

SPRING ART HOLDINGS BERHAD**REGISTRATION NO: 201801016143 (1278159-A)****NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 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 01.07.2021	Allotment	Conversion	As at 30.09.2021
Ordinary shares	415,689,400	-	-	415,689,400
Warrants A	166,272,400	-	-	166,272,400

A8. DIVIDENDS PAID

The Group paid a final dividend of RM0.004 per share amounting to RM1,662,757.60 on 7 July 2021 in respect of the financial year ended 31 December 2020 to all holders of ordinary shares whose names appear in the Record of Depositors at the close of business on 15 June 2021.

A9. SEGMENTAL INFORMATION

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

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

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

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	30.09.2021	30.09.2020	30.09.2021	30.09.2020
	RM'000	RM'000	RM'000	RM'000
Middle East	1,540	14,476	22,071	30,727
Asia Pacific	227	1,112	4,023	6,066
North America and Latin America	-	913	4,008	1,319
Europe	-	716	851	845
Africa	-	86	80	120
Total	1,767	17,303	31,033	39,077

A10. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

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

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

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

A12. CHANGES IN THE COMPOSITION OF THE GROUP

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

A13. CHANGES IN CONTINGENT LIABILITIES/ASSETS

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

Corporate guarantees for credit facilities granted to subsidiaries (unsecured)	RM'000 37,605
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A14. CAPITAL COMMITMENTS

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

	As at 30.09.2021 RM'000	As at 30.09.2020 RM'000
Authorised and Contracted for:		
Application for access road	260	260
Purchase of property, plant and equipment	16,677	743
	16,937	1,003

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 30.09.2021 RM'000	Preceding Year Corresponding Quarter 30.09.2020 RM'000	+/- %	Current Year-To-Date 30.09.2021 RM'000	Preceding Year Corresponding Period 30.09.2020 RM'000	+/- %
Revenue	1,767	17,303	(89.8)	31,033	39,077	(20.6)
(LBT) / PBT	(1,888)	3,949	(147.8)	323	6,595	(95.1)

The Group recorded revenue of RM1.77 million for the current financial quarter ended 30 September 2021 ("Q3 2021"), a decrease of 89.8% as compare to the preceding year corresponding quarter ended 30 September 2020 ("Q3 2020"). The decrease was due to the Group's operations were disrupted for 12 weeks in Q3 2021 due to the implementation of Full Movement Control Order ("FMCO") since 1st June 2021.

The Group recorded LBT of RM1.89 million in Q3 2021 as all the furniture exporters only allowed to ship finished products during the FMCO. The Group resumed operations at the end of September 2021 after 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.

The Group's PBT dropped by 147.8% as compared to preceding year corresponding period mainly due to the most of the factory overhead and labour cost need to be incurred even though the Group's operations were disrupted by the implementation of FMCO.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER RESULTS

	INDIVIDUAL QUARTER		CHANGES	
	Current Year Quarter 30.09.2021 RM'000	Preceding Quarter 30.06.2021 RM'000	RM'000	%
Revenue	1,767	13,587	(11,820)	(86.99)
(LBT) / PBT	(1,888)	574	(2,462)	(428.92)

The Group recorded revenue of RM1.77 million in Q3 2021 as compared to RM13.59 million recorded in the preceding quarter ended 30 June 2021 ("Q2 2021"), which represent a decrease of RM11.82 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 12 weeks in the current financial quarter under review. The production halt has caused the shipment of furniture interrupted again in Q3 2021. It caused the PBT dropped from RM0.57 million in Q2 2021 to LBT of RM1.89 million in Q2 2021 as only finished goods able to be shipped out during the FMCO.

B3. PROSPECT AND OUTLOOK FOR THE CURRENT FINANCIAL YEAR

Malaysia's rapid vaccination rate has placed the country on track to achieve the targeted 90% immunisation rate by the end of September 2021 and enabled the reopening of nearly all economic sectors based on the Government's National Recovery Plan. The Board believes that this will provide a strong boost to both consumer and business confidence going forward, thus setting the stage for an economic rebound in 2022 which our group is well positioned to take advantage of.

The Board of Directors ("Board") held the Ground Breaking Ceremony for Factory C on 26 October 2021. Factory C will be completed approximately by July 2022. The Group is confident that the future prospects of the Group will be favourable after the completion of the Factory C. The Group had recently purchased the machineries for Factory C. It 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.

