as may be prescribed by the Exchange;

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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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- (c) Within 8 Market Days of the date of receipt of a notice of the exercise of an employee share option together with the requisite payment or such other period as may be prescribed by the Exchange; and
- (d) Within 8 Market Days of the receipt of a subscription form together with the requisite payment in respect of warrant or convertible securities or such other period as may be prescribed by the Exchange.

**Clause 58 - Power to alter capital**

- (a) The shareholders can pass special resolutions to alter the Company's share capital in accordance with Section 84 of the Act.
- (b) If any shares are consolidated or divided, the Directors may deal with any fractions of shares which result or any other problem that arises. If the Directors decide to sell any shares which represent fractions, they must sell for the best price they can reasonably obtain and distribute the net proceeds of sale among shareholders in proportion to their fractional entitlements or shall be disregarded and will be dealt with by the Directors in such a manner as they deem fit at their absolute discretion and in the best interest of the Company. The Directors can sell to a person (including the Company, if the Act and Listing Requirements allow) and can authorise a person to transfer those shares to the buyer or in accordance with the buyer's instructions. The buyer does not need to take any action to check how any money paid is used. The buyer's ownership will not be affected if the sale was irregular or invalid in any way.

**Clause 59 - Share Buy-Back**

Subject to and in accordance with the provisions of the Act and such other relevant law, regulation or guideline for the time being in force, the Company is allowed and shall have power, to the fullest extent permitted, to purchase any of its own shares and other securities and thereafter, the Directors may resolve and shall have the fullest power to deal with such purchased shares or other securities in accordance with the provisions of the Act and such other relevant law, regulation or guideline.

**Clause 60 - Power to reduce capital**

The shareholders can pass a special resolution to reduce in any way the Company's share capital in accordance with Subdivision 4 of Division 1 of Part III of Act, whether with the confirmation of the Court or a solvency statement.

**(3) Transfer of securities****Clause 30 – Transfers**

The transfer of any listed securities or class of listed securities of the Company which have been deposited with the Depository shall be by way of book entry by the Depository in accordance with the Rules. Notwithstanding Sections 105, 106 or 110 of the Act, but subject to subsection 148(2) of the Act and any exemption that may be made from compliance with subsection 148(1) of the Act, the Company shall be precluded from registering and effecting any transfer of such securities.



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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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**Clause 31 - Transferor's Right**

Subject to the provisions of the Act, the Central Depositories Act and the Rules, the transfer of all other shares of the Company not so deposited with the Depository (not being Deposited Securities) shall be in the manner provided in the Act (including the applicable provisions of Third Schedule to the Act) to the extent that the same is not inconsistent with our Constitution.

The instrument of transfer of any share shall be executed by or on behalf of the transferor and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered into the Register as the case may be in respect thereof.

**Clause 34 - Restriction on transfer**

There should be no restriction on the transfer of fully paid Shares except where required by law or the relevant regulations or where the Company has a lien and no Share shall in any circumstances be transferred to any infant, bankrupt or person of unsound mind.

**Clause 35 - Refusal to register transfer**

The Depository may refuse to register any transfer of deposited security that does not comply with the Central Depositories Act and the Rules.

**Clause 36 - Renunciation**

Subject to the provisions of this Constitution, the Directors may recognise a renunciation of any share by the allottee thereof in favour of some other person.

**Clause 37 – Reasonable Diligence**

Subject to the provisions of the Act, the Central Depositories Act and the Rules, where by the exercise of reasonable diligence the Company is unable to discover the whereabouts of a Member for a period of not less than 10 years the Company may cause an advertisement circulating in the place shown in the Register as the address of the Member stating that the Company after expiration of 1 month from the date of the advertisement intends to transfer the shares to the Minister charged with responsibility for finance.

**Clause 38 - Transfer of shares to Minister charged with responsibility for finance**

Subject to the provisions of the Act, the Central Depositories Act and the Rules, if after the expiration of 1 month from the date of the advertisement the whereabouts of the Member remains unknown, the Company may transfer the shares held by the Member to the Minister charged with responsibility for finance and for the purpose may execute for and on behalf of such Member a transfer of those shares to the Minister charged with responsibility for finance.

