

SPRING ART HOLDINGS BERHAD**REGISTRATION NO: 201801016143 (1278159-A)****NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 30 JUNE 2021****PART A – EXPLANATORY NOTES IN COMPLIANCE WITH MALAYSIAN FINANCIAL REPORTING
STANDARDS (“MFRS”) 134, INTERIM FINANCIAL REPORTING****A1. BASIS OF PREPARATION**

The interim financial report of SPRING ART HOLDINGS BERHAD (“**SPRING**” or “**the Company**”) and its subsidiaries (“**the Group**”) are unaudited and have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards (“**MFRS**”) No. 134: Interim Financial Reporting and Rule 9.22 of Listing Requirements.

This interim financial report should be read in conjunction with the Group’s annual audited financial statements for the year ended 31 December 2020 and the accompanying notes attached to this interim financial report.

A2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted as disclosed in the Group’s annual audited financial statements for the year ended 31 December 2020.

Adoption of new or revised MFRSs

The Group and the Company have applied the following standards, amendments to published standards and IC Interpretation approved by Malaysian Accounting Standards Board (“MASB”) for the first time for the financial year beginning on 1 January 2021:

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

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

Standards issued but not yet effective

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

(a) Amendments effective for financial period beginning on or after 1 June 2020

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

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

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

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

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

(d) MFRS and amendments effective for financial period beginning on or after 1 January 2023

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

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

- Amendments to MFRS 10 and MFRS 128 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- The existing MFRS 4 and Amendments to MFRS 4 will be withdrawn upon the adoption of the new MFRS 17 which will take effect on or after 1 January 2023.

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

A3. AUDITORS' REPORT

The audited financial statements for the financial year ended 31 December 2020 was not subject to any qualification.

A4. SEASONAL OR CYCLICAL FACTORS

Our operations are not significantly affected by seasonal or cyclical patterns as our furniture products are exported to several regions globally, where the differing sales and promotion period of furniture sales in different regions allow us to benefit from consistent sales throughout the year.

A5. EXTRAORDINARY AND EXCEPTIONAL ITEMS

There were no extraordinary and exceptional items of unusual nature affecting assets, liabilities, equity, net income, or cash flows during the current financial quarter under review.

A6. MATERIAL CHANGES IN ESTIMATES OF AMOUNTS REPORTED

There were no material changes in estimates of amounts reported in prior interim periods or prior financial year that have a material effect during the current financial quarter under review.

A7. CHANGES IN DEBT AND EQUITY SECURITIES

There were no issuances, cancellation, repurchase, resale or repayment of debt and/or equity securities, share buy-backs, share cancellations, share held as treasury shares and resale of treasury shares during the current financial quarter under review.

Type of Securities	As at 01.04.2021	Allotment	Conversion	As at 30.06.2021
Ordinary shares	415,689,400	-	-	415,689,400
Warrants A	166,272,400	-	-	166,272,400

A8. DIVIDENDS PAID

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

A9. SEGMENTAL INFORMATION

For management purposes, majority of the operations of the Group is involved in the manufacturing of office and household furniture. There were no separate business units for the purpose of making decisions about resource allocation and performance assessment by the Managing Director.

The Group operates only in Malaysia hence there is no disclosure of geographical segments on the non-current assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers.

The following table provides an analysis of the Group's revenue by geographical segment:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	30.06.2021	30.06.2020	30.06.2021	30.06.2020
	RM'000	RM'000	RM'000	RM'000
Middle East	8,937	4,883	20,531	16,251
Asia Pacific	2,362	413	3,796	4,954
North America and Latin America	1,683	211	4,008	406
Europe	525	39	851	129
Africa	80	34	80	34
Total	13,587	5,580	29,266	21,774

A10. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

There was no valuation of property, plant and equipment during the current financial quarter under review

A11. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE CURRENT FINANCIAL QUARTER

Spring Art Industries Sdn. Bhd. ("SAISB"), a wholly-owned subsidiary of SPRING, had on 8 September 2021 accepted a proforma invoice from Homag Asia Pte Ltd to acquire machineries for Factory C at a total consideration of EUR3,300,500, which is approximately RM16,502,500. The Acquisition will enable the Company to set up 2 additional production lines in Factory C. Factory C is expected to increase the annual capacity to reach a combined manufacturing capacity of 723,000 units per annum which is 87% increase from current manufacturing capacity of 386,000 units.

A12. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group for the current financial quarter under review.

