

SPRING ART HOLDINGS BERHAD**REGISTRATION NO: 201801016143 (1278159-A)****NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE FOURTH QUARTER ENDED 31 DECEMBER 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 9, MFRS 139 and MFRS 7, MFRS 4 and MFRS 16 – *Interest Rate Benchmark Reform – Phase 2*

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 January 2022 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 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*

(b) 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*

(c) 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 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 01.10.2021	Allotment	Conversion	As at 31.12.2021
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	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
	RM'000	RM'000	RM'000	RM'000
Middle East	17,429	10,723	39,500	41,450
Asia Pacific	3,641	1,877	7,664	7,943
North America and Latin America	998	2,440	5,006	3,759
Europe	676	82	1,527	927
Africa	100	213	180	333
Total	22,844	15,335	53,877	54,412

A10. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

In compliance with the Group's policy on the revaluation of landed properties, the valuation was completed in October 2021 which has resulted in the increase in the revalued amount by RM0.22 million. The surplus has been incorporated in the period ended 31 December 2021.

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
	43,435

A14. CAPITAL COMMITMENTS

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

	As at 31.12.2021 RM'000	As at 31.12.2020 RM'000
Authorised and Contracted for:		
Application for access road	260	260
Purchase of property, plant and equipment	21,231	635
	21,491	895

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 31.12.2021 RM'000	Preceding Year Corresponding Quarter 31.12.2020 RM'000	+/- %	Current Year-To-Date 31.12.2021 RM'000	Preceding Year Corresponding Period 31.12.2020 RM'000	+/- %
Revenue	22,844	15,335	49.0	53,877	54,412	(1.0)
PBT	6,958	1,669	316.9	7,281	8,264	(11.9)

The Group recorded revenue of RM22.84 million for the current financial quarter ended 31 December 2021 ("Q4 2021"), a significant increase of 49.0% as compare to the preceding year corresponding quarter ended 31 December 2020 ("Q4 2020"). The increase was mainly due to the increased of production efficiency and also the price adjustment made to the products.

The Group's PBT increased by 316.9% from RM1.67 million in Q4 2020 to RM6.96 million in Q4 2021. The increase was mainly due to the significant increase of revenue. Besides, the implementation of the production effectiveness and strengthening of the procurement operations also helps the Group to increase its gross margin.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER RESULTS

	INDIVIDUAL QUARTER		CHANGES	
	Current Year Quarter 31.12.2021 RM'000	Preceding Quarter 30.09.2021 RM'000	RM'000	%
Revenue	22,844	1,767	21,077	1,192.81
PBT / (LBT)	6,958	(1,888)	8,846	N/A

The Group recorded revenue of RM22.84 million in Q4 2021 as compared to RM1.77 million recorded in the preceding quarter ended 30 September 2021 ("Q3 2021"), it was a significant increase of RM21.08 million during current financial quarter.

The increase of revenue was due to the implementation of the Full Movement Control Order ("FMCO") from June 2021 to September 2021, the Group's operation was halted for 12 weeks in Q3 2021 and the Group resumed full production in Q4 2021.

The Group is in the process to increase efficiency of production process by replacing the old machines in existing factories, thereby reducing reliance on labour-intensive manufacturing practices. With the replacement of machineries, higher revenue can be generated as production capacity increased and wastage of material can be reduced.

B3. PROSPECT AND OUTLOOK FOR THE CURRENT FINANCIAL YEAR

Two years into the pandemic, the COVID-19 virus has again thrown a curve ball at us with the emergence of the highly transmissible Omicron variant. This has resulted in many countries having either to roll back the reopening of their economy or otherwise institute new restrictions to contain the virus. On the more positive side, the Omicron variant seems to cause milder disease and while vaccination does not completely prevent infection, it seems to prevent the severity for those who are fully vaccinated coupled with booster shot. As such, some countries have started to embark on a policy of living with the virus in order to continue economic activity. Despite the challenging economic condition, our Group has continued to prove the resilience of our business model both in good times and bad. The Group is pleased to report that with this fourth quarterly announcement, our Group has achieved a historical new high in revenue for last three months of Year 2021 by surpassing RM20 million in revenue. It proved that our Group has fully recovered from the impact caused by the implementation of the Full Movement Control Order ("FMCO") from June 2021 to September 2021 whereby the Group's operation was halted for 12 weeks in Q3 2021.

Looking ahead, the operating and business environment remains challenging with the emergence of new challenges such as global inflation, fluctuating exchange rates and volatility in certain material prices due to disruptions in the global supply chain as a result of the prolonged pandemic. Nevertheless, the Group will continue to focus on the Group's core competency, stay vigilant and putting in place various cost cutting and control strategies and take timely and appropriate action plans to mitigate the adverse impact of the pandemic and challenges on the Group's financial performance.

With the aggressive rate of booster vaccination programs being rolled out in Malaysia, 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 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.

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. The Board expects that the Group's prospects for the financial year ending 31 December 2022 to be challenging but satisfactory.

B4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT

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

B5. INCOME TAX EXPENSE

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
	RM'000	RM'000	RM'000	RM'000
Current tax expense	1,885	328	1,402	1,522
Deferred tax expense	111	68	113	240
Total tax expense	1,996	396	1,515	1,762

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 31.12.2021 RM'000	As At 31.12.2020 RM'000
Non-current :		
Term loan	4,136	4,850
	4,136	4,850
Current :		
Term loan	881	692
	881	692
Total borrowings	5,017	5,542

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: -

	NOTIONAL AMOUNT AS AT		FAIR VALUE LOSS / (GAIN) AS AT	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
	RM'000	RM'000	RM'000	RM'000
Foreign currency contracts				
Less than one year	4,552	7,023	201	(89)

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

B10. MATERIAL LITIGATION

There were no material litigation involving the Group as at 31 December 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	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
	RM'000	RM'000	RM'000	RM'000
Depreciation of property, plant and equipment	542	502	2,113	1,826
Depreciation of right-of-use assets	226	217	920	864
Fair value (gain)/loss on derivative financial instruments	(55)	(163)	201	(89)
Revaluation gain on property, plant and equipment	(219)	(949)	(219)	(949)
Loss/(Gain) on disposal of property, plant and equipment	29	(163)	24	(161)
(Gain)/Loss on foreign exchange				
Realised	(118)	37	(407)	15
Unrealised	293	70	47	127
Interest income	(158)	(111)	(414)	(592)
Finance costs	65	127	278	340

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

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

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Profit after tax attributable to owners of the Company (RM'000)	4,962	1,273	5,766	6,502
Weighted average number of ordinary shares in issue ('000) (a)	415,687	415,687	415,687	415,687
Basic earnings per share (sen)	1.19	0.31	1.39	1.56
Profit after tax attributable to owners of the Company (RM'000)	4,962	1,273	5,766	6,502
Weighted average number of ordinary shares for diluted earnings per ordinary share computation ('000) (b)	415,689	415,687	415,689	415,687
Diluted earnings per share (sen)	1.19	0.31	1.39	1.56

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 415,688,874 shares and 415,687,000 shares for the preceding year's corresponding quarter.

Board of Directors
Spring Art Holdings Berhad
25th February 2022