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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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**Clause 39 - Death of Member**

In the case of the death of a Member, the legal representative(s) of the deceased shall be the only person(s) recognised by the Company as having any title to his interest in the shares; but nothing herein contained shall release the estate of a deceased Member from any liability in respect of any share which had been held by him.

**Clause 40 - Notice of election**

Subject to the provisions of the Act, the Central Depositories Act and the Rules, any person becoming entitled to a share in consequence of the death or bankruptcy of a Member may, upon such evidence being produced as may from time to time properly be required by the Directors and subject as hereinafter provided, elect either to be registered himself as holder of the share or to have some person nominated by him registered as the transferee thereof, but the Directors shall in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the share by that Member before his death or bankruptcy. Provided always that where the share is a Deposited Security and subject to the Rules, a transfer or withdrawal of the shares may be carried out by the person becoming so entitled. Nothing herein contained shall release the estate of a deceased Member from any liability in respect of any share which had been held by him.

**Clause 41 - Share of deceased or bankrupt Member**

Subject to Clause 44, if any person so becoming entitled elects to register himself, he shall deliver or send to the Company, a notice in writing signed by him and stating that he so elects, provided that where the share is a Deposited Security and the person becoming entitled elects to have the share transferred to him, the aforesaid notice must be served by him to the Depository together with such other relevant documents as may be required by the Depository. If he elects to have another person registered, he shall testify his election by executing to that person a transfer of the share. All the limitations, restrictions and provisions of our Constitution relating to the right to transfer and the registration of transfers of shares shall be applicable to any such notice or transfer as aforesaid as if the death or bankruptcy of the Member had not occurred and the notice or transfer were a transfer signed by that Member.

**Clause 43 - Transmission of Securities**

Where:-

- (a) the securities of the Company are listed on another stock exchange; and
- (b) the Company is exempted from compliance with Section 14 of the Central Depositories Act or Section 29 of the Securities Industry (Central Depositories)(Amendment) Act 1998, as the case may be, under the Rules in respect of such securities,

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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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the Company shall, upon request of a holder of securities, permit a transmission of securities held by such securities holder from the register of holders maintained by the Registrar of the Company in the jurisdiction of the other stock exchange, to the register of holders maintained by the Registrar of Companies in Malaysia and vice versa provided that there shall be no change in the ownership of such securities.

**(4) Rights, preferences and restrictions attached to each class of securities relating to voting, dividend, liquidation and any special rights**

The provisions in our Constitution dealing with rights, preferences and restrictions attached to each class of securities relating to voting, dividend, liquidation and any special rights are as follows:

**Clause 10 - New shares to rank with original shares**

Except so far as otherwise provided by the conditions of issue, any capital raised by the creation of new shares shall be considered as part of the original share capital of the Company, and shall be subject to the same provisions with reference to the payment of calls, lien, transfer, transmission, forfeiture and otherwise as the original share capital.

**Clause 11 - Rights of preference shareholders**

Subject to the Act, any preference shares may with the sanction of an ordinary resolution, be issued on the terms that they are, or at the option of the Company are liable, to be redeemed and the Company shall not issue preference shares ranking in priority above preference shares already issued, but may issue preference shares ranking equally therewith. Preference shareholders shall have the same rights as ordinary shareholders in relation to receiving notices, reports and audited financial statements and attending general meetings of the Company. Preference shareholders shall also have the rights to vote at any meeting convened:-

- (a) when the dividend or part of the dividend on the preference shares is in arrears for more than 6 months;
- (b) on a proposal to reduce the Company's share capital;
- (c) on a proposal for the disposal of the whole of the Company's property, business and undertaking;
- (d) on a proposal that affects rights attached to the preference shares;
- (e) on a proposal to wind up the Company; and
- (f) during the winding up of the Company.

The rights attaching to shares of a class other than ordinary shares shall be expressly set out in our Constitution or provided by the terms of issue of such shares.