With the increasing production capacity, the Group is now focused in driving more research and development activities in enhancing our products to better suit the needs of our customers. The Group businesses will continue with their business plans to expand market coverage and product range and at the same time, remain vigilant and responsive to market changes.

The Covid-19 Pandemic has caused a global shortage of containers and hike in the ocean freight charges. However, as majority of the Company's customers are based in the Middle East and Asia where the travel distance is relatively shorter compared to USA, the hike in freight charges is not too significant to cause any cancellation or postponement of purchase order placed with the Company. Further, the Company's advantages of shipping its Ready-To-Assemble products in flat packs where up to 700 sets of products can be fitted in a single container will benefit the Customer as the hike in freight charges will not have a significant impact to the Customer's cost per flat pack. As to the raw materials used by the Company, the Company's import of raw materials is by land and not reliant on sea freight thus the Company's cost of production will not be impacted by the hike in the ocean freight charges. However, the Company will continue to monitor this issue closely to ensure that there is minimum disruption to the Company's business.

The 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.

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

B4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT

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

B5. INCOME TAX EXPENSE

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	30.09.2021	30.09.2020	30.09.2021	30.09.2020
	RM'000	RM'000	RM'000	RM'000
Current tax expense	(752)	731	(483)	1,194
Deferred tax expense	(112)	179	2	172
Total tax expense	(864)	910	(481)	1,366

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	Actual utilisation (a)	Unutilised Amount
		RM'000	RM'000	RM'000
Machinery for Factory C	24 months	17,550	4,951	12,599
General working capital	24 months	3,672	3,672	-
Estimated listing expenses	1 month	3,200	3,200	-
		24,422	11,823	12,599

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 30.09.2021 RM'000	As At 30.09.2020 RM'000
Non-current :		
Term loan	4,316	5,026
	4,316	5,026
Current :		
Term loan	709	686
	709	686
Total borrowings	5,025	5,712

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

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B9. FINANCIAL INSTRUMENTS - DERIVATIVES

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

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

	<u>NOTIONAL AMOUNT AS AT</u>		<u>FAIR VALUE LOSS AS AT</u>	
	<u>30.09.2021</u>	<u>30.09.2020</u>	<u>30.09.2021</u>	<u>30.09.2020</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Foreign currency contracts				
Less than one year	4,769	7,483	256	74

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

B10. MATERIAL LITIGATION

There were no material litigation involving the Group as at 30 September 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): -

	<u>INDIVIDUAL QUARTER</u>		<u>CUMULATIVE QUARTER</u>	
	<u>30.09.2021</u>	<u>30.09.2020</u>	<u>30.09.2021</u>	<u>30.09.2020</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Depreciation of property, plant and equipment	539	450	1,571	1,324
Depreciation of right-of-use assets	225	235	694	647
Fair value (gain)/loss on derivative financial instruments	(82)	(227)	256	74
Gain on disposal of property, plant and equipment	-	-	(5)	-
(Gain)/Loss on foreign exchange				
Realised	(109)	147	(289)	(22)
Unrealised	-	110	(246)	57
Interest income	(72)	(124)	(256)	(481)
Finance costs	68	63	213	213

B13. (LOSS) / EARNINGS PER SHARE***Basic (loss) / earnings per share***

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

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	30.09.2021	30.09.2020	30.09.2021	30.09.2020
(Loss) / Profit after tax attributable to owners of the Company (RM'000)	(1,024)	3,039	804	5,229
Weighted average number of ordinary shares in issue ('000) (a)	415,687	415,687	415,687	415,687
Basic (loss) / earnings per share (sen)	(0.25)	0.73	0.19	1.26
(Loss) / Profit after tax attributable to owners of the Company (RM'000)	(1,024)	3,039	804	5,229
Weighted average number of ordinary shares for diluted (loss) / earnings per ordinary share computation ('000) (b)	415,688	415,687	415,688	415,687
Diluted (loss) / earnings per share (sen)	(0.25)	0.73	0.19	1.26

Notes:

- (a) Basic (loss) / 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 (loss) / 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 415,688,269 shares and 415,687,000 shares for the preceding year's corresponding quarter.

Board of Directors
Spring Art Holdings Berhad
30th November 2021