A13. CHANGES IN CONTINGENT LIABILITIES/ASSETS

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

	RM'000
Corporate guarantees for credit facilities granted to subsidiaries (unsecured)	37,605

A14. CAPITAL COMMITMENTS

The material capital commitments of the Group as at 30 June 2021 are as follows:

	As at 30.06.2021 RM'000	As at 30.06.2020 RM'000
Authorised and Contracted for:		
Application for access road	260	260
Purchase of property, plant and equipment	174	-
	434	260

A15. RELATED PARTY TRANSACTIONS

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

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

B1. PERFORMANCE REVIEW

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

	INDIVIDUAL QUARTER			CUMULATIVE QUARTER		
	Current Year Quarter 30.06.2021 RM'000	Preceding Year Corresponding Quarter 30.06.2020 RM'000	+/- %	Current Year-To-Date 30.06.2021 RM'000	Preceding Year Corresponding Period 30.06.2020 RM'000	+/- %
Revenue	13,587	5,580	143.5	29,266	21,774	34.4
PBT	574	232	147.4	2,211	2,642	(16.3)

The Group recorded revenue of RM13.59 million for the current financial quarter ended 30 June 2021 ("Q2 2021"), an increase of 143.5% as compare to the preceding year corresponding quarter ended 30 June 2020 ("Q2 2020"). The increase due to increase of demands from existing customers as online sales became popular.

The difference in revenue also due to the Group's operations were disrupted for 4 weeks in Q2 2021 due to the Full Movement Control Order ("FMCO") from 1st June 2021, compared to 7 weeks in Q2 2020 which caused by the implementation of Movement Control Order ("MCO").

The Group's revenue was derived from the design and development, manufacturing as well as marketing and sales of office furniture, bedroom furniture, living room furniture as well as other types of furniture. Middle East was the largest market contributing to the Group's revenue accounting for approximately 66.00% of the total revenue in current financial quarter.

The Group registered a PBT of RM0.57 million in Q2 2021 as compared to RM0.23 million in Q2 2020. Higher PBT recorded in Q2 2021 was mainly due to higher revenue recorded. In spite of the higher revenue in the current year-to-date, the Group's PBT dropped by 16.30% as compared to preceding year corresponding period mainly due to higher raw material costs and operating costs and also unfavourable USD conversion rate.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER RESULTS

	INDIVIDUAL QUARTER		CHANGES	
	Current Year Quarter 30.06.2021 RM'000	Preceding Quarter 31.03.2021 RM'000	RM'000	%
Revenue	13,587	15,679	(2,092)	(13.34)
PBT	574	1,637	(1,063)	(64.94)

The Group recorded revenue of RM13.59 million in Q2 2021 as compared to RM15.68 million recorded in the preceding quarter ended 31 March 2021 ("Q1 2021"), which represent a decrease of RM2.09 million during current financial quarter.

The decrease of revenue was due to the implementation of the Full Movement Control Order ("FMCO") from June 2021, the Group's operation was halted for 4 weeks in the current financial quarter under review. The production halt has caused the shipment of furniture interrupted again in Q2 2021. It caused the profit margin dropped from RM1.6 million in Q1 2021 to RM0.5 million in Q2 2021 as most of the factory overhead and labour cost need to be paid in full although there were no operations.

B3. PROSPECT AND OUTLOOK FOR THE CURRENT FINANCIAL YEAR

The Group and its operations are located in the Muar, State of Johor, which is currently under Phase 1 of the National Recovery Plan ("NRP") where non-essential operations and activities are disallowed. The Group's operations have largely stopped since FMCO began on 1st June 2021. Nonetheless, the FMCO would have a bigger impact on the Group in the third quarter due to the longer duration for which the operations were shutdown compared to the second quarter. However, once Malaysia ends its nationwide lockdown and restrictions, the Group is cautiously hopeful to drive better results. To-date, all the workers of the Group had completed their second dose of vaccine and all of them are back to their work after 14 days waiting period of a completion COVID-19 vaccination by end of September.

Most major economies of the world have seen a lowering of COVID-19 cases since their worst. There is concern that it might worsen again due to the Delta variant. Meanwhile, Malaysia is reporting more COVID-19 cases despite more than 3 months of FMCO lockdown nationwide. The Group will continue to adhere and comply with the Standard Operating Procedure set by the Government until things return to the pre-COVID-19 norm.

The Group is confident that the profit potential of our businesses is intact, and we are positioned to benefit from any recovery in the market as and when it comes. The COVID-19 pandemic has caused a global shortage of containers and a hike in the ocean freight charges. This issue has disrupted the operations of the Group for importing raw materials as well as exporting finished goods. The Group will continue to monitor this issue closely to ensure that disruption in the business will be minimised.

The Board of Directors ("Board") is mindful of the challenges ahead and will continue to exercise vigilance to sustain business viability with the view to enhance shareholder value. With a largely controllable cost structure in place, a wider market-base for the Group's products and rationalization on the use of available workforce, the Board is of the view that the Group is prepared to navigate the ongoing COVID-19 pandemic challenges it currently faces.