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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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**Clause 42 - Person entitled may receive dividends**

Where the registered holder of any share dies or becomes bankrupt, his personal representative or the assignee or his estate, as the case may be, shall, upon the production of such evidence as may from time to time be properly required by the Directors in that behalf, be entitled to the same dividends and other advantages and to the same rights (whether in relation to meetings of the Company or to voting or otherwise) as the registered holder would have been entitled to if he had not died or become bankrupt.

**Clause 56 - Rights of stock holders**

The holders of stock shall, according to the amount of the stock held by them have the same rights, privileges and advantages as regards dividends, participation in assets on a winding up, voting at meetings of the Company and other matters as if they held the shares from which the stock arose, but no such right, privilege or advantage (except participation in the dividends and profits of the Company and in the assets on winding up) shall be conferred by any such aliquot part of stock as would not, if existing in shares, have conferred that right, privilege or advantage.

**Clause 66 - Record of Depositors eligible to be present and vote**

Subject to the Securities Industry (Central Depositories) (Foreign Ownership) Regulations, 1996 (where applicable) and notwithstanding any provision in the Act, a Depositor shall not be regarded as a Member entitled to attend any general meeting and to speak and vote thereat unless his name appears in the General Meeting Record of Depositors.

**Clause 76 - Evidence of passing resolutions**

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded (before or on the declaration of the result of the show of hands) or as required by the Listing Requirements: -

- (a) by the Chairman of the meeting;
- (b) at least 3 members;
- (c) by any Member or Members present in person or by proxy and representing not less than one-tenth (1/10) of the total voting rights of all Members having the right to vote at the meeting; or
- (d) by a Member or Members holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth (1/10) of the total sum paid on all the shares conferring that right.

Unless a poll is so demanded, a declaration by the Chairman of the meeting that a resolution has on a show of hands been carried unanimously by a particular majority or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution. The demand for a poll may be withdrawn. A proxy shall be entitled to vote on a show of hands on any question of any general meeting.

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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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**Clause 78 - Voting**

Subject to any rights or restrictions for the time being attached to any class of shares at meetings of Members or classes of Members, each Member entitled to vote may vote in person or by proxy or by attorney or duly authorized representative, and on a resolution to be decided on a show of hands, a holder of ordinary shares or preference shares who is personally present or by proxy or attorney or representative appointed under our Constitution and entitled to vote shall be entitled to 1 vote, and on a poll, every Member present in person or by proxy or attorney or representative shall have 1 vote for each share he holds.

**Clause 79 - Shares of different monetary denominations**

Where the capital of the Company consists of shares of different monetary denominations, voting rights shall be prescribed in such a manner that a unit of capital in each class, when reduced to a common denominator, shall carry the same voting power when such right is exercisable.

**Clause 80 - Vote of Member of unsound mind and person entitled to transfer**

A Member who is of unsound mind or whose person or estate is liable to be dealt with in any way under the law relating to mental disorder may vote, whether in a show of hands or on a poll, by his committee or by such other person as properly has the management of his estate, and any such committee or other person may vote by proxy or attorney and subject to the provisions of the Act, the Central Depositories Act and the Depository Rules, any person entitled, under the Clause relating to transmission of shares in our Constitution to transfer any shares, may vote at any general meeting in respect thereof in the same manner as if he was the registered holder of such shares provided that at least 48 hours before the time of holding the meeting or adjourned meeting or, in the case of a poll, not less than 24 hours before the time appointed for the taking of the poll, as the case may be at which he proposes to vote, he shall satisfy the Directors of his right to transfer such shares unless the Directors shall have previously admitted his right to vote at such meeting in respect thereof.

**Clause 81 - Member barred from voting while call unpaid**

Subject to our Constitution, a Member shall be entitled to be present and vote at any general meeting in respect of any share or shares of which he is the registered holder and upon which all calls due to the Company have been paid. No person shall be entitled to be present or to vote on any resolution either as a Member or otherwise as a proxy or attorney or representative at any general meeting or demand a poll or be reckoned in the quorum in respect of any shares upon which calls are due and unpaid.

**Clause 82 - Time for objection**

No objection shall be raised to the qualification of any voter except at the meeting or adjourned meeting at which the vote objected to is given or tendered, and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection made in due time shall be referred to the Chairman of the meeting whose decision shall be final and conclusive.

**14. STATUTORY AND OTHER INFORMATION (Cont'd)****Clause 86 - Power of attorney**

Every power, right or privilege herein given in these presents to any Member of the Company to convene, attend, vote and in any way take part in any meeting of the Company, may be exercised in the event of such Member being out of Malaysia by any attorney, whether a Member of the Company or not, duly appointed by such Member for the purpose, by a power of attorney produced at the Office of the Company during business hours not less than 2 clear days before the same is acted on. And any vote given or thing done by such attorney shall be valid notwithstanding the previous death of the Member giving such power of attorney or revocation of such power of attorney by other means provided no intimation in writing of such death or revocation shall have been received at the Office of the Company before such vote is given or thing done.

**Clause 87 - Validity of vote given under proxy**

A vote given in accordance with the terms of an instrument of proxy or attorney or authority shall be valid, notwithstanding the previous death or unsoundness of mind of the principal or revocation of the instrument or proxy or of the authority under which the instrument of proxy was executed, or the transfer of the share in respect of which the instrument of proxy is given, if no intimation in writing of such death, unsoundness of mind, revocation or transfer as aforesaid has been received by the Company at the Office before the commencement of the meeting or adjourned meeting or in the case of a poll before the time appointed for the taking of the poll, at which the instrument of proxy is used.

**Clause 88 – Corporate Representative**

A corporation may by resolution of its Directors or other governing body, if it is a Member of the Company, authorise such person as it thinks fit to act as its representative either at a particular meeting or at all meetings of the Company or of any class of Members and a person so authorised shall in accordance with his authority and until his authority is revoked by the corporation, be entitled to exercise the same powers on behalf of the corporation as the corporation could exercise if it were an individual Member of the Company.

**14.3 GENERAL INFORMATION**

- (a) Save for the purchase consideration paid to the shareholders of our subsidiary pursuant to the Acquisition of Spring Art as disclosed in Section 6.2, Directors' remuneration as disclosed in Section 5.2.4, dividends paid to our Promoters as disclosed in Section 11.14, no other amount or benefit has been paid or given within the past 2 years immediately preceding the date of this Prospectus, nor is it intended to be so paid or given, to any of our Promoter, Director or substantial shareholder.
- (b) Save as disclosed in Section 9.1, none of our Directors or substantial shareholders has any interest, direct or indirect, in any contract or arrangement subsisting at the date of this Prospectus and which is significant in relation to the business of our Group.
- (c) The manner in which copies of this Prospectus together with the official application forms and envelopes may be obtained and the details of the procedures for application of our Shares are set out in Section 15.

**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

- (d) There is no limitation on the right to own securities including limitation on the right of non-residents or foreign shareholders to hold or exercise their voting rights on our Shares.

**14.4 CHANGES IN SHARE CAPITAL**

As at the LPD, our share capital is RM31,800,000 comprising 318,000,000 Shares. The movements in our share capital since the date of our incorporation are set out below:

<b>Date of allotment</b>	<b>No. of Shares allotted</b>	<b>Consideration</b>	<b>Cumulative share capital</b>
		<b>RM</b>	<b>RM</b>
25 April 2018	200	20	20
19 June 2019	317,999,800	31,799,980	31,800,000

As at the LPD, we do not have any outstanding warrants, options, convertible securities and uncalled capital. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

Upon completion of our IPO, our enlarged share capital will be increased to RM56,221,750 comprising 415,687,000 Shares from the issuance of 97,687,000 Issue Shares.

The share capital of our subsidiary is as follows.

**14.4.1 Spring Art**

As at the LPD, Spring Art share capital is RM500,000 comprising 500,000 ordinary shares.