B4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT

The Group did not issue any profit forecast or profit guarantee during the current financial quarter under review.

B5. INCOME TAX EXPENSE

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	30.06.2021 RM'000	30.06.2020 RM'000	30.06.2021 RM'000	30.06.2020 RM'000
Current tax expense	126	146	269	461
Deferred tax expense	(116)	(73)	114	(7)
Total tax expense	10	73	383	454
Effective tax rate (a) (%)	1.7	31.5	17.3	17.2

(a) The Group's effective tax rate for the year-to-date was lower than the statutory tax rate of 24% mainly due to the utilisation of tax credit i.e., capital allowance.

B6. STATUS OF CORPORATE PROPOSALS

There were no other corporate proposals announced but not completed for the current financial quarter under review.

B7. UTILISATION OF PROCEEDS RAISED FROM THE IPO

The estimated gross proceeds arising from Public Issue of approximately RM24.42 million shall accrue entirely to us and will be utilised in the following manner:

Utilisation of proceeds	Estimated timeframe for utilisation	Proposed utilisation RM'000	Actual utilisation (a) RM'000	Unutilised Amount RM'000
Machinery for Factory C	24 months	17,550	-	17,550
General working capital	24 months	3,672	1,000	2,672
Estimated listing expenses	1 month	3,200	3,200	-
		24,422	4,200	20,222

Note:

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

B8. GROUP'S BORROWINGS AND DEBT SECURITIES

The Group's borrowings are as follows:

	As At 30.06.2021 RM'000	As At 30.06.2020 RM'000
Non-current :		
Term loan	4,495	5,240
	<u>4,495</u>	<u>5,240</u>
Current :		
Term loan	703	670
	<u>703</u>	<u>670</u>
Total borrowings	<u>5,198</u>	<u>5,910</u>

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

B9. FINANCIAL INSTRUMENTS - DERIVATIVES

The Group uses derivative financial instruments, mainly foreign currency forward contracts to hedge its exposure to fluctuations in foreign exchange arising from sales. The Group does not hold or issue derivative financial instruments for trading purposes.

The details of the outstanding foreign currency forward contracts are as follows: -

	<u>NOTIONAL AMOUNT AS AT</u>		<u>FAIR VALUE LOSS AS AT</u>	
	30.06.2021 RM'000	30.06.2020 RM'000	30.06.2021 RM'000	30.06.2020 RM'000
Foreign currency contracts				
Less than one year	8,265	9,281	338	300

The above instruments are executed with credit worthy financial institutions in Malaysia. The Directors are of the view that the possibility of non-performance by these financial institutions is remote on the basis of their financial strength. There are also no cash requirements risks as the Group only uses foreign currency forward contracts as its hedging instruments. The fair value changes have been recognised in the profit and loss.

B10. MATERIAL LITIGATION

There were no material litigation involving the Group as at 30 June 2021.

B11. DIVIDEND

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

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

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

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	30.06.2021 RM'000	30.06.2020 RM'000	30.06.2021 RM'000	30.06.2020 RM'000
Depreciation of property, plant and equipment	535	439	1,032	874
Depreciation of right-of-use assets	225	230	469	412
Fair value loss/(gain) on derivative financial instruments	25	(153)	338	300
Gain on disposal of property, plant and equipment	-	-	(5)	-
(Gain)/Loss on foreign exchange				
Realised	(133)	(15)	(180)	(169)
Unrealised	39	68	(246)	(52)
Interest income	(86)	(167)	(184)	(357)
Finance costs	72	73	145	151

B13. EARNINGS PER SHARE***Basic earnings per share***

Basic earnings per share amount are calculated by dividing the profit attributable to Owners of the Parent by the weighted average number of ordinary shares outstanding during the period.

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	30.06.2021	30.06.2020	30.06.2021	30.06.2020
Profit after tax attributable to owners of the Company (RM'000)	564	159	1,828	2,188
Weighted average number of ordinary shares in issue ('000) (a)	415,687	415,687	415,687	415,687
Basic earnings per share (sen)	0.14	0.04	0.44	0.53
Profit after tax attributable to owners of the Company (RM'000)	564	159	1,828	2,188
Weighted average number of ordinary shares for diluted earnings per ordinary share computation ('000) (b)	415,688	415,687	415,688	415,687
Diluted earnings per share (sen)	0.14	0.04	0.44	0.53

Notes:

- (a) Basic earnings per share is calculated based on the Company's number of ordinary shares at the end of the reporting period which is 415,687,000 shares.
- (b) Diluted earnings per share is calculated based on the Company's weighted average number of ordinary shares at the end of the reporting period which is 415,687,664 shares and 415,687,000 shares for the preceding year's corresponding quarter.

Board of Directors
Spring Art Holdings Berhad
30th September 2021