The changes in the share capital of Spring Art since its incorporation are as follows:

<b>Date of allotment</b>	<b>No. of shares allotted</b>	<b>Consideration</b>	<b>Cumulative share capital</b>
		<b>RM</b>	<b>RM</b>
28 December 1996	2	2.00	2.00
24 February 1997	49,998	49,998.00	50,000.00
23 July 1997	50,000	50,000.00	100,000.00
20 October 1998	200,000	200,000.00	300,000.00
18 October 2006	200,000	200,000.00	500,000.00

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Spring Art. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

**14.5 CONSENTS**

- (a) The written consents of the Adviser, Sponsor, Underwriter, Placement Agent, Solicitors, Share Registrar, Company Secretary and Issuing House to the inclusion in this Prospectus of their names in the form and context in which such names appear have been given before the issue of this Prospectus and have not subsequently been withdrawn;

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**14. STATUTORY AND OTHER INFORMATION (Cont'd)**

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- (b) The written consents of the Auditors and Reporting Accountants to the inclusion in this Prospectus of their names, Accountants' Report and letter relating to the Pro forma Consolidated Financial Information in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus and have not subsequently been withdrawn; and
- (c) The written consent of the IMR to the inclusion in this Prospectus of its name and the IMR Report titled "Outlook of Malaysia's Furniture Industry and Global Furniture Market", in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus and have not been subsequently withdrawn.

**14.6 DOCUMENTS FOR INSPECTION**

Copies of the following documents are available for inspection at the Registered Office of our Company during normal business hours for a period of 6 months from the date of this Prospectus:

- (a) Constitution of our Company;
- (b) The audited financial statements of the Spring Art Group for the FYEs 2015, 2016, 2017 and 2018 and FPE 2019;
- (c) The Accountants' Report as set out in Section 12;
- (d) The Reporting Accountants' reports relating to our pro forma combined statements of financial information as set out in Section 13;
- (e) The IMR Report as set out in Section 7;
- (f) The material contracts as set out in Section 6.16; and
- (g) The letters of consent as set out in Section 14.5.

**14.7 RESPONSIBILITY STATEMENTS**

Our Directors and Promoters have seen and approved this Prospectus, and they collectively and individually accept full responsibility for the accuracy of the information contained herein, and confirm that after making all reasonable enquiries and to the best of their knowledge and belief, there are no false or misleading statements or other facts which if omitted, would make any statement in this Prospectus false or misleading.

M&A Securities acknowledge that, based on all available information and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning our IPO.

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## **15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE**

**THIS SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE DOES NOT CONTAIN THE DETAILED PROCEDURES AND FULL TERMS AND CONDITIONS AND YOU CANNOT RELY ON THIS SUMMARY FOR PURPOSES OF ANY APPLICATION FOR OUR IPO SHARES. YOU MUST REFER TO THE DETAILED PROCEDURES AND TERMS AND CONDITIONS AS SET OUT IN THE "DETAILED PROCEDURES FOR APPLICATION AND ACCEPTANCE" ACCOMPANYING THE ELECTRONIC PROSPECTUS ON THE WEBSITE OF BURSA SECURITIES. YOU SHOULD ALSO CONTACT THE ISSUING HOUSE FOR FURTHER ENQUIRIES.**

**Unless otherwise defined, all words and expressions used here shall carry the same meaning as ascribed to them in our Prospectus.**

**Unless the context otherwise requires, words used in the singular include the plural, and vice versa.**

### **15.1 OPENING AND CLOSING OF APPLICATION**

OPENING OF THE APPLICATION PERIOD: 10.00 A.M. ON 16 OCTOBER 2019

CLOSING OF THE APPLICATION PERIOD: 5.00 P.M. ON 24 OCTOBER 2019

In the event there is any change to the timetable, we will advertise the notice of the changes in a widely circulated English and Bahasa Malaysia daily newspaper in Malaysia.

**Late Applications will not be accepted.**

### **15.2 METHODS OF APPLICATIONS**

#### **15.2.1 Retail Offering**

Application must accord with our Prospectus and our Constitution. The submission of an Application Form does not mean that the Application will succeed.

<b><u>Types of Application and category of investors</u></b>	<b><u>Application Method</u></b>
Applications by our eligible Directors and employees as well as persons who have contributed to the success of our Group	Pink Application Form only
Applications by the Malaysian Public:	
(a) Individuals	White Application Form or Electronic Share Application or Internet Share Application
(b) Non-Individuals	White Application Form only

## 15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE *(Cont'd)*

### 15.2.2 Placement

Types of Application	Application Method
Applications by:	
(a) Selected investors	The Placement Agent will contact the selected investors directly. They should follow the Placement Agent's instructions.
(b) Bumiputera Investors approved by MITI	MITI will contact the Bumiputera Investors directly. They should follow MITI's instructions.

Selected investors and Bumiputera Investors approved by MITI may still apply for our IPO Shares offered to the Malaysian Public using the White Application Form, Electronic Share Application or Internet Share Application.

## 15.3 ELIGIBILITY

### 15.3.1 General

You must have a CDS account and a correspondence address in Malaysia. If you do not have a CDS account, you may open a CDS account by contacting any of the ADAs set out in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the Electronic Prospectus on the website of Bursa Securities. The CDS account must be in your own name. Invalid, nominee or third party CDS accounts will not be accepted for the Applications.

Only **ONE** Application Form for each category from each applicant will be considered and **APPLICATIONS MUST BE FOR AT LEAST 100 IPO SHARES OR MULTIPLES OF 100 IPO SHARES.**

**MULTIPLE APPLICATIONS WILL NOT BE ACCEPTED UNLESS EXPRESSLY ALLOWED IN THESE TERMS AND CONDITIONS. AN APPLICANT WHO SUBMITS MULTIPLE APPLICATIONS IN HIS OWN NAME OR BY USING THE NAME OF OTHERS, WITH OR WITHOUT THEIR CONSENT, COMMITS AN OFFENCE UNDER SECTION 179 OF THE CMSA AND IF CONVICTED, MAY BE PUNISHED WITH A MINIMUM FINE OF RM1,000,000 AND A JAIL TERM OF UP TO 10 YEARS UNDER SECTION 182 OF THE CMSA.**

**AN APPLICANT IS NOT ALLOWED TO SUBMIT MULTIPLE APPLICATIONS IN THE SAME CATEGORY OF APPLICATION.**

### 15.3.2 Application by the Malaysian Public

You can only apply for our IPO Shares if you fulfill all of the following:

- (a) You must be one of the following:
  - (i) a Malaysian citizen who is at least 18 years old as at the date of the application for our IPO Shares; or
  - (ii) a corporation / institution incorporated in Malaysia with a majority of Malaysian citizens on your board of directors / trustees and if you have a

## **15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**

- share capital, more than half of the issued share capital, excluding preference share capital, is held by Malaysian citizens; or
- (iii) a superannuation, co-operative, foundation, provident, pension fund established or operating in Malaysia.
- (b) You must not be a director or employee of the Issuing House or an immediate family member of a director or employee of the Issuing House; and
- (c) You must submit Applications by using only one of the following methods:
- (i) White Application Form;
  - (ii) Electronic Share Application; or
  - (iii) Internet Share Application.

### **15.3.3 Application by our eligible Directors, employees as well as persons who have contributed to the success of our Group**

Our eligible Directors and employees as well as persons (including any entities, wherever established) who have contributed to the success of our Group will be provided with Pink Application Forms and letters from us detailing their respective allocation.

### **15.4 APPLICATION BY WAY OF APPLICATION FORMS**

The Application Form must be completed in accordance with the notes and instructions contained in the respective category of the Application Form. Applications made on the incorrect type of Application Form or which do not conform **STRICTLY** to the terms of our Prospectus or the respective category of Application Form or notes and instructions or which are illegible will not be accepted.

The FULL amount payable is RM0.25 for each IPO Share.

Payment must be made out in favour of "**TIIH SHARE ISSUE ACCOUNT NUMBER 690**" and crossed "**A/C PAYEE ONLY**" and endorsed on the reverse side with your name and address.

Each completed Application Form, accompanied by the appropriate remittance and legible photocopy of the relevant documents may be submitted using one of the following methods:

- (i) despatch by **ORDINARY POST** in the official envelopes provided, to the following address:

Tricor Investor & Issuing House Services Sdn Bhd (11324-H)  
Unit 32-01, Level 32, Tower A  
Vertical Business Suite, Avenue 3  
Bangsar South  
8, Jalan Kerinchi  
59200 Kuala Lumpur

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**15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**

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- (ii) **DELIVER BY HAND AND DEPOSITED** in the drop-in box provided at the following address:

Customer Service Centre  
Unit G-3, Ground Floor  
Vertical Podium, Avenue 3, Bangsar South  
No. 8, Jalan Kerinchi  
59200 Kuala Lumpur

so as to arrive not later than 5.00 p.m. on 24 October 2019 or by such other time and date specified in any change to the date or time for closing.

We, together with the Issuing House, will not issue any acknowledgement of the receipt of your Application Forms or Application monies. Please direct all enquiries in respect of the White Application Form to the Issuing House.

**15.5 APPLICATION BY WAY OF ELECTRONIC SHARE APPLICATIONS**

Only Malaysian individuals may apply for our IPO Shares offered to the Malaysian Public by way of Electronic Share Application.

Electronic Share Applications may be made through the ATM of the following Participating Financial Institutions and their branches, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, AmBank (M) Berhad, CIMB Bank Berhad, HSBC Bank Malaysia Berhad, Malayan Banking Berhad, Public Bank Berhad, RHB Bank Berhad and Standard Chartered Bank Malaysia Berhad (at selected branches only). A processing fee will be charged by the respective Participating Financial Institutions (unless waived) for each Electronic Share Application.

**15.6 APPLICATION BY WAY OF INTERNET SHARE APPLICATIONS**

Only Malaysian individuals may use the Internet Share Application to apply for our IPO Shares offered to the Malaysian Public.

Internet Share Applications may be made through an internet financial services website of the Internet Participating Financial Institutions, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, CIMB Bank Berhad, CGS-CIMB Securities Sdn Bhd, Malayan Banking Berhad, Public Bank Berhad and RHB Bank Berhad. A processing fee will be charged by the respective Internet Participating Financial Institutions (unless waived) for each Internet Share Application.

The exact procedures, terms and conditions for Internet Share Application are set out on the internet financial services website of the respective Internet Participating Financial Institutions.

**15.7 AUTHORITY OF OUR BOARD AND THE ISSUING HOUSE**

The Issuing House, on the authority of our Board reserves the right to:

- (a) reject Applications which:

**15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**

- (i) do not conform to the instructions of our Prospectus, Application Forms, Electronic Share Application and Internet Share Application (where applicable); or
  - (ii) are illegible, incomplete or inaccurate; or
  - (iii) are accompanied by an improperly drawn up, or improper form of, remittance; or
- (b) reject or accept any Application, in whole or in part, on a non-discriminatory basis without the need to give any reason; and
- (c) bank in all Application monies (including those from unsuccessful / partially successful applicants) which would subsequently be refunded, where applicable (without interest), in accordance with Section 8 below.

If you are successful in your Application, our Board reserves the right to require you to appear in person at the registered office of the Issuing House at anytime within 14 days of the date of the notice issued to you to ascertain that your Application is genuine and valid. Our Board shall not be responsible for any loss or non-receipt of the said notice nor will it be accountable for any expenses incurred or to be incurred by you for the purpose of complying with this provision.

**15.8 UNSUCCESSFUL / PARTIALLY SUCCESSFUL APPLICANTS**

If you are unsuccessful / partially successful in your Application, your Application monies (without interest) will be refunded to you in the following manner.

**15.8.1 For applications by way of Application Forms**

- (a) The application monies or the balance of it, as the case may be, will be returned to you through the self-addressed and stamped Official "A" envelope you provided by ordinary post (for fully unsuccessful applications) or by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or if you have not provided such bank account information to Bursa Depository, the balance of Application monies will be refunded via banker's draft sent by ordinary / registered post to your last address maintained with Bursa Depository (for partially successful applications) within 10 Market Days from the date of the final ballot at your own risk.
- (b) If your Application is rejected because you did not provide a CDS account number, your Application monies will be refunded via banker's draft sent by ordinary / registered post to your address as stated in the NRIC or any official valid temporary identity document issued by the relevant authorities from time to time or the authority card (if you are a member of the armed forces or police) at your own risk.
- (c) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected or unsuccessful or only partly successful will be refunded (without interest) by the Issuing House as per items (i) and (ii) above (as the case may be).

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**15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**

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- (d) The Issuing House reserves the right to bank into its bank account all Application monies from unsuccessful applicants. These monies will be refunded (without interest) within 10 Market Days from the date of the final ballot by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or by issuance of banker's draft sent by registered post to your last address maintained with Bursa Depository if you have not provided such bank account information to Bursa Depository or as per item (ii) above (as the case may be).

**15.8.2 For applications by way of Electronic Share Application and Internet Share Application**

- (a) The Issuing House shall inform the Participating Financial Institutions or Internet Participating Financial Institutions of the unsuccessful or partially successful Applications within 2 Market Days after the balloting date. The full amount of the Application monies or the balance of it will be credited without interest into your account with the Participating Financial Institution or Internet Participating Financial Institution (or arranged with the Authorised Financial Institutions) within 2 Market Days after the receipt of confirmation from the Issuing House.
- (b) You may check your account on the 5<sup>th</sup> Market Day from the balloting date.
- (c) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected will be refunded (without interest) by the Issuing House by crediting into your account with the Participating Financial Institution or Internet Participating Financial Institutions (or arranged with the Authorised Financial Institutions) not later than 10 Market Days from the date of the final ballot. For Applications that are held in reserve and which are subsequently unsuccessful or partially successful, the relevant Participating Financial Institution will be informed of the unsuccessful or partially successful Applications within 2 Market Days after the final balloting date. The Participating Financial Institution will credit the Application monies or any part thereof (without interest) within 2 Market Days after the receipt of confirmation from the Issuing House.

**15.9 SUCCESSFUL APPLICANTS**

If you are successful in your application:

- (i) Our IPO Shares allotted to you will be credited into your CDS account.
- (ii) A notice of allotment will be despatched to you at your last address maintained with the Bursa Depository, at your own risk, before our Listing. This is your only acknowledgement of acceptance of your Application.
- (iii) In accordance with Section 14(1) of the SICDA, Bursa Securities has prescribed our Shares as Prescribed Securities. As such, our IPO Shares issued / offered through our Prospectus will be deposited directly with Bursa Depository and any dealings in these Shares will be carried out in accordance with the SICDA and Rules of Bursa Depository.
- (iv) In accordance with Section 29 of the SICDA, all dealings in our Shares will be by book entries through CDS accounts. No physical share certificates will be issued to you and you shall not be entitled to withdraw any deposited securities held jointly with Bursa Depository or its nominee as long as our Shares are listed on Bursa Securities.

**15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)****15.10 ENQUIRIES**

Enquiries in respect of the applications may be directed as follows:

<b>Mode of application</b>	<b>Parties to direct the enquiries</b>
Application Form	Issuing House Enquiry Services Telephone at telephone no. 03-2783 9299
Electronic Share Application	Participating Financial Institution
Internet Share Application	Internet Participating Financial Institution and Authorised Financial Institution

The results of the allocation of IPO Shares derived from successful balloting will be made available to the public at the Issuing House website at <https://tiih.online>, 1 Market Day after the balloting date.

You may also check the status of your Application at the above website, 5 Market Days after the balloting date or by calling your respective ADA during office hours at the telephone number as stated in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the Electronic Prospectus on the website of Bursa Securities.

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